SANMINA CORP
Form 10-Q
April 29, 2016

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 April 2, 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 0-21272
Sanmina Corporation
(Exact name of registrant as specified in its charter)

Delaware	77-0228183
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
2700 N. First St., San Jose, CA	95134
(Address of principal executive offices)	(Zip Code)

(408) 964-3500
(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 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 April 25, 2016, there were 73,632,621 shares outstanding of the issuer's common stock, $0.01 par value per share.

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CONDENSED CONSOLIDATED BALANCE SHEETS

	As of April 2, 2016	October 3, 2015
	(Unaudited)	
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$407,319	$412,253
Accounts receivable, net of allowances of $13.4 million in both periods	998,600	936,952
Inventories	922,704	918,728
Prepaid expenses and other current assets	64,313	55,047
Total current assets	2,392,936	2,322,980
Property, plant and equipment, net	611,799	590,844
Deferred tax assets	476,009	497,605
Other	117,590	81,835
Total assets	$3,598,334	$3,493,264
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,104,187	$1,035,323
Accrued liabilities	134,670	111,416
Accrued payroll and related benefits	119,964	120,402
Short-term debt, including current portion of long-term debt	136,430	113,416
Total current liabilities	1,495,251	1,380,557
Long-term liabilities:		
Long-term debt	437,566	423,949
Other	170,423	168,287
Total long-term liabilities	607,989	592,236
Commitments and contingencies (Note 5)		
Stockholders' equity	1,495,094	1,520,471
Total liabilities and stockholders' equity	$3,598,334	$3,493,264

See accompanying notes to condensed consolidated financial statements.

SANMINA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Six Months Ended	
	April 2, 2016	March 28, 2015	April 2, 2016	March 28, 2015
	(Unaudited)			
	(In thousands, except per share data)			
Net sales	$1,611,174	$1,527,530	$3,145,888	$3,198,692
Cost of sales	1,474,462	1,412,267	2,885,538	2,957,083
Gross profit	136,712	115,263	260,350	241,609
Operating expenses:				
Selling, general and administrative	63,494	57,023	121,187	116,441
Research and development	9,997	7,559	19,644	15,628
Restructuring costs	1,204	1,740	1,757	4,740
Amortization of intangible assets	918	425	1,610	850
Asset impairments	—	—	1,000	1,954
Gain on sales of long-lived assets	—	(1,136)	—	(1,136)
Total operating expenses	75,613	65,611	145,198	138,477
Operating income	61,099	49,652	115,152	103,132
Interest income	159	265	307	554
Interest expense	(6,353)	(6,197)	(12,231)	(12,634)
Other income (expense), net	489	(365)	271	(1,893)
Interest and other, net	(5,705)	(6,297)	(11,653)	(13,973)
Income before income taxes	55,394	43,355	103,499	89,159
Provision for income taxes	25,033	28,607	46,000	51,755
Net income	$30,361	$14,748	$57,499	$37,404
Net income per share:				
Basic	$0.40	$0.18	$0.75	$0.45
Diluted	$0.39	$0.17	$0.72	$0.43
Weighted average shares used in computing per share amounts:				
Basic	75,477	82,977	76,605	82,762
Diluted	78,525	86,897	79,740	86,797

See accompanying notes to condensed consolidated financial statements.

SANMINA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended		Six Months Ended	
	April 2, 2016	March 28, 2015	April 2, 2016	March 28, 2015
	(Unaudited) (In thousands)			
Net income	$30,361	$14,748	$57,499	$37,404
Other comprehensive income (loss), net of tax:				
Change in foreign currency translation adjustments	2,797	(4,934)	1,906	(9,794)
Derivative financial instruments:				
Change in net unrealized amount	(1,354)	(1,328)	(990)	(2,726)
Amount reclassified into net income	1,457	1,222	1,162	2,663
Defined benefit plans:				
Changes in unrecognized net actuarial loss and unrecognized transition cost	(483)	870	(108)	1,145
Amortization of actuarial losses and transition costs	442	300	864	636
Total other comprehensive income (loss)	2,859	(3,870)	2,834	(8,076)
Comprehensive income	$33,220	$10,878	$60,333	$29,328

See accompanying notes to condensed consolidated financial statements.

SANMINA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	April 2, 2016	March 28, 2015
	(Unaudited) (In thousands)	
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net income	$57,499	$37,404
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	53,443	49,531
Stock-based compensation expense	12,537	11,205
Deferred income taxes	21,624	19,538
Other, net	(22)	3,733
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(60,744)	52,580
Inventories	28,833	28,248
Prepaid expenses and other assets	(6,495)	7,642
Accounts payable	79,046	(114,287)
Accrued liabilities	19,588	(32,038)
Cash provided by operating activities	205,309	63,556
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(58,013)	(51,317)
Proceeds from sales of property, plant and equipment	332	6,824
Cash paid for business combinations, net of cash acquired	(58,878)	—
Cash used in investing activities	(116,559)	(44,493)
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Repayments of long-term debt	(966)	(105,250)
Repayments of short-term borrowings	—	(10,221)
Proceeds from revolving credit facility borrowings	1,609,700	1,085,500
Repayments of revolving credit facility borrowings	(1,604,700)	(1,045,500)
Proceeds from termination of interest rate swap	—	3,258
Net proceeds from stock issuances	5,752	16,358
Repurchases of common stock	(103,960)	(22,982)
Cash used in financing activities	(94,174)	(78,837)
Effect of exchange rate changes	490	884
Decrease in cash and cash equivalents	(4,934)	(58,890)
Cash and cash equivalents at beginning of period	412,253	466,607
Cash and cash equivalents at end of period	$407,319	$407,717
Cash paid during the period for:		
Interest, net of capitalized interest	$10,028	$9,466
Income taxes, net of refunds	$16,356	$31,207

Non-interest bearing promissory notes issued in conjunction with business combinations (refer to Note 8)	$30,105	$—

See accompanying notes to condensed consolidated financial statements.

