

SANMINA CORP  
Form 10-Q  
July 29, 2016

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

(Mark one)

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

For the quarterly period ended July 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 (I.R.S. Employer  
incorporation or organization) 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  No

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

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

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

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

As of July 25, 2016, there were 73,905,570 shares outstanding of the issuer's common stock, \$0.01 par value per share.

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SANMINA CORPORATION

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## SANMINA CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

|  | As of           |                    |
|--|-----------------|--------------------|
|  | July 2,<br>2016 | October 3,<br>2015 |
|  | (Unaudited)     |                    |
|  | (In thousands)  |                    |
| <b>ASSETS</b>  |                 |                    |
| Current assets:  |                 |                    |
| Cash and cash equivalents  | \$409,620       | \$412,253          |
| Accounts receivable, net of allowances of \$13,867 and \$13,439 as of July 2, 2016 and October 3, 2015, respectively | 999,838         | 936,952            |
| Inventories  | 913,110         | 918,728            |
| Prepaid expenses and other current assets  | 58,388          | 55,047             |
| Total current assets   | 2,380,956       | 2,322,980          |
| Property, plant and equipment, net   | 616,243         | 590,844            |
| Deferred tax assets  | 465,189         | 497,605            |
| Other  | 115,998         | 81,835             |
| Total assets   | \$3,578,386     | \$3,493,264        |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                 |                    |
| Current liabilities:   |                 |                    |
| Accounts payable   | \$1,111,445     | \$1,035,323        |
| Accrued liabilities  | 136,276         | 111,416            |
| Accrued payroll and related benefits   | 116,794         | 120,402            |
| Short-term debt, including current portion of long-term debt   | 83,416          | 113,416            |
| Total current liabilities  | 1,447,931       | 1,380,557          |
| Long-term liabilities:   |                 |                    |
| Long-term debt   | 434,129         | 423,949            |
| Other  | 165,709         | 168,287            |
| Total long-term liabilities  | 599,838         | 592,236            |
| Commitments and contingencies (Note 5)   |                 |                    |
| Stockholders' equity   | 1,530,617       | 1,520,471          |
| Total liabilities and stockholders' equity   | \$3,578,386     | \$3,493,264        |

See accompanying notes to condensed consolidated financial statements.

## SANMINA CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

|  | Three Months Ended                    |                  | Nine Months Ended |                  |
|--|---------------------------------------|------------------|-------------------|------------------|
|  | July 2,<br>2016                       | June 27,<br>2015 | July 2,<br>2016   | June 27,<br>2015 |
|  | (Unaudited)                           |                  |                   |                  |
|  | (In thousands, except per share data) |                  |                   |                  |
| Net sales  | \$1,669,474                           | \$1,539,271      | \$4,815,362       | \$4,737,963      |
| Cost of sales  | 1,542,813                             | 1,418,709        | 4,428,351         | 4,375,792        |
| Gross profit   | 126,661                               | 120,562          | 387,011           | 362,171          |
| Operating expenses:  |                                       |                  |                   |                  |
| Selling, general and administrative                          | 61,982                                | 59,736           | 183,169           | 176,177          |
| Research and development                                     | 9,444                                 | 8,339            | 29,088            | 23,967           |
| Restructuring costs  | (266                                  | ) 7,711          | 1,491             | 12,451           |
| Amortization of intangible assets                            | 918                                   | 314              | 2,528             | 1,164            |
| Asset impairments  | —                                     | —                | 1,000             | 1,954            |
| Gain on sales of long-lived assets                           | —                                     | (2,821           | ) —               | (3,957           |
| Total operating expenses                                     | 72,078                                | 73,279           | 217,276           | 211,756          |
| Operating income   | 54,583                                | 47,283           | 169,735           | 150,415          |
| Interest income  | 177                                   | 273              | 484               | 827              |
| Interest expense   | (6,410                                | ) (6,017         | ) (18,641         | ) (18,651        |
| Other income (expense), net                                  | 1,138                                 | (1,248           | ) 1,409           | (3,141           |
| Interest and other, net                                      | (5,095                                | ) (6,992         | ) (16,748         | ) (20,965        |
| Income before income taxes                                   | 49,488                                | 40,291           | 152,987           | 129,450          |
| Provision for income taxes                                   | 19,954                                | 15,816           | 65,954            | 67,571           |
| Net income   | \$29,534                              | \$24,475         | \$87,033          | \$61,879         |
| Net income per share:  |                                       |                  |                   |                  |
| Basic  | \$0.40                                | \$0.30           | \$1.15            | \$0.75           |
| Diluted  | \$0.38                                | \$0.29           | \$1.10            | \$0.72           |
| Weighted average shares used in computing per share amounts: |                                       |                  |                   |                  |
| Basic  | 73,620                                | 81,700           | 75,609            | 82,357           |
| Diluted  | 76,992                                | 85,493           | 78,872            | 86,308           |

See accompanying notes to condensed consolidated financial statements.

## SANMINA CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

|   | Three Months<br>Ended |                  | Nine Months<br>Ended |                  |
|---|-----------------------|------------------|----------------------|------------------|
|   | July 2,<br>2016       | June 27,<br>2015 | July 2,<br>2016      | June 27,<br>2015 |
|   | (Unaudited)           |                  |                      |                  |
|   | (In thousands)        |                  |                      |                  |
| Net income  | \$29,534              | \$24,475         | \$87,033             | \$61,879         |
| Other comprehensive income (loss), net of tax:                              |                       |                  |                      |                  |
| Change in foreign currency translation adjustments                          | 1,545                 | 421              | 3,451                | (9,373 )         |
| Derivative financial instruments:   |                       |                  |                      |                  |
| Change in net unrealized amount   | (1,294 )              | (400 )           | (2,284 )             | (3,126 )         |
| Amount reclassified into net income   | 1,386                 | 245              | 2,548                | 2,908            |
| Defined benefit plans:  |                       |                  |                      |                  |
| Changes in unrecognized net actuarial loss and unrecognized transition cost | (88 )                 | (409 )           | (196 )               | 736              |
| Amortization of actuarial losses and transition costs                       | 458                   | 241              | 1,322                | 877              |
| Total other comprehensive income (loss)                                     | 2,007                 | 98               | 4,841                | (7,978 )         |
| Comprehensive income  | \$31,541              | \$24,573         | \$91,874             | \$53,901         |

See accompanying notes to condensed consolidated financial statements.

