JABIL CIRCUIT INC
Form 10-Q
January 09, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 30, 2011

or

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

For the transition period from to

Commission File Number: 001-14063

JABIL CIRCUIT, INC.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices) (Zip Code)

(727) 577-9749

(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

As of December 21, 2011, there were 209,521,950 shares of the registrant s Common Stock outstanding.

Table of Contents

JABIL CIRCUIT, INC. AND SUBSIDIARIES INDEX

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

JABIL CIRCUIT, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except for share data)

	November 30, 2011 (Unaudited)	August 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 861,904	$ 888,611
Accounts receivable, net of allowance for doubtful accounts of $2,995 at November 30, 2011 and $4,788 at August 31, 2011	1,112,721	1,100,926
Inventories	2,384,555	2,227,339
Prepaid expenses and other current assets	910,333	868,892
Income taxes receivable	28,314	33,855
Deferred income taxes	19,179	15,737
Total current assets	5,317,006	5,135,360
Property, plant and equipment, net of accumulated depreciation of $1,380,963 at November 30, 2011 and $1,363,481 at August 31, 2011	1,628,855	1,641,335
Goodwill	35,688	36,199
Intangible assets, net of accumulated amortization of $129,849 at November 30, 2011 and $128,467 at August 31, 2011	81,366	89,106
Deferred income taxes	66,392	74,989
Other assets	70,067	80,951
Total assets	$ 7,199,374	$ 7,057,940
LIABILITIES AND EQUITY		
Current liabilities:		
Current installments of notes payable and long-term debt	$ 83,859	$ 74,160
Accounts payable	3,098,467	2,885,168
Accrued expenses	795,620	892,391
Income taxes payable	19,534	32,987
Deferred income taxes	1,903	5,182
Total current liabilities	3,999,383	3,889,888
Notes payable and long-term debt, less current installments	1,112,526	1,112,594
Other liabilities	65,476	67,423
Income tax liability	90,736	88,451
Deferred income taxes	15,540	15,761
Total liabilities	5,283,661	5,174,117
Commitments and contingencies		
Equity:		

Jabil Circuit, Inc. stockholders equity:		
Preferred stock, $0.001 par value, authorized 10,000,000 shares; no shares issued and outstanding		
Common stock, $0.001 par value, authorized 500,000,000 shares; 230,427,378 and 224,653,990 shares issued and 207,612,936 and 203,416,503 shares outstanding at November 30, 2011 and August 31, 2011, respectively	230	225
Additional paid-in capital	1,672,013	1,649,431
Retained earnings	537,287	441,793
Accumulated other comprehensive income	138,872	194,706
Treasury stock at cost, 22,814,442 and 21,237,487 shares at November 30, 2011 and August 31, 2011	(449,903)	(419,035)
Total Jabil Circuit, Inc. stockholders equity	1,898,499	1,867,120
Noncontrolling interests	17,214	16,703
Total equity	1,915,713	1,883,823
Total liabilities and equity	$ 7,199,374	$ 7,057,940

See accompanying notes to Condensed Consolidated Financial Statements.

Table of Contents

JABIL CIRCUIT, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except for per share data)

(Unaudited)

	Three months ended	
	November 30, 2011	**November 30, 2010**
Net revenue	$ 4,326,769	$ 4,082,181
Cost of revenue	3,986,759	3,771,590
Gross profit	340,010	310,591
Operating expenses:		
Selling, general and administrative	157,823	142,449
Research and development	6,271	5,741
Amortization of intangibles	5,074	5,969
Restructuring and impairment charges		432
Operating income	170,842	156,000
Other expense (income)	2,685	(200)
Interest income	(558)	(850)
Interest expense	25,519	22,162
Income before income tax	143,196	134,888
Income tax expense	29,415	27,477
Net income	113,781	107,411
Net income attributable to noncontrolling interests, net of income tax expense	909	734
Net income attributable to Jabil Circuit, Inc.	$ 112,872	$ 106,677
Earnings per share attributable to the stockholders of Jabil Circuit, Inc.:		
Basic	$ 0.55	$ 0.50
Diluted	$ 0.54	$ 0.49
Weighted average shares outstanding:		
Basic	205,388	214,395
Diluted	209,937	217,405
Cash dividends declared per common share	$ 0.08	$ 0.07

See accompanying notes to Condensed Consolidated Financial Statements.