SANMINA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Sanmina Corporation (the “Company”) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been omitted pursuant to those rules or regulations. The interim condensed consolidated financial statements are unaudited, but reflect all adjustments, consisting primarily of normal recurring adjustments, that are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended October 3, 2015, included in the Company's 2015 Annual Report on Form 10-K.

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates.

Results of operations for the second quarter of 2016 are not necessarily indicative of the results that may be expected for other interim periods or for the full fiscal year.

The Company operates on a 52 or 53 week year ending on the Saturday nearest September 30. Fiscal 2015 was a 53-week year, with the extra week in the fourth fiscal quarter, and fiscal 2016 will be a 52-week year. All references to years relate to fiscal years unless otherwise noted.

Recent Accounting Pronouncements

In March 2016, the FASB issued ASU 2016-09 "Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting". This standard addresses several aspects of accounting for share-based payment award transactions, including: (a) income tax consequences, (b) classification of awards as either equity or liabilities, and (c) classification in the statement of cash flows. The new standard is effective for the Company at the beginning of fiscal 2018, including interim periods within that reporting period, but early adoption is allowed. The Company is currently evaluating the impact of adopting this new accounting standard.

In February 2016, the FASB issued ASU 2016-02, "Leases: Amendments to the FASB Accounting Standards Codification (Topic 842)". This ASU requires the Company to recognize on the balance sheet the assets and liabilities for the rights and obligations created by leases with terms of more than twelve months. This ASU also requires disclosures enabling the users of financial statements to understand the amount, timing and uncertainty of cash flows arising from leases. The new standard is effective for the Company at the beginning of fiscal 2020, including interim periods within that reporting period. The Company is currently evaluating the impact of adopting this new accounting standard.

In September 2015, the FASB issued ASU 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments (Topic 805)". This ASU requires the Company to recognize adjustments to provisional amounts identified during the measurement period in the reporting period in which the adjustments are determined. Additionally, the Company is required to disclose the amount recorded in current-period earnings that would have been recorded in previous reporting periods if the adjustment to provisional amounts had been recognized as of the acquisition date. The new standard is effective for the Company at the beginning of fiscal 2017.

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory (Topic 330)". This ASU requires measurement of inventory at the lower of cost or net realizable value. Net realizable value is defined as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Currently, inventory is generally measured at the lower of cost or market, except for excess and obsolete inventories which are carried at their estimated net realizable values. This new standard is effective for the Company in fiscal 2018, including interim periods within that reporting period. The Company is currently evaluating the impact of adopting this new accounting standard.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which supersedes the revenue recognition requirements in “Revenue Recognition (Topic 605).” This ASU requires an entity to recognize revenue when goods are transferred or services are provided to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires disclosures enabling users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for the Company in fiscal 2019, including interim periods within that reporting period, using one of two prescribed transition methods. The Company, together with other EMS industry participants, continues to closely monitor implementation issues and other guidance published by the standard setters. The Company has not yet selected a transition method, nor has it determined the effect of the standard on its ongoing financial reporting.

Note 2. Inventories

Components of inventories were as follows:

	As of April 2, 2016	October 3, 2015
	(In thousands)	
Raw materials	$611,896	$624,514
Work-in-process	115,233	120,131
Finished goods	195,575	174,083
Total	$922,704	$918,728

Note 3. Financial Instruments

Fair Value Measurements

Fair Value of Financial Instruments

The fair values of cash equivalents, accounts receivable, accounts payable and short-term debt approximate carrying value due to the short term duration of these instruments.

Fair Value Option for Long-term Debt

As of April 2, 2016, the aggregate carrying amount of the Company's long-term debt instruments approximated fair value as estimated based primarily on quoted prices. The Company has elected not to record its long-term debt instruments at fair value.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company's primary financial assets and liabilities measured at fair value on a recurring basis are deferred compensation plan assets, foreign exchange contracts, defined benefit plan assets and contingent consideration. Deferred compensation plan assets, foreign exchange contracts and contingent consideration were not material as of April 2, 2016 or October 3, 2015. Defined benefit plan assets are measured at fair value in the fourth quarter of each year.

During the second quarter of 2016, the fair value of the Company's contingent consideration liability decreased by $7.6 million, resulting in a $7.6 million credit to cost of sales on the condensed consolidated statement of income. The change in fair value resulted from a revision to the Company's estimate of future earnout payments, driven primarily by weakened conditions in the oil and gas industry and uncertainties about consolidation activity within that industry on the Company's customers.

Offsetting Derivative Assets and Liabilities

The Company has entered into master netting arrangements with each of its derivative counterparties that allows net settlement of derivative assets and liabilities under certain conditions, such as multiple transactions with the same currency maturing on the same date. The Company presents its derivative assets and derivative liabilities on a gross basis on the unaudited condensed consolidated balance sheets. The amount that the Company had the right to offset under these netting arrangements was not material as of April 2, 2016 or October 3, 2015.

Derivative Instruments

The Company is exposed to certain risks related to its ongoing business operations. The primary risk managed by using derivative instruments is foreign exchange rate risk.