## SANMINA CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Nine Months Ended |                  |
|---|-------------------|------------------|
|   | July 2,<br>2016   | June 27,<br>2015 |
|   | (Unaudited)       |                  |
|   | (In thousands)    |                  |
| <b>CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>                           |                   |                  |
| Net income  | \$87,033          | \$61,879         |
| Adjustments to reconcile net income to cash provided by (used in) operating activities: |                   |                  |
| Depreciation and amortization   | 82,228            | 74,189           |
| Stock-based compensation expense  | 17,959            | 15,478           |
| Deferred income taxes   | 32,322            | 24,976           |
| Other, net  | 353               | 2,880            |
| Changes in operating assets and liabilities, net of acquisitions:                       |                   |                  |
| Accounts receivable   | (61,786 )         | 40,159           |
| Inventories   | 38,470            | 12,958           |
| Prepaid expenses and other assets   | 285               | 9,017            |
| Accounts payable  | 78,757            | (52,966 )        |
| Accrued liabilities   | 11,161            | (12,340 )        |
| Cash provided by operating activities   | 286,782           | 176,230          |
| <b>CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:</b>                           |                   |                  |
| Purchases of property, plant and equipment  | (84,475 )         | (76,239 )        |
| Proceeds from sales of property, plant and equipment                                    | 4,188             | 15,062           |
| Cash paid for business combinations, net of cash acquired                               | (58,878 )         | —                |
| Cash used in investing activities   | (139,165 )        | (61,177 )        |
| <b>CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:</b>                           |                   |                  |
| Repayments of long-term debt  | (4,382 )          | (108,666 )       |
| Repayments of short-term borrowings (1)   | (18,014 )         | (10,221 )        |
| Debt issuance costs   | —                 | (1,766 )         |
| Proceeds from revolving credit facility borrowings                                      | 2,402,050         | 1,817,700        |
| Repayments of revolving credit facility borrowings                                      | (2,432,050)       | (1,812,700)      |
| Proceeds from termination of interest rate swap   | —                 | 3,258            |
| Net proceeds from stock issuances   | 14,873            | 17,708           |
| Repurchases of common stock   | (114,440 )        | (70,777 )        |
| Cash used in financing activities   | (151,963 )        | (165,464 )       |
| Effect of exchange rate changes   | 1,713             | 275              |
| Decrease in cash and cash equivalents   | (2,633 )          | (50,136 )        |
| Cash and cash equivalents at beginning of period  | 412,253           | 466,607          |
| Cash and cash equivalents at end of period  | \$409,620         | \$416,471        |
| Cash paid during the period for:  |                   |                  |
| Interest, net of capitalized interest   | \$20,267          | \$18,179         |
| Income taxes, net of refunds  | \$20,860          | \$39,964         |

Acquisition-date fair value of non-interest bearing promissory notes issued in conjunction with business combinations (see Note 8) \$30,105 \$—

(1) 2016 amount represents repayment of a promissory note issued in conjunction with a business combination in the second quarter of 2016. The note was repaid in the third quarter of 2016.

See accompanying notes to condensed consolidated financial statements.

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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 third 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 has determined that the new standard will result in a change to the timing of revenue recognition for a significant portion of the Company's revenue stream, whereby revenue will be recognized "over time" as opposed to at a "point in time" upon physical delivery. The Company believes the transition to the new standard could have a material impact to the Company's consolidated financial statements upon initial adoption. The Company has not yet selected a transition method and continues to closely monitor implementation issues and other guidance published by the standard setters.

## Note 2. Inventories

Components of inventories were as follows:

|                 | As of           |                    |
|-----------------|-----------------|--------------------|
|                 | July 2,<br>2016 | October 3,<br>2015 |
|                 | (In thousands)  |                    |
| Raw materials   | \$637,818       | \$624,514          |
| Work-in-process | 118,618         | 120,131            |
| Finished goods  | 156,674         | 174,083            |
| Total           | \$913,110       | \$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 July 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 July 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 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 relating to an acquisition, driven primarily by weakened conditions in the oil and gas industry.

### 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 July 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           |                    |
|--|-----------------|--------------------|
|  | July 2,<br>2016 | October 3,<br>2015 |
| Derivatives Designated as Accounting Hedges:     |                 |                    |
| Notional amount (in thousands)                   | \$86,895        | \$76,465           |
| Number of contracts                              | 44              | 41                 |
| Derivatives Not Designated as Accounting Hedges: |                 |                    |
| Notional amount (in thousands)                   | \$327,372       | \$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 July 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; however, the Company currently has a foreign currency forward

contract that was entered into in the second quarter of 2016 to hedge foreign currency exposure associated with a long-term promissory note that matures in 2020. These contracts 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.

## Note 4. Debt

Long-term debt consisted of the following:

|  | As of           |                    |
|--|-----------------|--------------------|
|  | July 2,<br>2016 | October 3,<br>2015 |
|  | (In thousands)  |                    |
| Secured debt   | \$40,000        | \$40,000           |
| Senior secured notes due 2019                            | 375,000         | 375,000            |
| Non-interest bearing promissory notes                    | 22,545          | 12,365             |
| Total long-term debt                                     | 437,545         | 427,365            |
| Less: Current Portion                                    |                 |                    |
| Current portion of non-interest bearing promissory notes | 3,416           | 3,416              |
| Long-term debt   | \$434,129       | \$423,949          |

## Non-interest bearing notes payable

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. The promissory note was repaid upon maturity.

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 with a discounted value of \$12.3 million as of the acquisition date (see Note 8).

## 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 July 2, 2016, \$80.0 million of borrowings and \$17.3 million of letters of credit were outstanding under the Cash Flow Revolver.

As of July 2, 2016, certain foreign subsidiaries of the Company had a total of \$74.3 million of short-term borrowing facilities, under which no borrowings were outstanding. Most of these facilities expire at various dates through the third quarter of 2017.

## Debt covenants

The Company's Cash Flow Revolver requires the Company to comply with certain financial covenants. Additionally, the agreement governing 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 July 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 July 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 July 2, 2016 and October 3, 2015, the Company had reserves of \$44.4 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 July 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 July 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 2011. 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 continue 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.

#### Other Contingencies

One of the Company's most significant risks is the ultimate realization of accounts receivable and customer inventory exposures. 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. GTAT emerged from bankruptcy on March 18, 2016 as a newly reorganized company. As of July 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.

#### Commitments - Operating Leases

The Company leases certain of its facilities and equipment under non-cancellable operating leases. As of July 2, 2016 and October 3, 2015, the Company had commitments of \$87.3 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 third quarter of 2016 and 2015 was \$20.0 million (40.3% of income before taxes) and \$15.8 million (39.3% of income before taxes), respectively, and \$66.0 million (43.1% of income before taxes) and \$67.6 million (52.2% of income before taxes) for the nine months ended July 2, 2016 and June 27, 2015, respectively. Although pre-tax income was higher for the nine months ended July 2, 2016, income tax expense was lower for that period primarily as a result of an unfavorable resolution of a foreign tax audit during the second quarter of 2015 as discussed below.