Table of Contents

JABIL CIRCUIT, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(Unaudited)

	Three months ended	
	November 30, 2011	November 30, 2010
Net income	$ 113,781	$ 107,411
Other comprehensive income:		
Foreign currency translation adjustment	(55,835)	10,731
Change in fair value of derivative instruments, net of tax	(3,144)	849
Adjustment for net losses realized and included in net income related to derivative instruments, net of tax	3,145	779
Comprehensive income	57,947	119,770
Comprehensive income attributable to noncontrolling interests	909	734
Comprehensive income attributable to Jabil Circuit, Inc.	$ 57,038	$ 119,036

Accumulated foreign currency translation adjustments were $172.6 million at November 30, 2011 and $228.4 million at August 31, 2011. Foreign currency translation adjustments primarily consist of adjustments to consolidate subsidiaries that use a foreign currency as their functional currency.

See accompanying notes to Condensed Consolidated Financial Statements.

Table of Contents

JABIL CIRCUIT, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in thousands, except for share data)

(Unaudited)

	Jabil Circuit, Inc. Stockholders Equity							
	Common Stock							
	Shares Outstanding	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Noncontrolling Interests	Total Equity
Balance at August 31, 2011	203,416,503	$ 225	$ 1,649,431	$ 441,793	$ 194,706	$ (419,035)	$ 16,703	$ 1,883,823
Shares issued upon exercise of stock options	222,974		3,183					3,183
Vesting of restricted stock awards	5,549,866	5	(5)					
Purchases of treasury stock under employee stock plans	(1,576,407)					(30,868)		(30,868)
Recognition of stock-based compensation			18,497					18,497
Tax benefit of stock awards			907					907
Declared dividends				(17,378)				(17,378)
Comprehensive income				112,872	(55,834)		909	57,947
Foreign currency adjustments attributable to noncontrolling interests							(398)	(398)
Balance at November 30, 2011	207,612,936	$ 230	$ 1,672,013	$ 537,287	$ 138,872	$ (449,903)	$ 17,214	$ 1,915,713

See accompanying notes to Condensed Consolidated Financial Statements.

Table of Contents

JABIL CIRCUIT, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Three months ended November 30, 2011	Three months ended November 30, 2010
Cash flows from operating activities:		
Net income	$ 113,781	$ 107,411
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	85,861	74,950
Recognition of stock-based compensation expense	18,665	19,500
Other, net	(561)	(1,045)
Changes in operating assets and liabilities, exclusive of net assets acquired:		
Accounts receivable	(29,659)	11,241
Inventories	(173,336)	(150,065)
Prepaid expenses and other current assets	(49,009)	(17,184)
Other assets	6,319	(955)
Accounts payable and accrued expenses	147,107	(139,783)
Income taxes payable	(4,595)	13,202
Net cash provided by (used in) operating activities	114,573	(82,728)
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(103,234)	(101,269)
Proceeds from sale of property, plant and equipment	8,148	1,990
Proceeds from disposal of available for sale investments		5,800
Cost of receivables acquired, net of cash collections	510	(14,880)
Net cash (used in) investing activities	(94,576)	(108,359)
Cash flows from financing activities:		
Payments toward debt agreements	(2,370,864)	(2,233,084)
Borrowings under debt agreements	2,380,710	2,339,058
Dividends paid to stockholders	(15,528)	(15,194)
Net proceeds from exercise of stock options and issuance of common stock under employee stock purchase plan	3,183	635
Debt issuance costs		(8,942)
Treasury stock minimum tax withholding related to vesting of restricted stock	(30,868)	(9,633)
Excess tax benefit related to stock awards	888	72
Bank overdraft of subsidiary		5,322
Net cash (used in) provided by financing activities	(32,479)	78,234
Effect of exchange rate changes on cash and cash equivalents	(14,225)	(1,322)
Net decrease in cash and cash equivalents	(26,707)	(114,175)
Cash and cash equivalents at beginning of period	888,611	744,329

Cash and cash equivalents at end of period	$ 861,904	$ 630,154

See accompanying notes to Condensed Consolidated Financial Statements.

Table of Contents

JABIL CIRCUIT, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary to present fairly the information set forth therein have been included. The accompanying unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and footnotes included in the Annual Report on Form 10-K of Jabil Circuit, Inc. (the Company) for the fiscal year ended August 31, 2011. Results for the three month period ended November 30, 2011 are not necessarily an indication of the results that may be expected for the full fiscal year ending August 31, 2012.

Certain amounts in the prior periods financial statements have been reclassified to conform to the current period s presentation.