Forward contracts on various foreign currencies are used to manage foreign currency risk associated with forecasted foreign currency transactions and certain monetary assets and liabilities denominated in non-functional currencies. The Company's primary foreign currency cash flows are in certain Asian and European countries, Brazil, Israel and Mexico.

The Company had the following outstanding foreign currency forward contracts that were entered into to hedge foreign currency exposures:

	As of	
	April 2, 2016	October 3, 2015
Derivatives Designated as Accounting Hedges:		
Notional amount (in thousands)	$88,798	$76,465
Number of contracts	42	41
Derivatives Not Designated as Accounting Hedges:		
Notional amount (in thousands)	$356,308	$230,084
Number of contracts	49	46

The Company utilizes foreign currency forward contracts to hedge certain operational (“cash flow”) exposures resulting from changes in foreign currency exchange rates. Such exposures generally result from (1) forecasted sales denominated in currencies other than those used to pay for materials and labor, (2) forecasted non-functional currency labor and overhead expenses, (3) forecasted non-functional currency operating expenses and (4) anticipated capital expenditures denominated in a currency other than the functional currency of the entity making the expenditures. These contracts are accounted for as cash flow hedges and are generally one to two months in duration but, by policy, may be up to twelve months in duration.

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is recorded in Accumulated Other Comprehensive Income ("AOCI"), a component of equity, and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The amount of gain (loss) recognized in Other Comprehensive Income ("OCI") on derivative instruments (effective portion), the amount of gain (loss) reclassified from AOCI into income (effective portion) and the amount of ineffectiveness were not material for any period presented herein. As of April 2, 2016, AOCI related to foreign currency forward contracts was not material.

The Company also enters into short-term foreign currency forward contracts to hedge foreign currency exposures associated with certain monetary assets and liabilities denominated in non-functional currencies. These contracts generally have maturities of up to two months and are not designated as accounting hedges. Accordingly, these contracts are marked-to-market at the end of each period with unrealized gains and losses recorded in other expense, net, in the unaudited condensed consolidated statements of income. The amount of gains (losses) associated with these forward contracts were not material for any period presented herein. From an economic perspective, the objective of the Company's hedging program is for gains and losses on forward contracts to substantially offset gains and losses on the underlying hedged items.

In addition to the short-term contracts discussed above, the Company has a foreign currency forward contract that matures in 2020. The Company entered into this contract in the second quarter of 2016 to hedge a foreign currency exposure associated with a long-term promissory note issued in connection with a business combination.

Note 4. Debt

Long-term debt consisted of the following:

	As of April 2, 2016	October 3, 2015
	(In thousands)	
Secured debt	$40,000	$40,000
Senior secured notes due 2019 ("Secured Notes")	375,000	375,000
Non-interest bearing promissory notes	25,982	12,365
Total long-term debt	440,982	427,365
Less: Current Portion		
Current portion of non-interest bearing promissory notes	3,416	3,416
Long-term debt	$437,566	$423,949

On February 1, 2016, the Company completed an acquisition and financed $15.0 million of the purchase price with the acquiree using a four-year non-interest bearing promissory note. The carrying amount of the note was $13.3 million as of April 2, 2016.

Short-term debt

The Company has a $375 million secured revolving credit facility (the "Cash Flow Revolver") that may be increased by an additional $125 million upon obtaining additional commitments from lenders then party to the Cash Flow Revolver or new lenders. The Cash Flow Revolver expires on May 20, 2020, but may be terminated by the lenders as early as March 4, 2019 if certain conditions exist. As of April 2, 2016, $115.0 million of borrowings and $27.2 million of letters of credit were outstanding under the Cash Flow Revolver.

On January 5, 2016, the Company completed an acquisition and financed $18.0 million of the purchase price with the acquiree using a non-interest bearing promissory note due May 1, 2016.

As of April 2, 2016, certain foreign subsidiaries of the Company had a total of $74.4 million of short-term borrowing facilities, under which no borrowings were outstanding. These facilities expire at various dates through the second quarter of 2017.

Debt covenants

The Company's Cash Flow Revolver requires the Company to comply with certain financial covenants. Additionally, the agreement covering the Company’s $40 million debt collateralized by the Company’s corporate campus (the “Secured Debt”) requires the Company to comply with a financial covenant if certain conditions exist, none of which existed as of April 2, 2016.

The Company's debt agreements contain a number of restrictive covenants, restrictions on incurring additional debt, making investments and other restricted payments, selling assets, paying dividends and redeeming or repurchasing capital stock and debt, subject to certain exceptions.

The Company was in compliance with these covenants as of April 2, 2016.

Note 5. Commitments and Contingencies

From time to time, the Company is a party to litigation, claims and other contingencies, including environmental and employee matters and examinations and investigations by governmental agencies, which arise in the ordinary course of business. The Company records a contingent liability when it is probable that a loss has been incurred and the amount of loss is reasonably estimable in accordance with ASC Topic 450, Contingencies, or other applicable accounting standards. As of April 2, 2016 and October 3, 2015, the Company had reserves of $43.5 million and $49.2 million, respectively, for environmental matters, warranty, litigation and other contingencies (excluding reserves for uncertain tax positions) which the Company believes are adequate. However, there can be no assurance that the Company's reserves will be sufficient to settle these contingencies. Such reserves are included in accrued liabilities and other long-term liabilities on the unaudited condensed consolidated balance sheets.