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 each of the past four years, the Company has released a portion of its valuation allowance attributable to certain deferred tax assets in the U.S. and foreign jurisdictions. These releases have ranged from \$21.5 million to \$287.4 million. As of October 3, 2015, the Company had a valuation allowance of \$282.7 million. To the extent the Company continues to consistently earn, as well as reliably project, income in the appropriate jurisdictions, it is reasonably possible that the valuation allowance will be further reduced at such time when such positive evidence can be substantiated. Continued strong and predictable earnings may be sufficient to warrant an additional release of the valuation allowance in 2016, although such positive evidence would need to be weighed against any negative evidence existing at that time. However, there can be no assurance that any additional portion of the valuation allowance will be released.

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          |            |
|---|----------------|------------|
|   | July 2,        | October 3, |
|   | 2016           | 2015       |
|   | (In thousands) |            |
| Foreign currency translation adjustments                              | \$90,081       | \$ 86,630  |
| Unrealized holding losses on derivative financial instruments         | (419 )         | (683 )     |
| Unrecognized net actuarial loss and transition cost for benefit plans | (18,250 )      | (19,376 )  |
| Total   | \$71,412       | \$ 66,571  |

## Stock Repurchase Program

During the nine months ended July 2, 2016 and June 27, 2015, the Company repurchased 5.7 million and 3.2 million shares of its common stock for \$113.4 million and \$69.4 million, respectively. As of July 2, 2016, \$90.6 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 46,000 and 55,377 shares of its common stock during the nine months ended July 2, 2016 and June 27, 2015, respectively, in settlement of employee tax withholding obligations due upon the vesting of restricted stock units. The Company paid \$1.0 million and \$1.4 million, respectively, in conjunction with these repurchases.

## Note 8. Acquisitions

## Fiscal 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 May 1, 2016 with a discounted value of \$17.8 million as of the acquisition date. The promissory note was repaid on the due date. The acquisition will be reported as part of the Company's CPS operating segments.

The Company's allocation of the purchase price was based on management's estimate of the acquisition-date fair values of the tangible and identifiable intangible assets acquired and liabilities assumed, as follows:

|   | (In<br>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 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's allocation of the purchase price was based on management's estimate of the acquisition-date fair values of assets acquired and liabilities assumed, as follows:

|                               | (In<br>thousands) |
|-------------------------------|-------------------|
| Current assets                | \$ 31,580         |
| Noncurrent assets             | 24,122            |
| Noncurrent liabilities (581 ) | (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 was recorded in interest and other, net on the condensed consolidated statements of income in the second quarter of 2016. 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.

Fiscal 2016 Acquisitions - Aggregate

For the two acquisitions completed in 2016, total consideration paid was \$90.3 million, consisting of \$60.2 million of cash and non-interest bearing promissory notes with a discounted value of \$30.1 million as of the acquisition date. This non-

cash portion of consideration paid will be disclosed as a supplemental cash flow item on the condensed consolidated cash flow statement until the period in which it occurred is no longer presented. The amount presented is fixed at the acquisition date value, regardless of future changes resulting from accretion of interest or repayments.

These acquisitions did not materially affect the Company's results of operations for the three or nine months ended July 2, 2016.

#### Fiscal 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 \$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 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.

#### 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 measure of segment gross profit used by management to allocate resources and assess performance of operating segments:

|                       | Three Months Ended |                  | Nine Months Ended |                  |
|-----------------------|--------------------|------------------|-------------------|------------------|
|                       | July 2,<br>2016    | June 27,<br>2015 | July 2,<br>2016   | June 27,<br>2015 |
|                       | (In thousands)     |                  |                   |                  |
| Gross sales:          |                    |                  |                   |                  |
| IMS                   | \$ 1,372,551       | \$ 1,245,748     | \$ 3,926,323      | \$ 3,851,264     |
| CPS                   | 341,812            | 339,150          | 1,030,797         | 1,032,435        |
| Intersegment revenue  | (44,889 )          | (45,627 )        | (141,758 )        | (145,736 )       |
| Net sales             | \$ 1,669,474       | \$ 1,539,271     | \$ 4,815,362      | \$ 4,737,963     |
| Gross profit:         |                    |                  |                   |                  |
| IMS                   | \$ 99,467          | \$ 90,764        | \$ 291,917        | \$ 273,507       |
| CPS                   | 29,938             | 32,670           | 95,487            | 99,615           |
| Total                 | 129,405            | 123,434          | 387,404           | 373,122          |
| Unallocated items (1) | (2,744 )           | (2,872 )         | (393 )            | (10,951 )        |
| Total                 | \$ 126,661         | \$ 120,562       | \$ 387,011        | \$ 362,171       |

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

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

|  | Three Months Ended |                  | Nine Months Ended |                  |
|--|--------------------|------------------|-------------------|------------------|
|  | July 2,<br>2016    | June 27,<br>2015 | July 2,<br>2016   | June 27,<br>2015 |
|  | (In thousands)     |                  |                   |                  |
| Net sales  |                    |                  |                   |                  |
| United States  | \$ 262,195         | \$ 252,441       | \$ 776,659        | \$ 732,992       |
| Mexico   | 461,189            | 467,133          | 1,391,168         | 1,481,064        |
| China  | 358,023            | 361,004          | 1,109,249         | 1,136,605        |
| Other international  | 588,067            | 458,693          | 1,538,286         | 1,387,302        |
| Total  | \$ 1,669,474       | \$ 1,539,271     | \$ 4,815,362      | \$ 4,737,963     |
| Percentage of net sales represented by ten largest customers | 52.8%              | 47.7%            | 52.4%             | 49.0%            |
| Number of customers representing 10% or more of net sales    | 2                  | —                | 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                    |               | Nine Months Ended |               |
|---|---------------------------------------|---------------|-------------------|---------------|
|   | July 2, 2016                          | June 27, 2015 | July 2, 2016      | June 27, 2015 |
|   | (In thousands, except per share data) |               |                   |               |
| Numerator:  |                                       |               |                   |               |
| Net income  | \$29,534                              | \$24,475      | \$87,033          | \$61,879      |
| Denominator:  |                                       |               |                   |               |
| Weighted average common shares outstanding                  | 73,620                                | 81,700        | 75,609            | 82,357        |
| Effect of dilutive stock options and restricted stock units | 3,372                                 | 3,793         | 3,263             | 3,951         |
| Denominator for diluted earnings per share                  | 76,992                                | 85,493        | 78,872            | 86,308        |
| Net income per share:                                       |                                       |               |                   |               |
| Basic   | \$0.40                                | \$0.30        | \$1.15            | \$0.75        |
| Diluted   | \$0.38                                | \$0.29        | \$1.10            | \$0.72        |