During the three months ended November 30, 2010, the Company recorded same day debt borrowings and repayments on a net basis within the Condensed Consolidated Statement of Cash Flows. Correcting this error such that debt payments and borrowings are recorded on a gross basis within the Condensed Consolidated Statement of Cash Flows increased the payments toward debt agreements and the borrowings under debt agreements lines within the Condensed Consolidated Statement of Cash Flows by $0.7 billion for the three months ended November 30, 2010, with no impact on net cash used in financing activities or other components within the Condensed Consolidated Statement of Cash Flows. The Company assessed the materiality of this error and concluded that the previously issued Condensed Consolidated Statement of Cash Flows for the three months ended November 30, 2010 are not materially misstated because, as discussed above, there was no impact on net cash used in financing activities or other components within the Condensed Consolidated Statement of Cash Flows. The revision had no impact on the Company s previously presented Condensed Consolidated Statements of Operations, Condensed Consolidated Balance Sheets or earnings per share.

2. Earnings Per Share and Dividends

a. Earnings Per Share

The Company calculates its basic earnings per share by dividing net income attributable to Jabil Circuit, Inc. by the weighted average number of common shares and participating securities, to the extent applicable, outstanding during the period. In periods of a net loss, participating securities are not included in the basic loss per share calculation as such participating securities are not contractually obligated to fund losses. The Company s diluted earnings per share is calculated in a similar manner, but includes the effect of dilutive securities. To the extent these securities are anti-dilutive, they are excluded from the calculation of diluted earnings per share. The following table sets forth the calculations of basic and diluted earnings per share attributable to the stockholders of Jabil Circuit, Inc. (in thousands, except earnings per share data):

	Three months ended	
	November 30, 2011	**November 30, 2010**
Numerator:		
Net income attributable to Jabil Circuit, Inc.	$ 112,872	$ 106,677
Denominator for basic and diluted earnings per share:		
Weighted-average common shares outstanding	205,388	211,474
Share-based payment awards classified as participating securities		2,921
Denominator for basic earnings per share	205,388	214,395

Dilutive common shares issuable under the employee stock purchase plan and upon exercise of stock options and stock appreciation rights	395	533
Dilutive unvested restricted stock awards	4,154	2,477
Denominator for diluted earnings per share	209,937	217,405
Earnings per share:		
Income attributable to the stockholders of Jabil Circuit, Inc.:		
Basic	$ 0.55	$ 0.50
Diluted	$ 0.54	$ 0.49

Table of Contents

For the three months ended November 30, 2011 and 2010, options to purchase 3,978,791 and 5,948,410 shares of common stock and 5,182,114 and 5,442,658 stock appreciation rights, respectively, were excluded from the computation of diluted earnings per share as their effect would have been anti-dilutive.

b. Dividends

The following table sets forth certain information relating to the Company s cash dividends declared to common stockholders of the Company during the three months ended November 30, 2011 and 2010:

	Dividend Declaration Date	Dividend per Share	Total Cash Dividends Declared	Date of Record for Dividend Payment	Dividend Cash Payment Date
		(in thousands, except for per share data)			
Fiscal year 2012:	October 20, 2011	$ 0.08	$ 17,379	November 15, 2011	December 1, 2011
Fiscal year 2011:	October 21, 2010	$ 0.07	$ 15,563	November 15, 2010	December 1, 2010

3. Inventories

Inventories consist of the following (in thousands):

	November 30, 2011	August 31, 2011
Raw materials	$ 1,633,758	$ 1,493,904
Work in process	461,538	451,162
Finished goods	289,259	282,273
	$ 2,384,555	$ 2,227,339

4. Stock-Based Compensation

The Company recognizes stock-based compensation expense, reduced for estimated forfeitures, on a straight-line basis over the requisite service period of the award, which is generally the vesting period for outstanding stock awards. The Company recorded $18.7 million and $19.5 million of stock-based compensation expense gross of tax benefits, which is included in selling, general and administrative expenses within the Condensed Consolidated Statements of Operations during the three months ended November 30, 2011 and 2010, respectively. The Company recorded tax effects related to the stock-based compensation expense of $0.4 million and $0.5 million, which is included in income tax expense within the Condensed Consolidated Statements of Operations for the three months ended November 30, 2011 and 2010, respectively.