Legal Proceedings

Environmental Matters

The Company is subject to various federal, state, local and foreign laws, regulations and administrative orders concerning environmental protection, including those addressing the discharge of pollutants into the environment, the management and handling of hazardous substances, the cleanup of contaminated sites, the materials used in products, and the generation, recycling, treatment and disposal of hazardous waste. As of April 2, 2016, the Company had been named in a lawsuit and several administrative orders alleging certain of its current and former sites contributed to groundwater contamination. One such order requires our Canadian subsidiary to remediate certain environmental contamination at a site owned by the subsidiary between 1999 and 2006. As of April 2, 2016, the Company believes it has reserved a sufficient amount to satisfy anticipated future investigation and remediation costs at this site.

In June 2008, the Company was named by the Orange County Water District in a suit alleging that its actions contributed to polluted groundwater managed by the plaintiff. The complaint seeks recovery of compensatory and other damages, as well as declaratory relief, for the payment of costs necessary to investigate, monitor, remediate, abate and contain contamination of groundwater within the plaintiff’s control. In April 2013, all claims against the Company were dismissed. The plaintiff has appealed this dismissal and the Company expects the appeal to be heard in calendar 2016.

Other Matters

Two of the Company’s subsidiaries in Brazil are parties to several administrative and judicial proceedings for claims alleging that these subsidiaries failed to comply with certain bookkeeping and tax rules for certain periods between 2001 and 2010. These claims seek payment of social fund contributions and income and excise taxes allegedly owed by the subsidiaries, as well as fines. The subsidiaries believe they have meritorious positions in these matters and intend to contest the claims, although there can be no assurance that these claims will not have a material adverse effect on the Company’s results of operations in the future.

Refer to Part II, Item 1 for further information regarding these matters.

Other Contingencies

One of the Company's most significant risks is the ultimate realization of accounts receivable and customer inventory liabilities. This risk is partially mitigated by ongoing credit evaluations of, and frequent contact with, the Company's customers, especially its most significant customers, thus enabling it to monitor changes in business operations and respond accordingly. In the first quarter of 2015, one of the Company’s customers, GT Advanced Technologies

("GTAT"), filed a petition for reorganization under bankruptcy law. As of April 2, 2016 and October 3, 2015, the Company's accounts receivable and inventory exposure of $12.0 million for this customer was fully reserved, including $3.9 million of reserves provided in the first quarter of 2015. GTAT emerged from bankruptcy on March 18, 2016 as a newly reorganized company.

Commitments - Operating Leases

The Company leases certain of its facilities and equipment under non-cancellable operating leases. As of April 2, 2016 and October 3, 2015, the Company had commitments of $84.6 million and $66.1 million, respectively, in connection with these leases.

Note 6. Income Tax

The Company estimates its annual effective income tax rate at the end of each quarterly period. The estimate takes into account the geographic mix of expected pre-tax income (loss), expected total annual pre-tax income (loss), enacted changes in tax laws, implementation of tax planning strategies and possible outcomes of audits and other uncertain tax positions. To the extent there are fluctuations in any of these variables during a period, the provision for income taxes may vary.

The provision for income taxes for the second quarter of 2016 and 2015 was $25.0 million and $28.6 million, respectively, and $46.0 million and $51.8 million for the six months ended April 2, 2016 and March 28, 2015, respectively. Although pre-tax income was higher for the three and six months ended April 2, 2016, income tax expense was lower for the three and six months ended April 2, 2016 primarily as a result of the resolution of a foreign tax audit and certain adjustments to unrecognized tax benefits in 2015.

In 2014, a foreign tax authority completed its audit of the Company’s 2006 tax return and issued an assessment challenging certain of the Company’s tax positions. Although the Company disagreed with the assessment and vigorously contested it through the appropriate administrative procedures, the Company made a significant payment to the foreign tax authority during the quarter ended March 28, 2015 to resolve all issues related to this audit. This payment increased income tax expense by a net amount of $15.5 million in the second quarter of 2015, which represents the amount by which the amount paid exceeded the Company's reserve for this uncertain tax position. This audit was formally closed in the first quarter of 2016, with no adjustment to the Company's income tax reserves or additional payment required.

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2015-17, "Balance Sheet Classification of Deferred Taxes". This ASU requires deferred tax assets and liabilities to be classified as noncurrent in a classified statement of financial position. The new guidance is effective for the Company in fiscal 2018. In order to simplify the presentation of deferred taxes, the Company elected to early adopt ASU 2015-17 as of the beginning of 2016 and to apply the new standard retrospectively. The condensed consolidated balance sheet as of October 3, 2015 was adjusted accordingly, resulting in a reclassification of $74.9 million of deferred tax assets from Prepaid expenses and other current assets to Deferred tax assets (noncurrent).

Note 7. Stockholder's Equity

Accumulated Other Comprehensive Income

Accumulated other comprehensive income, net of tax as applicable, consisted of the following:

	As of	
	April 2, 2016	October 3, 2015
	(In thousands)	
Foreign currency translation adjustments	$88,536	$86,630
Unrealized holding losses on derivative financial instruments	(511)	(683)
Unrecognized net actuarial loss and transition cost for benefit plans	(18,620)	(19,376)
Total	$69,405	$66,571

Stock Repurchase Program

During the six months ended April 2, 2016 and March 28, 2015, the Company repurchased 5.3 million and 1.0 million shares of its common stock for $103.4 million and $21.6 million, respectively. As of April 2, 2016, $100.5 million remains available under a stock repurchase program authorized by the Company's Board of Directors in 2015. This authorization has no expiration date.