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 |               | Nine Months Ended |               |
|----------------------------------|--------------------|---------------|-------------------|---------------|
|                                  | July 2, 2016       | June 27, 2015 | July 2, 2016      | June 27, 2015 |
|                                  | (In thousands)     |               |                   |               |
| Potentially dilutive securities: |                    |               |                   |               |
| Employee stock options           | 369                | 622           | 710               | 504           |
| Restricted stock units           | 103                | 9             | 34                | 11            |
| Total                            | 472                | 631           | 744               | 515           |

Note 11. Stock-Based Compensation

Stock-based compensation expense was attributable to:

|  | Three Months Ended |               | Nine Months Ended |               |
|--|--------------------|---------------|-------------------|---------------|
|  | July 2, 2016       | June 27, 2015 | July 2, 2016      | June 27, 2015 |
|  | (In thousands)     |               |                   |               |
| Stock options  | \$790              | \$1,689       | \$3,273           | \$7,927       |
| Restricted stock units, including performance based awards | 4,632              | 2,584         | 14,686            | 7,551         |
| Total  | \$5,422            | \$4,273       | \$17,959          | \$15,478      |



Stock-based compensation expense was recognized as follows:

|                                     | Three Months Ended |               | Nine Months Ended |               |
|-------------------------------------|--------------------|---------------|-------------------|---------------|
|                                     | July 2, 2016       | June 27, 2015 | July 2, 2016      | June 27, 2015 |
|                                     | (In thousands)     |               |                   |               |
| Cost of sales                       | \$1,542            | \$1,412       | \$4,879           | \$4,479       |
| Selling, general and administrative | 3,669              | 2,810         | 12,657            | 10,872        |
| Research and development            | 211                | 51            | 423               | 127           |
| Total                               | \$5,422            | \$4,273       | \$17,959          | \$15,478      |

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 July 2, 2016, an aggregate of 12.7 million shares were authorized for future issuance under the Company's stock plans, of which 9.9 million of such shares were issuable upon exercise of outstanding options and delivery of shares upon vesting of restricted stock units and 2.8 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          | (1,279)          | 13.93                                |   |  |
| Outstanding as of July 2, 2016                 | 5,755            | 12.85                                | 4.33  | 82,219   |
| Vested and expected to vest as of July 2, 2016 | 5,717            | 12.80                                | 4.31  | 81,983   |
| Exercisable as of July 2, 2016                 | 5,205            | 12.08                                | 3.96  | 78,375   |

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 July 2, 2016, unrecognized compensation expense of \$3.8 million is expected to be recognized over a weighted average period of 1.7 years.

#### Restricted Stock Units

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

| Number of Shares | Weighted-Average Grant Date | Weighted-Average Remaining Contractual | Aggregate Intrinsic Value (\$) |
|------------------|-----------------------------|--|--------------------------------|
|------------------|-----------------------------|--|--------------------------------|

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|                                     | (In<br>thousands) | Fair Value<br>(\$) | Term<br>(Years) | (In<br>thousands) |
|-------------------------------------|-------------------|--------------------|-----------------|-------------------|
| Outstanding as of October 3, 2015   | 2,979             | 16.52              | 1.52            | 59,843            |
| Granted                             | 1,619             | 22.99              |                 |                   |
| Vested/Forfeited/Cancelled          | (503 )            | 13.75              |                 |                   |
| Outstanding as of July 2, 2016      | 4,095             | 19.42              | 1.56            | 111,151           |
| Expected to vest as of July 2, 2016 | 2,490             | 18.64              | 1.26            | 67,591            |

As of July 2, 2016, unrecognized compensation expense of \$27.2 million is expected to be recognized over a weighted average period of 1.3 years. Additionally, as of July 2, 2016, unrecognized compensation expense related to performance-based restricted stock units for which achievement of the performance criteria is not currently considered probable was \$28.4 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 identify 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 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 nine months of fiscal 2016 and 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. Additionally, further growing and leveraging our CPS business to improve our operating

margins continues to be an integral part of our strategy. 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, particularly in our CPS business, has been challenging. For example, CPS revenue for the nine months ended July 2, 2016 was basically flat compared to the same period in 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. Two customers represented 10% or more of our net sales for the three months ended July 2, 2016 and one customer represented 10% or more of our net sales for nine months ended July 2, 2016. No single customer represented 10% or more of our net sales for the three and nine months ended June 27, 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 manufacturing services for a range of products in addition to other services. Under these agreements, a customer typically agrees to purchase 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 |                  | Nine Months Ended |                  |
|-----------|--------------------|------------------|-------------------|------------------|
|           | July 2,<br>2016    | June 27,<br>2015 | July 2,<br>2016   | June 27,<br>2015 |
|           | (In thousands)     |                  |                   |                  |
| Net sales | \$1,669,474        | \$1,539,271      | \$4,815,362       | \$4,737,963      |



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|                  |           |           |           |           |
|------------------|-----------|-----------|-----------|-----------|
| Gross profit     | \$126,661 | \$120,562 | \$387,011 | \$362,171 |
| Operating income | \$54,583  | \$47,283  | \$169,735 | \$150,415 |
| Net income       | \$29,534  | \$24,475  | \$87,033  | \$61,879  |

## Net Sales

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

|                                 | Three Months Ended |                  |                     | Nine Months Ended |                  |                     |
|---------------------------------|--------------------|------------------|---------------------|-------------------|------------------|---------------------|
|                                 | July 2,<br>2016    | June 27,<br>2015 | Increase/(Decrease) | July 2,<br>2016   | June 27,<br>2015 | Increase/(Decrease) |
| Communications Networks         | \$607,982          | \$577,016        | \$30,966 5.4 %      | \$1,796,637       | \$1,856,123      | \$(59,486) (3.2) %  |
| Industrial, Medical and Defense | 726,391            | 623,603          | 102,788 16.5 %      | 2,017,505         | 1,869,519        | 147,986 7.9 %       |
| Embedded Computing and Storage  | 335,101            | 338,652          | (3,551) (1.0) %     | 1,001,220         | 1,012,321        | (11,101) (1.1) %    |
| Total                           | \$1,669,474        | \$1,539,271      | \$130,203 8.5 %     | \$4,815,362       | \$4,737,963      | \$77,399 1.6 %      |

Net sales increased from \$1.54 billion in the third quarter of 2015 to \$1.67 billion in the third quarter of 2016, an increase of 8.5%. Sales to customers in our communication networks end market increased primarily as a result of increased demand for optical products. Sales to customers in our industrial, medical and defense market increased 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.