The following table summarizes stock option and stock appreciation right activity from August 31, 2011 through November 30, 2011:

	Shares Available for Grant	Options Outstanding	Aggregate Intrinsic Value (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (years)
Balance at August 31, 2011	9,164,425	10,473,033	$ 4,029	$ 24.76	3.70
Options cancelled	252,743	(252,743)		$ 25.95	
Options expired	(53,274)			$ 15.23	
Restricted stock awards[(1)]	(4,972,609)				
Options exercised		(227,596)		$ 14.32	

Balance at November 30, 2011	4,391,285	9,992,694	$	6,395	$	25.03		3.58
Exercisable at November 30, 2011		10,008,534	$	6,141	$	25.06		3.57

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

The following table summarizes restricted stock activity from August 31, 2011 through November 30, 2011:

	Shares	Weighted - Average Grant-Date Fair Value
Non-vested balance at August 31, 2011	14,097,278	$ 12.91
Changes during the period		
Shares granted (1)	5,026,601	$ 19.30
Shares vested	(5,549,866)	$ 9.97
Shares forfeited	(53,992)	$ 13.58
Non-vested balance at November 30, 2011	13,520,021	$ 16.48

(1) For those shares granted that are based on the achievement of certain performance criteria, represents the maximum number of shares that can vest.

During the three months ended November 30, 2011, the Company awarded approximately 1.9 million time-based restricted stock units, which generally vest on a graded vesting schedule over three years, and 2.1 million performance-based restricted stock units, which entitle recipients to shares of the Company s stock equal to 0% up to 150% of the number of units granted at the end of a three-year vesting period depending on the level of achievement of the specified performance conditions.

At November 30, 2011, there was $114.3 million of total unrecognized stock-based compensation expense related to restricted stock awards. This expense is expected to be recognized over a weighted-average period of 1.5 years.

5. Concentration of Risk and Segment Data

a. Concentration of Risk

Sales of the Company s products are concentrated among specific customers. During the three months ended November 30, 2011, the Company s five largest customers accounted for approximately 49% of its net revenue and 52 customers accounted for approximately 90% of its net revenue. Sales to these customers were reported in the Diversified Manufacturing Services (DMS), Enterprise & Infrastructure (E&I) and High Velocity Systems (HVS) operating segments.

The Company procures components from a broad group of suppliers, determined on an assembly-by-assembly basis. Almost all of the products manufactured by the Company require one or more components that are available from only a single source.

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

b. Segment Data

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

The Company derives its revenue from providing comprehensive electronics design, production and product management services. Management, including the Chief Executive Officer, the Chief Financial Officer and the Chief Operating Officer (collectively, the chief operating decision maker) evaluates performance and allocates resources on a segment basis. The Company s operating segments consist of three segments DMS, E&I and HVS.

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

Net revenue for the operating segments is attributed to the segment in which the service is performed. An operating segment s performance is evaluated based on its pre-tax operating contribution, or segment income. Segment income is defined as net revenue less cost of revenue, segment selling, general and administrative expenses, segment research and development expenses and an allocation of corporate manufacturing expenses and selling, general and administrative expenses, and does not include stock-based compensation expense and related charges, amortization of intangibles, restructuring and impairment charges, other expense (income), interest income, interest expense, income tax expense or adjustment for net income attributable to noncontrolling interests. Total segment assets are defined as accounts receivable, inventories, net customer-related machinery and equipment, intangible assets net of accumulated amortization and goodwill. All other non-segment assets are reviewed on a global basis by management. Transactions between operating segments are generally recorded at amounts that approximate arm s length.

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

	Three months ended November 30, 2011	Three months ended November 30, 2010
Net revenue		
DMS	$ 1,810,867	$ 1,394,644
E&I	1,207,673	1,164,112
HVS	1,308,229	1,523,425
	$ 4,326,769	$ 4,082,181

	Three months ended November 30, 2011	Three months ended November 30, 2010
Segment income and reconciliation of income before income tax		
DMS	$ 122,230	$ 95,276
E&I	22,944	52,087
HVS	49,407	34,538
Total segment income	$ 194,581	$ 181,901
Reconciling items:		
Stock-based compensation expense and related charges	18,665	19,500
Amortization of intangibles	5,074	5,969
Restructuring and impairment charges		432
Other expense (income)	2,685	(200)
Interest income	(558)	(850)
Interest expense	25,519	22,162
Income before income tax	$ 143,196	$ 134,888

	November 30, 2011	August 31, 2011
Total assets		
DMS	$ 2,598,275	$ 2,417,256
E&I	1,213,731	1,194,774
HVS	1,183,051	1,232,378

Other non-allocated assets	2,204,317	2,213,532
	$ 7,199,374	$ 7,057,940

The Company operates in 25 countries worldwide. Sales to unaffiliated customers are based on the Company s location that maintains the customer relationship and transacts the external sale. Total foreign net revenue represented 86.7% and 86.4% of net revenue during the three months ended November 30, 2011 and 2010, respectively.