In addition to the repurchases discussed above, the Company repurchased 20,000 and 53,530 shares of its common stock during the six months ended April 2, 2016 and March 28, 2015, respectively, in settlement of employee tax withholding obligations due upon the vesting of restricted stock units. The Company paid $0.5 million and $1.4 million, respectively, in conjunction with these repurchases.

Note 8. Acquisitions

FY 2016 Acquisitions

Storage Software Provider

On January 5, 2016, the Company purchased all of the outstanding stock of a privately-held provider of data storage software solutions to Original Equipment Manufacturers and Storage Integrators. The acquisition is expected to enable the Company to extend its storage product offerings from storage hardware to a full storage solution product. Total consideration paid for this acquisition was $36.8 million, consisting of $19.0 million of cash and a non-interest bearing promissory note due in May 1, 2016 with a discounted value of $17.8 million as of the acquisition date. The acquisition will be reported in the Company's CPS operating segment.

The Company is in the process of finalizing the fair values of assets and liabilities acquired. The Company's preliminary allocation of the purchase price to the tangible and identifiable intangible assets acquired and liabilities assumed was based on their estimated fair values as of the date of acquisition, as follows:

	(In thousands)
Current assets, including cash of $1.3 million	$ 1,618
Noncurrent assets, including identifiable intangible assets of $7.3 million and goodwill of $30.8 million	38,510
Current liabilities	(3,146)
Noncurrent liabilities	(144)
Total	$ 36,838

Goodwill is tax deductible and reflects the Company's expectation that the acquisition will enable the Company to broaden its relationships with certain of its existing key customers and leverage the acquisition to develop other software solutions. Goodwill and identifiable assets are recorded in other non-current assets on the condensed consolidated balance sheets. Identifiable intangible assets are being amortized over three to four years.

Malaysian Manufacturing Facility

On February 1, 2016, the Company completed its acquisition of a manufacturing facility, located in Malaysia, and related assets from a customer in the industrial end market. As part of this transaction, the Company also entered into a master supply agreement for the provision of products to such customer. The acquisition augments the Company's current manufacturing footprint and technological capabilities for serving this diverse end-user customer base. Total consideration paid for this acquisition was $53.5 million, consisting of $41.2 million of cash and a four-year non-interest bearing promissory note with a discounted value of $12.3 million as of the acquisition date. This acquisition will be reported in the Company's IMS reportable segment.

The Company is in the process of finalizing the fair values of assets acquired. The Company's preliminary allocation of the purchase price has been allocated based on management's estimate of the acquisition date fair values of assets acquired, as follows:

	(In thousands)
Current assets	$ 31,580
Noncurrent assets	24,122
Noncurrent liabilities	(581)
Total	$ 55,121

Consideration paid was less than the fair values of assets acquired, resulting in a bargain purchase gain of $1.6 million, which has been recorded in interest and other, net on the condensed consolidated statements of income. The Company reassessed the recognition and measurement of identifiable assets and liabilities acquired and concluded that all acquired assets and liabilities were recognized and that the valuation procedures and resulting estimates of fair values were appropriate. The bargain purchase gain resulted from the discount attributable to financing a portion of the purchase price with the acquiree using a non-interest bearing promissory note.

These acquisitions did not materially affect the Company's results of operations for the second quarter of 2016.

FY 2015 Acquisition

During the fourth quarter of 2015, the Company purchased all outstanding stock of a privately-held company that designs and manufactures equipment for the oil and gas industry. Consideration for the acquisition consisted of cash of approximately $13.9 million plus up to an additional $23.5 million if certain annual earnings targets are achieved. The fair value of contingent consideration was determined to be $11.0 million as of the acquisition date.

During the second quarter of 2016, the fair value of the Company's contingent consideration liability decreased by $7.6 million, resulting in a $7.6 million credit to cost of sales on the condensed consolidated statement of income. The change in fair value resulted from a revision to the Company's estimate of future earnout payments, driven primarily by weakened conditions in the oil and gas industry and uncertainties about consolidation activity within that industry on the Company's customers.

Note 9. Business Segment, Geographic and Customer Information

ASC Topic 280, Segment Reporting, establishes standards for reporting information about operating segments, products and services, geographic areas of operations and major customers. Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision maker or decision making group in deciding how to allocate resources and in assessing performance.

The Company's operations are managed as two businesses: Integrated Manufacturing Solutions (IMS) and Components, Products and Services (CPS). The Company's CPS business consists of multiple operating segments which do not meet the quantitative threshold for being presented as reportable segments. Therefore, financial information for these operating segments is presented in a single category entitled "CPS" and the Company has only one reportable segment - IMS.

The following table presents revenue and a non-GAAP measure of segment gross profit used by management to allocate resources and assess performance of operating segments:

	Three Months Ended		Six Months Ended	
	April 2, 2016	March 28, 2015	April 2, 2016	March 28, 2015
	(In thousands)			
Gross sales:				
IMS	$1,314,504	$1,228,682	$2,553,772	$2,605,516
CPS	343,337	340,948	688,985	693,285
Intersegment revenue	(46,667)	(42,100)	(96,869)	(100,109)
Net sales	$1,611,174	$1,527,530	$3,145,888	$3,198,692
Gross profit:				
IMS	$96,841	$81,836	$192,450	$182,743
CPS	35,447	35,378	65,549	66,945
Total	132,288	117,214	257,999	249,688
Unallocated items (1)	4,424	(1,951)	2,351	(8,079)
Total	$136,712	$115,263	$260,350	$241,609

(1) For purposes of evaluating segment performance, management excludes certain items from its measures of gross profit. These items include stock-based compensation expense, amortization of intangible assets, charges or credits resulting from distressed customers, acquisition-related items and similar items that either occur infrequently or are of

a non-operational nature.