Net sales increased from \$4.7 billion for the nine months ended June 27, 2015, to \$4.8 billion for the nine months ended July 2, 2016, an increase of 1.6%. Sales to customers in our communication networks end market decreased primarily as a result of reduced demand from certain customer programs for wireless communication products. Sales to customers in our industrial, medical and defense market increased 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.

## Gross Margin

Gross margin decreased to 7.6% for the third quarter of 2016, from 7.8% for the third quarter of 2015. The decrease was primarily attributable to an unfavorable business mix in our IMS segment which caused IMS margins to decrease slightly to 7.2% for the third quarter of 2016 from 7.3% for the third quarter of 2015 and the effect of further weakening in the oil and gas industry which caused CPS margins to decrease to 8.8% for the third quarter of 2016 from 9.6% for the third quarter of 2015.

Gross margin increased to 8.0% for the nine months ended July 2, 2016, from 7.6% for the nine months ended June 27, 2015. The increase was primarily attributable to improved operational efficiencies in our IMS segment, a \$7.6 million reduction of our accrual for contingent consideration in the second quarter of 2016 and a \$4.9 million charge associated with distressed customers in 2015. The adjustment for contingent consideration and distressed customer charges were not allocated to our operating segments. IMS gross margin increased to 7.4% for the nine months ended July 2, 2016 from 7.1% for the nine months ended June 27, 2015, primarily as a result of improved operational efficiencies. CPS gross margin decreased to 9.3% for the nine months ended July 2, 2016, from 9.6% for the nine months ended June 27, 2015, primarily as a result of depressed market 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 decreased \$1.2 million, from \$73.3 million, or 4.8% of net sales, in the third quarter of 2015 to \$72.1 million, or 4.3% of net sales, in the third quarter of 2016. Operating expenses increased \$5.5 million, from \$211.8 million, or 4.5% of net sales, for the nine months ended June 27, 2015 to \$217.3 million, or 4.5% of net sales, for the nine months ended July 2, 2016. The increase for the nine months ended July 2, 2016 was primarily due to higher incentive compensation, including stock compensation expense which increased as a result of incremental expense for performance-based stock awards that were deemed probable of achievement in the second quarter of 2016, higher research and development expenses to support projects in our embedded computing and storage end market, and lower gains on asset sales in 2016, partially offset by a \$6.0 million restructuring charge in 2015 for environmental remediation costs.

## Interest and Other, Net

Interest and other, net decreased \$1.9 million in the third quarter of 2016 compared to the third quarter of 2015 due primarily to a gain on deferred compensation plan assets in 2016 versus a loss in 2015. Interest and other, net decreased \$4.2 million for the nine months ended July 2, 2016 compared to the nine months ended June 27, 2015 due primarily to a \$1.6 million bargain purchase gain related to an acquisition in the second quarter of 2016 and a loss on extinguishment of debt of \$3.8 million in the nine months ended June 27, 2015. The following table presents the significant components of other income (expense), net:

|                                | Three Months   |           | Nine Months |           |
|--------------------------------|----------------|-----------|-------------|-----------|
|                                | Ended          |           | Ended       |           |
|                                | July 2,        | June 27,  | July 2,     | June 27,  |
|                                | 2016           | 2015      | 2016        | 2015      |
|                                | (In thousands) |           |             |           |
| Foreign exchange losses        | \$(211 )       | \$(105 )  | \$(1,386)   | \$(294 )  |
| Loss on extinguishment of debt | —              | (847 )    | —           | (3,760 )  |
| Bargain purchase gain          | —              | —         | 1,642       | —         |
| Other income (expense), net    | 1,349          | (296 )    | 1,153       | 913       |
| Total                          | \$1,138        | \$(1,248) | \$1,409     | \$(3,141) |

On October 8, 2014, we redeemed the remaining \$100 million outstanding of our senior notes due 2019 ("2019 Notes") at par plus a redemption premium and accrued interest and recorded a net loss on extinguishment of \$2.9 million, consisting of redemption premiums of \$5.3 million and a write-off of unamortized debt issuance costs of \$1.4 million, partially offset by a \$3.8 million credit for the fair value hedge adjustment associated with the extinguished 2019 Notes.

On May 20, 2015, we replaced our \$300 million asset-backed revolving credit facility ("ABL") with a \$375 million secured revolving credit facility ("Cash Flow Revolver"). We incurred \$1.8 million of debt issuance costs in connection with this transaction, of which, \$1.0 million of unamortized debt issuance costs related to the ABL were carried forward and \$0.8 million of such costs were expensed.

## Provision for Income Taxes

The provision for income taxes for the third quarter of 2016 and 2015 was \$20.0 million (40.3% of income before taxes) and \$15.8 million (39.3% of income before taxes), respectively, and \$66.0 million (43.1% of income before taxes) and \$67.6 million (52.2% of income before taxes) for the nine months ended July 2, 2016 and June 27, 2015, respectively. Although pre-tax income was higher for the nine months ended July 2, 2016, income tax expense was lower for that period primarily as a result of an unfavorable resolution of a foreign tax audit during the second quarter

of 2015.

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## Liquidity and Capital Resources

|  | Nine Months Ended |                  |
|--|-------------------|------------------|
|  | July 2,<br>2016   | June 27,<br>2015 |
|  | (In thousands)    |                  |
| Net cash provided by (used in):                              |                   |                  |
| Operating activities   | \$286,782         | \$176,230        |
| Investing activities   | (139,165 )        | (61,177 )        |
| Financing activities   | (151,963 )        | (165,464 )       |
| Effect of exchange rate changes on cash and cash equivalents | 1,713             | 275              |
| Decrease in cash and cash equivalents                        | \$(2,633 )        | \$(50,136 )      |

## Key Working Capital Management Measures

|                            | Nine Months<br>Ended |                    |
|----------------------------|----------------------|--------------------|
|                            | July 2,<br>2016      | October 3,<br>2015 |
| Days sales outstanding (1) | 54                   | 56                 |
| Inventory turns (2)        | 6.7                  | 6.3                |
| Days inventory on hand (3) | 54                   | 58                 |
| Accounts payable days (4)  | 66                   | 69                 |
| Cash cycle days (5)        | 42                   | 45                 |

- (1) Days sales outstanding (a measure of how quickly we collect our accounts receivable), or "DSO", is calculated as the ratio of average accounts receivable, net, to average daily net sales for the quarter.
- (2) Inventory turns (annualized) are calculated as the ratio of four times our cost of sales for the quarter to average inventory.
- (3) Days inventory on hand is calculated as the ratio of average inventory for the quarter to average daily cost of sales for the quarter.

Accounts payable days (a measure of how quickly we pay our suppliers), or "DPO", is calculated as the ratio of (4) 365 days divided by accounts payable turns, in which accounts payable turns is calculated as the ratio of four times our cost of sales for the quarter to average accounts payable.