Table of Contents

6. Notes Payable and Long-Term Debt

Notes payable and long-term debt outstanding at November 30, 2011 and August 31, 2011, are summarized below (in thousands):

	November 30, 2011	August 31, 2011
7.750% Senior Notes due 2016	$ 303,931	$ 303,501
8.250% Senior Notes due 2018	397,617	397,521
5.625% Senior Notes due 2020	400,000	400,000
Borrowings under credit facilities	82,132	72,100
Borrowings under loans	1,728	2,062
Fair value adjustment	10,977	11,570
Total notes payable and long-term debt	1,196,385	1,186,754
Less current installments of notes payable and long-term debt	83,859	74,160
Notes payable and long-term debt, less current installments	$ 1,112,526	$ 1,112,594

The $312.0 million of 7.750% senior unsecured notes, $400.0 million of 8.250% senior unsecured notes and $400.0 million of 5.625% senior unsecured notes outstanding are carried at the principal amount of each note, less any unamortized discount. The estimated fair value of these senior notes was approximately $349.4 million, $452.0 million and $400.8 million, respectively, at November 30, 2011. The fair value estimates are based upon observable market data (Level 2 criteria).

7. Trade Accounts Receivable Securitization and Sale Programs

The Company regularly sells designated pools of trade accounts receivable under two asset-backed securitization programs, a factoring program and three uncommitted trade accounts receivable sale programs (collectively referred to herein as the programs). The Company continues servicing the receivables sold and in exchange receives a servicing fee under each of the programs. Servicing fees related to each of the programs recognized during the three months ended November 30, 2011 and 2010, were not material. The Company does not record a servicing asset or liability as the Company estimates the fee it receives in return for its obligation to service these receivables is at fair value.

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

a. Asset-Backed Securitization Programs

The Company continuously sells designated pools of trade accounts receivable under its North American asset-backed securitization program and its foreign asset-backed securitization program (collectively referred to herein as the asset-backed securitization programs) to special purpose entities, which in turn sell 100% of the receivables to conduits administered by unaffiliated financial institutions and an unaffiliated financial institution, respectively. The special purpose entity in the North American asset-backed securitization program is a wholly-owned subsidiary of the Company. The Company is deemed the primary beneficiary of the special purpose entity, which is a separate bankruptcy-remote entity whose assets would be first available to satisfy the creditor claims of the unaffiliated financial institution, in the foreign asset-backed securitization program as the Company has the power to direct the activities of the entity and has the obligation to absorb the majority of the expected losses or the right to receive the benefits from the transfer of the trade accounts receivable into the special purpose entity. Accordingly, the special purpose entities associated with these programs are included in the Company s Condensed Consolidated Financial Statements. Any portion of the purchase price for the receivables which is not paid in cash upon the sale taking place is recorded as a deferred purchase price receivable, which is paid as payments on the receivables are collected. Net cash proceeds of up to a maximum of $300.0 million for the North American asset-backed securitization program and $200.0 million for the foreign asset-backed securitization program are available at any one time.

In connection with the asset-backed securitization programs, the Company sold $2.1 billion of eligible trade accounts receivable during the three months ended November 30, 2011. In exchange, the Company received cash proceeds of $1.6 billion during the three months ended

November 30, 2011, and a net deferred purchase price receivable. At November 30, 2011, the deferred purchase price receivable recorded in connection with the asset-backed securitization programs totaled approximately $497.9 million, which was recorded initially at fair value as prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets. The deferred purchase price receivable was valued using unobservable inputs (Level 3 inputs), primarily discounted cash flows, and due to its credit quality and short-term maturity, the fair value approximated book value.

The Company recognized pretax losses on the sales of receivables under the asset-backed securitization programs of approximately $1.8 million during the three months ended November 30, 2011, which are recorded to other expense within the Condensed Consolidated Statements of Operations.

In connection with the North American asset-backed securitization program, the Company sold $1.5 billion of eligible trade accounts receivable during the three months ended November 30, 2010. In exchange, the Company received cash proceeds of $1.3 billion during the three months ended November 30, 2010, and a net deferred purchase price receivable. At November 30, 2010, the deferred purchase price receivable recorded in connection with the North American asset-backed securitization program totaled approximately $218.8 million, which was recorded initially at fair value as prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets. The deferred purchase price receivable was valued using unobservable inputs (Level 3 inputs), primarily discounted cash flows, and due to its credit quality and short-term maturity, the fair value approximated book value.