Net sales by geographic segment, determined based on the country in which a product is manufactured, was as follows:

	Three Months Ended		Six Months Ended	
	April 2, 2016	March 28, 2015	April 2, 2016	March 28, 2015
	(In thousands)			
Net sales				
United States	$260,085	$240,264	$514,464	$480,551
Mexico	445,009	482,477	929,979	1,013,931
China	383,967	362,794	751,226	775,601
Other international	522,113	441,995	950,219	928,609
Total	$1,611,174	$1,527,530	$3,145,888	$3,198,692
Percentage of net sales represented by ten largest customers	53.9%	49.6%	52.2%	49.7%
Number of customers representing 10% or more of net sales	1	—	1	—

Note 10. Earnings Per Share

Basic and diluted per share amounts are calculated by dividing net income by the weighted average number of shares of common stock outstanding during the period, as follows:

	Three Months Ended		Six Months Ended	
	April 2, 2016	March 28, 2015	April 2, 2016	March 28, 2015
	(In thousands, except per share data)			
Numerator:				
Net income	$30,361	$ 14,748	$57,499	$ 37,404
Denominator:				
Weighted average common shares outstanding	75,477	82,977	76,605	82,762
Effect of dilutive stock options and restricted stock units	3,048	3,920	3,135	4,035
Denominator for diluted earnings per share	78,525	86,897	79,740	86,797
Net income per share:				
Basic	$0.40	$ 0.18	$0.75	$ 0.45
Diluted	$0.39	$ 0.17	$0.72	$ 0.43

The following table presents weighted-average dilutive securities that were excluded from the above calculation because their inclusion would have had an anti-dilutive effect under ASC Topic 260, Earnings per Share, due to application of the treasury stock method:

	Three Months Ended		Six Months Ended	
	April 2, 2016	March 28, 2015	April 2, 2016	March 28, 2015
	(In thousands)			
Potentially dilutive securities:				
Employee stock options	1,531	602	1,550	474
Restricted stock units	64	245	4	159
Total	1,595	847	1,554	633

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Note 11. Stock-Based Compensation

Stock-based compensation expense was attributable to:

	Three Months Ended		Six Months Ended	
	April 2, 2016	March 28, 2015	April 2, 2016	March 28, 2015
	(In thousands)			
Stock options	$1,243	$ 3,035	$2,483	$ 6,238
Restricted stock units	7,242	2,453	10,054	4,967
Total	$8,485	$ 5,488	$12,537	$ 11,205

Stock-based compensation expense was recognized as follows:

	Three Months Ended		Six Months Ended	
	April 2, 2016	March 28, 2015	April 2, 2016	March 28, 2015
	(In thousands)			
Cost of sales	$1,932	$ 1,491	$3,337	$ 3,067
Selling, general and administrative	6,422	3,959	8,988	8,062
Research and development	131	38	212	76
Total	$8,485	$ 5,488	$12,537	$ 11,205

During the second quarter of 2016, the Company's stockholders approved the reservation of an additional 1.9 million shares of common stock for future issuance under the Company's 2009 Incentive Plan. As of April 2, 2016, an aggregate of 13.8 million shares were authorized for future issuance under the Company's stock plans, of which 10.6 million of such shares were issuable upon exercise of outstanding options and delivery of shares upon vesting of restricted stock units and 3.2 million shares of common stock were available for future grant.

Stock Options

Stock option activity was as follows:

	Number of Shares	Weighted-Average Exercise Price ($)	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value of In-The-Money Options ($)
	(In thousands)			(In thousands)
Outstanding as of October 3, 2015	7,033	13.05	4.94	53,938
Granted	1	23.77		
Exercised/Cancelled/Forfeited/Expired	(534)	13.05		
Outstanding as of April 2, 2016	6,500	13.05	4.46	60,876
Vested and expected to vest as of April 2, 2016	6,449	12.99	4.43	60,699
Exercisable as of April 2, 2016	5,784	12.35	4.03	57,531

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value of in-the-money options that would have been received by the option holders had all option holders exercised such options at the Company's closing stock price on the date indicated.

As of April 2, 2016, unrecognized compensation expense of $4.6 million is expected to be recognized over a weighted average period of 1.8 years.

Restricted Stock Units

Activity with respect to the Company's restricted stock units was as follows:

	Number of Shares (In thousands)	Weighted-Average Grant Date Fair Value ($)	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ($) (In thousands)
Outstanding as of October 3, 2015	2,979	16.52	1.52	59,843
Granted	1,339	22.46		
Vested/Forfeited/Cancelled	(184)	16.13		
Outstanding as of April 2, 2016	4,134	18.46	1.65	91,701
Expected to vest as of April 2, 2016	2,529	17.24	1.29	56,083