(5) Cash cycle days is calculated as days inventory on hand plus days sales outstanding minus accounts payable days.

Cash and cash equivalents were \$409.6 million at July 2, 2016 and \$412.3 million at October 3, 2015. Our cash levels vary during any given quarter depending on the timing of collections from customers and payments to suppliers, borrowings under credit facilities, repurchases of capital stock and other factors. Our working capital was approximately \$0.9 billion as of July 2, 2016 and October 3, 2015.

Net cash provided by operating activities was \$286.8 million and \$176.2 million for the nine months ended July 2, 2016 and June 27, 2015, respectively. Cash flows from operating activities consist of: (1) net income adjusted to exclude non-cash items such as depreciation and amortization, deferred income taxes and stock-based compensation expense and (2) changes in net operating assets, which are comprised of accounts receivable, inventories, prepaid expenses and other assets, accounts payable, accrued liabilities and other long-term liabilities. Our working capital metrics tend to fluctuate from quarter-to-quarter based on factors such as the linearity of our shipments to customers

and purchases from suppliers, customer and supplier mix, and the negotiation of payment terms with customers and suppliers. These fluctuations can significantly affect our cash flows from operating activities.

During the nine months ended July 2, 2016, we generated \$219.9 million of cash from net income, excluding non-cash items, and \$66.9 million of cash from the reduction of our net operating assets. Net operating assets decreased primarily as a result of increased business volume which caused accounts payable to increase \$78.8 million, accounts receivable to increase \$61.8 million, and inventory to decrease \$38.5 million. DPO decreased from 69 days as of October 3, 2015 to 66 days as of

July 2, 2016 due primarily to an unfavorable shift in linearity of material receipts. DSO decreased from 56 days as of October 3, 2015 to 54 days as of July 2, 2016 primarily due to a favorable change in customer mix. Inventory turns increased from 6.3 as of October 3, 2015 to 6.7 as of July 2, 2016 primarily as a result of continuing efforts to reduce inventory levels relative to sales volume.

Net cash used in investing activities was \$139.2 million and \$61.2 million for the nine months ended July 2, 2016 and June 27, 2015, respectively. During the nine months ended July 2, 2016, we paid \$58.9 million in connection with business combinations, used \$84.5 million of cash for capital expenditures and received proceeds of \$4.2 million primarily from the sale of a certain property. During the nine months ended June 27, 2015, we used \$76.2 million of cash for capital expenditures and received proceeds of \$15.1 million primarily from the sale of certain properties.

Net cash used in financing activities was \$152.0 million and \$165.5 million for the nine months ended July 2, 2016 and June 27, 2015, respectively. During the nine months ended July 2, 2016, we used \$114.4 million of cash to repurchase common stock (including \$1.0 million for repurchases related to employee tax withholdings on vested restricted stock units), used \$48.0 million of cash for net repayments of short-term borrowings, repaid \$4.4 million of long-term debt, and received \$14.9 million of net proceeds from issuances of common stock pursuant to stock option exercises. During the nine months ended June 27, 2015, we redeemed \$100 million of long-term debt for \$108.7 million, paid \$70.8 million for repurchases of common stock (including \$1.4 million for repurchases related to employee tax withholdings on vested restricted stock units), used \$5.2 million of cash for net repayments of short-term borrowings, received \$17.7 million of proceeds from issuances of common stock pursuant to stock option exercises and received \$3.3 million from termination of an interest rate swap.

#### Other Liquidity Matters

Our Board of Directors has authorized us to repurchase shares of our common stock, subject to a dollar limitation. The timing of repurchases will depend upon capital needs to support the growth of our business, market conditions and other factors. Although stock repurchases are intended to increase stockholder value, purchases of shares will reduce our liquidity. We repurchased \$113.4 million of our common stock in the open market during the first nine months of 2016 and, as of July 2, 2016, we had \$90.6 million remaining available to repurchase shares of our common stock under programs authorized by the Board of Directors.

Our Cash Flow Revolver requires us to comply with certain financial covenants and our Secured Debt loan agreement contains a financial covenant that is only applicable to us if certain conditions exist, none of which existed as of July 2, 2016. Additionally, our debt agreements contain a number of restrictive covenants, including 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. These covenants could constrain our ability to grow our business through acquisition or engage in other transactions which the covenants could otherwise restrict, including refinancing our existing debt. In addition, such agreements include covenants requiring, among other things, that we file quarterly and annual financial statements with the SEC, comply with all laws, pay all taxes and maintain casualty insurance. If we are not able to comply with all of these covenants, for any reason, some or all of our outstanding debt could become immediately due and payable and the incurrence of additional debt under our asset-backed revolving credit facility would not be allowed, any of which could have a material adverse effect on our liquidity and ability to conduct our business. As of July 2, 2016, we were in compliance with these covenants.

In the ordinary course of business, we are or may become party to legal proceedings, claims and other contingencies, including environmental, warranty and employee matters and examinations by government agencies. As of July 2, 2016, we had reserves of \$44.4 million related to such matters. We cannot accurately predict the outcome of these matters or the amount or timing of cash flows that may be required to defend ourselves or to settle such matters or that these reserves will be sufficient to fully satisfy our contingent liabilities.



During the second quarter of 2016, we completed two acquisitions for total cash consideration of \$90.3 million, of which \$78.0 million has been paid and \$12.3 million (plus accreted interest) is payable in 2020.

In connection with a previously completed acquisition, we could be required to make additional cash payments of up to \$18.0 million if certain annual earnings targets are achieved in the next four years.

As of July 2, 2016, we had a liability of \$84.7 million for uncertain tax positions. Our estimate of liabilities for uncertain tax positions is based on a number of subjective assessments, including the likelihood of a tax obligation being assessed, the amount of taxes (including interest and penalties) that would ultimately be payable, and our ability to settle any

such obligations on favorable terms. Therefore, the amount of future cash flows associated with uncertain tax positions may be significantly higher or lower than our recorded liability and we are unable to reliably estimate when cash settlement may occur.

Our liquidity needs are largely dependent on changes in our working capital, including the extension of trade credit by our suppliers, investments in manufacturing inventory, facilities and equipment, repayments of obligations under outstanding indebtedness and repurchases of common stock. Our primary sources of liquidity as of July 2, 2016 consisted of (1) cash and cash equivalents of \$409.6 million; (2) our Cash Flow Revolver, under which \$277.7 million, net of outstanding letters of credit, was available as of July 2, 2016; (3) foreign short-term borrowing facilities of \$74.3 million, all of which was available as of July 2, 2016 (an aggregate of \$50.5 million of such facilities expire at various dates through the third quarter of 2017); and (4) cash generated from operations.