The Company recognized pretax losses on the sales of receivables under the North American asset-backed securitization programs of approximately $0.5 million during the three months ended November 30, 2010, which are recorded to other expense within the Condensed Consolidated Statements of Operations.

Prior to amendments that were effective for the North American asset-backed securitization program during the first quarter of fiscal year 2011 and for the foreign asset-backed securitization program during the third quarter of fiscal year 2011, the asset-backed securitization programs were accounted for as secured borrowings. Accordingly, the Company incurred interest expense of $0.8 million in the Condensed Consolidated Statements of Operations during the three months ended November 30, 2010 in connection with the asset-backed securitization programs. In addition, at November 30, 2010, the Company had $82.8 million of secured borrowings outstanding under the foreign asset-backed securitization program.

b. Trade Accounts Receivable Factoring Agreement

In connection with a factoring agreement, the Company transfers ownership of eligible trade accounts receivable of a foreign subsidiary without recourse to a third party purchaser in exchange for cash. Proceeds from the transfer reflect the face value of the account less a discount. The discount is recorded as a loss to other expense within the Condensed Consolidated Statements of Operations in the period of the sale. In October 2011, the factoring agreement was extended through March 31, 2012, at which time it is expected to automatically renew for an additional six-month period.

The Company sold $21.4 million and $18.5 million of trade accounts receivable during the three months ended November 30, 2011 and 2010, respectively. In exchange, the Company received cash proceeds of $21.4 million and $18.5 million during the three months ended November 30, 2011 and 2010, respectively. The resulting losses on the sales of trade accounts receivables sold under this factoring agreement during the three months ended November 30, 2011 and 2010 were not material.

c. Trade Accounts Receivable Sale Programs

In connection with three separate uncommitted trade accounts receivable sale agreements with banks, the third of which was entered into during the first quarter of fiscal year 2012, the Company may elect to sell and the banks may elect to purchase at a discount, on an ongoing basis, up to a maximum of $200.0 million, $250.0 million and $50.0 million, respectively, of specific trade accounts receivable at any one time. The $200.0 million and $250.0 million uncommitted trade accounts receivable sale agreements have no defined termination dates and either party can elect to cancel the agreements by giving prior written notification to the other party of no less than 30 days. The $50.0 million uncommitted trade accounts receivable sale agreement will expire no later than June 1, 2015, though either party can elect to cancel the agreement by giving prior written notification to the other party of no less than 30 days.

During the three months ended November 30, 2011 and 2010, the Company sold $0.5 billion and $0.4 billion of trade accounts receivable under these programs, respectively. In exchange, the Company received cash proceeds of $0.5 billion and $0.4 billion during the three months ended November 30, 2011 and 2010, respectively. The resulting losses on the sales of trade accounts receivable during the three months ended November 30, 2011 and 2010 were not material.

8. Postretirement and Other Employee Benefits

The Company sponsors defined benefit pension plans in several countries in which it operates. The pension obligations relate primarily to the following: (a) a funded retirement plan in the United Kingdom and (b) primarily unfunded retirement plans mainly in Austria, France, Germany, Japan, The Netherlands, Poland, and Taiwan and which provide benefits based upon years of service and compensation at retirement.

13

Table of Contents

The following table provides information about net periodic benefit cost for the pension plans during the three months ended November 30, 2011 and 2010 (in thousands):

	Three months ended	
	November 30, 2011	November 30, 2010
Service cost	$ 317	$ 378
Interest cost	1,655	1,406
Expected long-term return on plan assets	(1,239)	(1,096)
Amortization of prior service cost	(7)	(6)
Recognized actuarial loss	304	500
Net periodic benefit cost	$ 1,030	$ 1,182

During the three months ended November 30, 2011, the Company made contributions of approximately $1.2 million to its defined benefit pension plans. The Company expects to make total cash contributions of between $3.4 million and $4.0 million to its funded pension plans during fiscal year 2012.