As of April 2, 2016, unrecognized compensation expense of $24.7 million is expected to be recognized over a weighted average period of 1.34 years. Additionally, as of April 2, 2016, unrecognized compensation expense related to performance-based restricted stock units for which achievement of the performance criteria is not considered probable was $28.8 million.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to our expectations for future events and time periods. All statements other than statements of historical fact are statements that could be deemed to be forward-looking statements, including any statements regarding trends in future revenue or results of operations, gross margin or operating margin, expenses, earnings or losses from operations, cash flow, synergies or other financial items; any statements of the plans, strategies and objectives of management for future operations and the anticipated benefits of such plans, strategies and objectives; any statements regarding future economic conditions or performance; any statements regarding pending investigations, claims or disputes; any statements regarding the timing of closing of future cash outlays for and benefits of completed, pending or anticipated acquisitions; any statements about the expected results of real property sales; any statements concerning the adequacy of our current liquidity and the availability of additional sources of liquidity; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. Generally, the words “anticipate,” “believe,” “plan,” “expect,” “future,” “intend,” “may,” “will,” “should,” “estimate,” “predict,” “potential,” “continue” and similar expressions ide forward-looking statements. Our forward-looking statements are based on current expectations, forecasts and assumptions and are subject to risks and uncertainties, including those contained in Part I, Item 1A of this report. As a result, actual results could vary materially from those suggested by the forward-looking statements. We undertake no obligation to publicly disclose any revisions to these forward-looking statements to reflect events or circumstances occurring subsequent to filing this report with the Securities and Exchange Commission.

Overview

We are a leading independent global provider of integrated manufacturing solutions, components, products and repair, logistics and after-market services. Our revenue is generated from sales of our services primarily to original equipment manufacturers (OEMs) in the following industries: communications networks, storage, industrial, defense, medical, energy and industries that include embedded computing technologies such as point of sales devices, casino gaming and automotive.

In accordance with the accounting rules for segment reporting, our only reportable segment is IMS, which represented approximately 80% of our total revenue in the first half of 2016 and in fiscal 2015. Our CPS business consists of multiple operating segments which do not meet the quantitative thresholds for being presented as reportable segments. Therefore, financial information for these operating segments is presented in a single category entitled “Components, Products and Services”.

Our operations are managed as two businesses:

1. Integrated Manufacturing Solutions (IMS). IMS is a reportable segment consisting of printed circuit board assembly and test, final system assembly and test, and direct-order-fulfillment.

2. Components, Products and Services (CPS). Components include interconnect systems (printed circuit board fabrication, backplane and cable assemblies) and mechanical systems (enclosures, precision machining and plastic injection molding). Products include Non-Volatile DIMMs, solid state drives and DRAM solutions from our Viking Technology division, defense and aerospace products from SCI Technology, storage products from our Newisys division and optical and RF (Radio Frequency) modules. Services include design, engineering, logistics and repair services.

All references to years, in this section, refer to our fiscal years ending on the last Saturday of each year closest to September 30. Fiscal 2015 was a 53-week year, with the extra week occurring in the fourth fiscal quarter and fiscal 2016 will be a 52-week year.

Our strategy is to leverage our comprehensive product and service offerings, advanced technologies and global capabilities to further penetrate diverse end markets that we believe offer significant growth opportunities and have complex products that require higher value-added services. We believe this strategy differentiates us from our competitors and will help drive more sustainable revenue growth and provide opportunities for us to ultimately achieve operating margins that exceed industry standards.

There are many challenges to successfully executing our strategy. For example, we compete with a number of companies in each of our key end markets. These include companies that are much larger than we are and smaller companies that focus on a particular niche. Although we believe we are well-positioned in each of our key end markets and seek to differentiate ourselves from our competitors, competition remains intense and profitably growing our revenues has been challenging. Additionally, further growing and leveraging our CPS business to improve our operating margins continues to be an integral part of our strategy. For example, CPS revenue and gross margin were slightly lower in the first half of 2016 than in the first half of 2015, illustrating the challenges to our strategy. We believe this business is capable of delivering much better results. We continue to address these challenges on both a short-term and long-term basis.

A small number of customers have historically generated a significant portion of our net sales. Sales to our ten largest customers have typically represented approximately 50% of our net sales. A single customer represented 10% or more of our net sales for the three and six months ended April 2, 2016. No single customer represented 10% or more of our net sales for the three or six months ended March 28, 2015.

We have typically generated about 80% of our net sales from products manufactured in our foreign operations. The concentration of foreign operations has resulted primarily from a desire on the part of many of our customers to require
production in lower cost locations in regions such as Asia, Latin America and Eastern Europe.

Historically, we have had substantial recurring sales to existing customers. We typically enter into supply agreements with our major OEM customers. These agreements generally have terms ranging from three to five years and cover the manufacture of a range of products. Under these agreements, a customer typically agrees to purchase its requirements for specific products in particular geographic areas from us. However, these agreements generally do not obligate the customer to purchase minimum quantities of products which can have the effect of reducing revenue and profitability.

Critical Accounting Policies and Estimates

Management's discussion and analysis of our financial condition and results of operations are based upon our unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. We review the accounting policies used in reporting our financial results on a regular basis. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, net sales and expenses and related disclosure of contingent liabilities. On an ongoing basis, we evaluate the process used to develop estimates related to product returns, accounts receivable, inventories, intangible assets, income taxes, warranty obligations, environmental matters, litigation and other contingencies. We base our estimates on historical experience and on various other assumptions that we believe are reasonable for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Our actual results may differ materially from these estimates.

For a complete description of our critical accounting policies and estimates, refer to our 2015 Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 19, 2015.