In addition, we are actively marketing a portfolio of surplus real estate with an aggregate list price of approximately \$21 million. Proceeds from the sales of properties in this portfolio will provide additional liquidity. However, there can be no assurance as to the amounts that may actually be raised or the exact timing of any such receipts.

We believe our existing cash resources and other sources of liquidity, together with cash generated from operations, will be sufficient to meet our working capital requirements for at least the next 12 months. Should demand for our services change significantly over the next 12 months or should we experience increases in delinquent or uncollectible accounts receivable, our cash provided by operations could be adversely impacted.

As of July 2, 2016, 37% of our cash balance was held in the United States. Should we choose or need to remit cash to the United States from our foreign locations, we may incur tax obligations which would reduce the amount of cash ultimately available to the United States. We believe that cash held in the United States, together with liquidity available under our Cash Flow Revolver and cash from foreign subsidiaries that could be remitted to the United States without tax consequences, will be sufficient to meet our United States liquidity needs for at least the next twelve months.

#### Off-Balance Sheet Arrangements

As of July 2, 2016, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC, that have or are reasonably likely to have a current or future effect on our financial condition, changes in our financial condition, revenues, or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to investors.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

#### Interest Rate Risk

Our primary exposure to market risk for changes in interest rates relates to certain of our outstanding long-term debt obligations and our revolving credit facility. As of July 2, 2016, \$40 million of our debt bears interest at a floating rate. Additionally, the interest rate we pay for borrowings under our \$375 million short-term revolving credit facility is determined at the time of borrowing based on a floating index. Therefore, although we can elect to fix the interest rate at the time of borrowing, the facility does expose us to market risk for changes in interest rates. An immediate 10 percent change in interest rates would not have a significant impact on our results of operations.

#### Foreign Currency Exchange Risk

We transact business in foreign currencies. Our foreign exchange policy requires that we take certain steps to limit our foreign exchange exposures resulting from certain assets and liabilities and forecasted cash flows. However, our policy does not require us to hedge all foreign exchange exposures. Furthermore, our foreign currency hedges are based on forecasted transactions and estimated balances, the amount of which may differ from that actually incurred. As a result, we can experience foreign exchange rate gains and losses in our results of operations.

Our primary foreign currency cash flows are in certain Asian and European countries, Israel, Brazil and Mexico. We enter into short-term foreign currency forward contracts to hedge currency exposures associated with certain monetary assets and liabilities denominated in non-functional currencies. These contracts generally have maturities of up to two months, although we entered into a four-year contract in the second quarter of 2016 to hedge a non-functional currency denominated note payable due in 2020. These forward contracts are not designated as part of a hedging relationship for accounting purposes. All outstanding foreign currency forward contracts are marked-to-market at the end of the period with unrealized gains and losses included in other expense, net, in the unaudited condensed consolidated statements of income. As of July 2, 2016, we had outstanding foreign currency forward contracts to exchange various foreign currencies for U.S. dollars in the aggregate notional amount of \$327.4 million.

We also utilize foreign currency forward contracts to hedge certain operational (“cash flow”) exposures resulting from changes in foreign currency exchange rates. Such exposures 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 may be up to twelve months in duration and are designated as cash flow hedges for accounting purposes. The effective portion of changes in the fair value of the contracts is recorded in stockholders' equity as a separate component of accumulated other comprehensive income and recognized in earnings when the hedged item affects earnings. We had forward contracts related to cash flow hedges in various foreign currencies in the aggregate notional amount of \$86.9 million as of July 2, 2016.

The net impact of an immediate 10 percent change in exchange rates would not be material to our unaudited condensed consolidated financial statements, provided we accurately forecast and estimate our foreign currency exposure. If such forecasts are materially inaccurate, we could incur significant gains or losses.

#### Item 4. Controls and Procedures

##### Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended July 2, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

##### Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures will prevent all error and all fraud. Disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that their objectives are met. Further, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and the benefits of disclosure controls and procedures must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of disclosure controls and procedures can provide absolute assurance that all disclosure control issues and instances of fraud, if any, have been detected. Nonetheless, our Chief Executive Officer and Chief Financial Officer have concluded that, as of July 2, 2016, (1) our disclosure controls and procedures were designed to provide reasonable assurance of achieving their objectives, and (2) our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported as and when required, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding its required disclosure.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

Reference is made to the legal proceedings disclosed in Part I, Item 3 of Sanmina's Annual Report on Form 10-K for the year ended October 3, 2015 and Part II, Item 1 of Sanmina's Quarterly Reports on Form 10-Q for the quarters ended January 2, 2016 and April 2, 2016.

In addition, from time to time, we may become involved in routine legal proceedings, as well as demands, claims and threatened litigation, that arise in the normal course of our business. The ultimate outcome of any litigation is uncertain and unfavorable outcomes could have a negative impact on our results of operations and financial condition. Regardless of outcome, litigation can have an adverse impact on us as a result of incurrence of defense costs, diversion of management resources and other factors. We record liabilities for legal proceedings when a loss becomes probable and the amount of loss can be reasonably estimated.

Refer to Note 5 of Notes to Condensed Consolidated Financial Statements.

## Item 1A. Risk Factors

Adverse changes in the key end markets we target could harm our business by reducing our sales.

We provide products and services to companies that serve the communications networks, computing and storage, multimedia, industrial and semiconductor capital equipment, defense and aerospace, medical, energy and automotive industries. Adverse changes in any of these markets could reduce demand for our customers' products or make these customers more sensitive to the cost of our products and services, either of which could reduce our sales, gross margins and net income. A number of factors could affect any of these industries in general, or our customers in particular, and lead to reductions in net sales, thus harming our business. These factors include:

- intense competition among our customers and their competitors, leading to reductions in prices for their products and pricing pressures on us;
- short product life cycles of our customers' products leading to continuing new requirements and specifications and product obsolescence, either of which could cause us to lose business;
- failure of our customers' products to gain widespread commercial acceptance which could decrease the volume of orders customers place with us; and
- recessionary periods in our customers' markets, including the currently depressed conditions in the oil and gas industry, which decrease orders from affected customers.

We realize a substantial portion of our revenues from communications equipment customers. This market is highly competitive, particularly in the area of price. Should any of our larger customers in this market fail to effectively compete with their competitors, they could reduce their orders to us or experience liquidity difficulties, either of which could have the effect of reducing our revenue and net income, perhaps substantially. Revenue from our multimedia business, which is driven primarily by sales of set-top boxes, could decline as more content is delivered over the internet or through alternative methods and not through set-top boxes, particularly in the U.S. or Europe. In addition, in the case of our defense business, United States budget actions could cause a reduction or delay in orders placed by the government or defense contractors for products manufactured by SCI, our defense and aerospace division. Since such products carry higher margins than many of our other products and services, such a decrease could disproportionately reduce our gross margin and profitability. There can be no assurance that we will not experience declines in demand in these or other areas in the future.