9. Commitments and Contingencies

a. Legal Proceedings

The Company is party to certain lawsuits in the ordinary course of business. The Company does not believe that these proceedings, individually or in the aggregate, will have a material adverse effect on the Company s financial position, results of operations or cash flows.

b. Income Tax Examination

The Internal Revenue Service (IRS) completed its field examination of the Company s tax returns for the fiscal years 2003 through 2005 and issued a Revenue Agent s Report (RAR) on April 30, 2010 proposing adjustments primarily related to the IRS contentions that (1) certain corporate expenses relate to services provided to foreign affiliates and therefore must be charged to those affiliates, and (2) valuable intangible property was transferred to certain foreign affiliates without charge. If the IRS ultimately prevails in its positions, the Company s income tax payment due for the fiscal years 2003 through 2005 would be approximately an additional $69.3 million before utilization of any tax attributes arising in periods subsequent to fiscal year 2005. In addition, the IRS will likely make similar claims in future audits with respect to these types of transactions (at this time, determination of the additional income tax due for these later years is not practicable). Also, the IRS has proposed interest and penalties on the Company with respect to fiscal years 2003 through 2005, and the Company anticipates the IRS may seek to impose interest and penalties in subsequent years with respect to the same types of issues.

The Company disagrees with the proposed adjustments and is vigorously contesting this matter through applicable IRS and judicial procedures, as appropriate. As the final resolution of the proposed adjustments remains uncertain, the Company continues to provide for the uncertain tax position based on the more likely than not standards. Accordingly, the Company did not record any significant additional tax liabilities related to this RAR on the Condensed Consolidated Balance Sheets as of November 30, 2011. While the resolution of the issues may result in tax liabilities, interest and penalties, which are significantly higher than the amounts provided for this matter, management currently believes that the resolution will not have a material effect on the Company s financial position or liquidity. Despite this belief, an unfavorable resolution, particularly if the IRS successfully asserts similar claims for later years, could have a material effect on the Company s results of operations and financial condition (particularly during the quarter in which any adjustment is recorded or any tax is due or paid).

10. Derivative Financial Instruments and Hedging Activities

The Company is directly and indirectly affected by changes in certain market conditions. These changes in market conditions may adversely impact the Company s financial performance and are referred to as market risks. The Company, where deemed appropriate, uses derivatives as risk management tools to mitigate the potential impact of certain market risks. The primary market risks managed by the Company through the use of derivative instruments are foreign currency fluctuation risk and interest rate risk.

All derivative instruments are recorded gross on the Condensed Consolidated Balance Sheets at their respective fair values. The accounting for changes in the fair value of a derivative instrument depends on the intended use and designation of the derivative instrument. For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative and the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in current earnings. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is initially reported as a component of accumulated other comprehensive income (AOCI), net of tax, and is subsequently reclassified into the line item within the Condensed Consolidated Statements of Operations in which the hedged items are recorded in the same period in which the hedged item affects earnings. The ineffective portion of the gain or loss is recognized immediately in current earnings. For derivative instruments that are not designated as hedging instruments, gains and losses from changes in fair values are recognized in earnings.

For a derivative instrument designated as an accounting hedge, the Company formally documents, at inception, the financial instrument as a hedge of a specific underlying exposure, the risk management objective and the strategy for undertaking the hedge transaction. In addition, the Company formally performs an assessment, both at inception and at least quarterly thereafter, to determine whether the financial instruments used in hedging transactions are effective at offsetting changes in the cash flows on the related underlying exposures.

a. Foreign Currency Risk Management

Forward contracts are put in place to manage the foreign currency risk associated with anticipated foreign currency denominated revenues and expenses. A hedging relationship existed with an aggregate notional amount outstanding of $255.7 million and $43.5 million at November 30, 2011 and 2010, respectively. The related forward foreign exchange contracts have been designated as hedging instruments and are accounted for as cash flow hedges. The forward foreign exchange contract transactions will effectively lock in the value of anticipated foreign currency denominated revenues and expenses against foreign currency fluctuations. The anticipated foreign currency denominated revenues and expenses being hedged are expected to occur between December 1, 2011 and September 30, 2012.

In addition to derivatives that are designated and qualify for hedge accounting, the Company also enters into forward contracts to economically hedge transactional exposure associated with commitments arising from trade accounts receivable, trade accounts payable, fixed purchase obligations and intercompany transactions denominated in a currency other than the functional currency of the respective operating entity. The aggregate notional amount of these outstanding contracts at November 30, 2011 and 2010 was $779.5 million and $420.0 million, respectively.

The following table presents the Company s assets and liabilities related to forward foreign exchange contracts measured at fair value on a recurring basis as of November 30, 2011, aggregated by the level in the fair-value hierarchy in which those measurements are classified (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Forward foreign exchange contracts	$	$ 5,966	$	$ 5,966
Liabilities:				
Forward foreign exchange contracts		(10,284)		(10,284)
Total	$	$ (4,318)	$	$ (4,318)

The Company s forward foreign exchange contracts are measured on a recurring basis at fair value, based on foreign currency spot rates and forward rates quoted by banks or foreign currency dealers.