Results of Operations

Key Operating Results

	Three Months Ended		Six Months Ended	
	April 2, 2016	March 28, 2015	April 2, 2016	March 28, 2015
	(In thousands)			
Net sales	$1,611,174	$1,527,530	$3,145,888	$3,198,692
Gross profit	$136,712	$115,263	$260,350	$241,609

Operating income	$61,099	$49,652	$115,152	$103,132
Net income	$30,361	$14,748	$57,499	$37,404

Net Sales

Sales by end market were as follows (dollars in thousands):

	Three Months Ended				Six Months Ended			
	April 2, 2016	March 28, 2015	Increase/(Decrease)		April 2, 2016	March 28, 2015	Increase/(Decrease)	
Communications Networks	$583,890	$594,199	$(10,309)	(1.7)%	$1,188,655	$1,279,107	$(90,452)	(7.1)%
Industrial, Medical and Defense	681,310	604,084	77,226	12.8 %	1,291,114	1,245,916	45,198	3.6 %
Embedded Computing and Storage	345,974	329,247	16,727	5.1 %	666,119	673,669	(7,550)	(1.1)%
Total	$1,611,174	$1,527,530	$83,644	5.5 %	$3,145,888	$3,198,692	$(52,804)	(1.7)%

Net sales increased from $1.53 billion in the second quarter of 2015 to $1.61 billion in the second quarter of 2016, an increase of 5.5%. Net sales decreased slightly from $3.2 billion for the six months ended March 28, 2015, to $3.1 billion for the six months ended April 2, 2016, a decrease of 1.7%. Sales to customers in our industrial, medical and defense market increased in both periods primarily as a result of customer program acquisitions, partially offset by reduced demand from customers in the oil and gas industry as a result of depressed market conditions in this industry. Sales to customers in our communication networks end market decreased in both periods primarily as a result of decreased demand from certain customer programs for wireless communication products. Sales to customers in our embedded computing and storage end market increased 5.1% in the second quarter of 2016 compared to the second quarter of 2015 primarily as a result of increased demand from existing customers, both for established programs and new program wins.

Gross Margin

Gross margin increased to 8.5% for the second quarter of 2016, from 7.5% for the second quarter of 2015. The increase was primarily a result of a $7.6 million reduction of our accrual for contingent consideration in the second quarter of 2016 related to a prior period acquisition and increased sales. The reduction to our accrual resulted from weakened conditions in the oil and gas industry and uncertainties regarding consolidations within the oil and gas industry on certain of our customers. The adjustment for contingent consideration was not allocated to our operating segments. IMS gross margin increased to 7.4% for the second quarter of 2016 from 6.7% for the second quarter of 2015, primarily as a result of improved operational efficiencies and increased sales. CPS gross margin decreased slightly to 10.3% for the second quarter of 2016, from 10.4% for the second quarter of 2015.

Gross margin increased to 8.3% for the six months ended April 2, 2016, from 7.6% for the six months ended March 28, 2015. The increase was primarily attributable to improvement in our IMS segment, a $7.6 million reduction of our accrual for contingent consideration in the second quarter of 2016 as discussed above and a $3.9 million charge associated with a distressed customer in the first quarter of 2015. The adjustment for contingent consideration and distressed customer charges were not allocated to our operating segments. IMS gross margin increased to 7.5% for the six months ended April 2, 2016 from 7.0% for the six months ended March 28, 2015, primarily as a result of improved operational efficiencies. CPS gross margin decreased to 9.5% for the six months ended April 2, 2016, from 9.7% for the six months ended March 28, 2015, primarily as a result of decreased sales in our mechanical systems division, about half of which can be attributed to weakened conditions in the oil and gas industry.

We expect gross margins to fluctuate based on overall production and shipment volumes and changes in the mix of products demanded by our major customers. Fluctuations in our gross margins may also be caused by a number of other factors, some of which are outside of our control, including:

- Changes in customer demand and sales volumes for our vertically integrated system components and subassemblies;
- Changes in the overall volume of our business, which affect the level of capacity utilization;
- Changes in the mix of high and low margin products demanded by our customers;
- Parts shortages and operational disruption caused by natural disasters;
- Greater competition in the EMS industry and pricing pressures from OEMs due to greater focus on cost reduction;
- Provisions for excess and obsolete inventory, including provisions associated with distressed customers;
- Level of operational efficiency;
- Wage inflation and rising materials costs; and

• Our ability to transition manufacturing and assembly operations to lower cost regions in an efficient manner.

Operating Expenses

Operating expenses increased $10.0 million, from $65.6 million, or 4.3% of net sales, in the second quarter of 2015 to $75.6 million, or 4.7% of net sales, in the second quarter of 2016. Operating expenses increased $6.7 million, from $138.5 million, or 4.3% of net sales, for the six months ended March 28, 2015 to $145.2 million, or 4.6% of net sales, for the six months ended April 2, 2016. The increase for both periods was primarily due to higher incentive compensation, including stock compensation expense which increased in both periods as a result of incremental expense for performance-based stock awards that were deemed probable of achievement in the second quarter of 2016, and research and development expenses to support projects in our embedded computing and storage end market.

Interest and Other, Net

Interest and other, net decreased $0.6 million in the second quarter of 2016 compared to the second quarter of 2015 due primarily to a $1.6 million bargain purchase gain related to an acquisition in the second quarter of 2016. Interest and other, net decreased $2.3 million for the six months ended April 2, 2016 compared to the six months ended March 28, 2015 due primarily to the bargain purchase gain mentioned above and a loss on extinguishment of debt of $2.9 million in the six months ended March 28, 2015. The following table presents the significant components of other income (expense), net:

Three Months Ended		Six Months Ended	
April 2, 2016	March 28, 2015	April 2, 2016	March 28, 2015
(In thousands)			