The following tables present the fair value of the Company s derivative instruments located on the Condensed Consolidated Balance Sheets utilized for foreign currency risk management purposes at November 30, 2011 and 2010 (in thousands):

Fair Values of Derivative Instruments

	At November 30, 2011			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				

Forward foreign exchange contracts	Prepaid expenses and other current assets	$ 358	Other accrued expense	$ 3,613

Table of Contents

Fair Values of Derivative Instruments

At November 30, 2011

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives not designated as hedging instruments:				
Forward foreign exchange contracts	Prepaid expenses and other current assets	$ 5,608	Other accrued expense	$ 6,671

Fair Values of Derivative Instruments

At November 30, 2010

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives designated as hedging instruments:				
Forward foreign exchange contracts	Prepaid expenses and other current assets	$ 645	Other accrued expense	$ 636
Derivatives not designated as hedging instruments:				
Forward foreign exchange contracts	Prepaid expenses and other current assets	$ 9,541	Other accrued expense	$ 5,964

The following tables present the impact that changes in fair value of derivatives utilized for foreign currency risk management purposes and designated as hedging instruments had on AOCI and earnings during the three months ended November 30, 2011 and 2010 (in thousands):

Derivatives in Cash Flow Hedging Relationship during the Three Months Ended November 30, 2011	**Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)**	**Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)**	**Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)**	**Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)**	**Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)**
Forward foreign exchange contracts	$ 1,769	Revenue	$ 1,165	Revenue	$ (53)
Forward foreign exchange contracts	$ (2,598)	Cost of revenue	$ (1,175)	Cost of revenue	$ (1,395)
Forward foreign exchange contracts	$ (2,315)	Selling, general and administrative	$ (2,147)	Selling, general and administrative	$ 83

16

Table of Contents

Derivatives in Cash Flow Hedging Relationship during the Three Months Ended November 30, 2010	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
Forward foreign exchange contracts	$	31	Revenue	$	364	Revenue	$	(107)
Forward foreign exchange contracts	$	876	Cost of revenue	$	(131)	Cost of revenue	$	(162)
Forward foreign exchange contracts	$	(58)	Selling, general and administrative	$	(24)	Selling, general and administrative	$	(13)

As of November 30, 2011, the Company estimates that it will reclassify into earnings during the next 12 months existing losses related to foreign currency risk management hedging arrangements of approximately $1.6 million from the amounts recorded in AOCI as the anticipated cash flows occur.

The following tables present the impact that changes in fair value of derivatives utilized for foreign currency risk management purposes and not designated as hedging instruments had on earnings during the three months ended November 30, 2011 and 2010 (in thousands):

Derivatives not designated as hedging instruments	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative during the Three Months Ended November 30, 2011	
Forward foreign exchange contracts	Cost of revenue	$	2,972

Derivatives not designated as hedging instruments	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative during the Three Months Ended November 30, 2010	
Forward foreign exchange contracts	Cost of revenue	$	5,716

b. Interest Rate Risk Management

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

Fair Value Hedges

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

During the fourth quarter of fiscal year 2011, the Company terminated the interest rate swaps entered into in connection with the 7.750% Senior Notes with a fair value of $12.2 million, including accrued interest of $0.6 million at August 31, 2011. The portion of the fair value that is not accrued is recorded as a hedge accounting adjustment to the carrying amount of the 7.750% Senior Notes and is being amortized as a reduction to interest expense over the remaining term of the 7.750% Senior Notes. At November 30, 2011, the hedge accounting adjustment recorded is $11.0 million in the Condensed Consolidated Balance Sheets.

Table of Contents

Cash Flow Hedges

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

The following tables present the impact that changes in the fair value of the derivative utilized for interest rate risk management and designated as a hedging instrument had on AOCI and earnings during the three months ended November 30, 2011 and 2010 (in thousands):

Derivatives in Cash Flow Hedging Relationship during the Three Months Ended November 30, 2011	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Interest rate swap	$	Interest expense	$ (988)	Interest expense	$

Derivatives in Cash Flow Hedging Relationship during the Three Months Ended November 30, 2010	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Interest rate swap	$	Interest expense	$ (988)	Interest expense	$

As of November 30, 2011, the Company estimates that it will reclassify into earnings during the next 12 months existing losses related to interest rate risk management hedging arrangements of approximately $4.0 million from the amounts recorded in AOCI as the anticipated cash flows occur.

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

	Three months ended November 30, 2010
Accumulated comprehensive loss, August 31, 2010	