We are subject to risks arising from our international operations.

The substantial majority of our net sales are generated through our non-U.S. operations. As a result, we are affected by economic, political and other conditions in the foreign countries in which we do business, including:

- the imposition of government controls;
- compliance with United States and foreign laws concerning trade (including the International Traffic in Arms Regulations ("ITAR"), the Export Administration Regulations ("EAR") and the Foreign Corrupt Practices Act ("FCPA");
- difficulties in obtaining or complying with export license requirements;
- changes in tariffs;
- rising labor costs;
  - compliance with foreign labor laws, which generally provide for increased notice, severance and consultation requirements compared to U.S. laws;
- labor unrest, including strikes, and difficulties in staffing;
- security concerns;
- political instability and/or regional military tension or hostilities;
- inflexible employee contracts or labor laws in the event of business downturns;

- coordinating communications among and managing international operations;
- fluctuations in currency exchange rates, which may either increase or decrease our operating costs and for which we have significant exposure;
- currency controls;
- changes in tax and trade laws that increase our local costs;
- exposure to heightened corruption risks;
- aggressive or lax enforcement of local laws by governmental authorities;
- adverse rulings in regards to tax audits; and
- misappropriation of intellectual property.

Our operations in certain foreign locations receive favorable income tax treatment in the form of tax holidays or other incentives. In the event that such tax holidays or other incentives are not extended, are repealed, or we no longer qualify for such programs, our taxes may increase, which could reduce our net income.

We operate in countries that have experienced labor unrest, political instability and strife, including Brazil, China, India, Indonesia, Israel, Malaysia and Thailand and we have experienced work stoppages and similar disruptions in certain foreign jurisdictions. To the extent such developments prevent us from adequately staffing our plants and manufacturing and shipping products in those jurisdictions, our margins and net income could be reduced and our reputation as a reliable supplier could be negatively impacted.

Our customers could experience credit problems, which could reduce our future revenues and net income.

Some companies in the industries for which we provide products have previously experienced significant financial difficulty, with a few of the participants filing for bankruptcy. Such financial difficulty, if experienced by one or more of our customers, may negatively affect our business due to the decreased demand from these financially distressed customers, the lengthening of customer payment terms, the potential inability of these companies to make full payment on amounts owed to us or to purchase inventory we acquired to support their businesses. For example, on October 6, 2014, one of our customers, GT Advanced Technologies, filed a petition for reorganization under bankruptcy law. We determined that certain inventory and accounts receivable balances may not be recoverable and have provided reserves for such inventories and accounts receivable in the amount of \$12.0 million relating to this customer. Customer bankruptcies also entail the risk of potential recovery by the bankruptcy estate of amounts previously paid to us that are deemed a preference under bankruptcy laws.

We are subject to intense competition in the EMS industry which could cause us to lose sales and therefore hurt our financial performance.

The electronics manufacturing services (EMS) industry is highly competitive and the industry has experienced a surplus of manufacturing capacity. Our competitors include major global EMS providers such as Benchmark Electronics, Inc., Celestica, Inc., Flextronics International Ltd., Jabil Circuit, Inc., and Plexus Corp., as well as other companies that have a regional product, service or industry-specific focus. We also face competition from current and potential OEM customers who may elect to manufacture their own products internally rather than outsourcing to EMS providers.

Competition is based on a number of factors, including end markets served, price and quality. We may not be able to offer prices as low as some of our competitors for any number of reasons, including the willingness of competitors to provide EMS services at prices we are unable or unwilling to offer. There can be no assurance that we will win new business or not lose existing business due to competitive factors, which could decrease our sales and net income. In addition, due to the extremely price sensitive nature of our industry, business that we do win or maintain may have lower margins than our historical or target margins. As a result, competition may cause our gross and operating margins to fall.

We rely on a relatively small number of customers for a substantial portion of our sales, and declines in sales to these customers could reduce our net sales and net income.

Sales to our ten largest customers have historically represented approximately half of our net sales. We expect to continue to depend upon a relatively small number of customers for a significant percentage of our sales, particularly in the communications end market. The loss of, or a significant reduction in sales or pricing to our largest customers could substantially reduce our revenue and margins.



Our strategy to pursue higher margin business depends in part on the success of our Components, Products and Services (CPS) business, which, if not successful, could cause our future gross margins and operating results to be lower.

A key part of our strategy is to grow our CPS business, which includes printed circuit boards, backplane and cable assemblies, mechanical systems, memory, defense and aerospace and computing products and design, engineering, logistics and repair services. A decrease in orders for these components, products and services can have a disproportionately adverse impact on our profitability since these components, products and services generally carry higher than average contribution margins. In addition, in order to grow this portion of our business profitably, we must continue to make substantial investments in the development of our product development capabilities, research and development activities, test and tooling equipment and skilled personnel, all of which reduce our operating results in the short term. The success of our CPS business also depends on our ability to increase sales of our proprietary products, convince our customers to agree to purchase our components for use in the manufacture of their products, rather than directing us to buy them from third parties, and expand the number of our customers who contract for our design, engineering, logistics and repair services. We may face challenges

in achieving commercially viable yields and difficulties in manufacturing components in the quantities and to the specifications and quality standards required by our customers, as well as in qualifying our components for use in our customers' designs. Our proprietary products and design, engineering, logistics and repair services must compete with products and services offered by established vendors which focus solely on development of similar technologies or the provision of similar services. Any of these factors could cause our CPS revenue and margins to be less than expected, which could have an overall adverse and potentially disproportionate effect on our revenues and profitability.

Consolidation in the electronics industry may adversely affect our business by increasing customer buying power and increasing prices we pay for components.

Consolidation in the electronics industry among our customers, our suppliers and/or our competitors may increase, which could result in a small number of very large electronics companies offering products in multiple sectors of the electronics industry. For example, two major customers in our communications end market recently merged. The significant purchasing and market power of these large companies could decrease the prices paid to us by these customers. In addition, if one of our customers is acquired by another company that does not rely on us to provide EMS services, we may lose that customer's business. Similarly, consolidation among our suppliers could result in a sole or limited source for certain components used in our customers' products. Any such consolidation could cause us to be required to pay increased prices for such components, which could reduce our gross margin and profitability.

Recruiting and retaining our key personnel is critical to the continued growth of our business.

Our success depends upon the continued service of our key personnel, particularly our highly skilled sales and operations executives, managers and engineers with many years of experience in electronics and contracts manufacturing. Such individuals can be difficult to identify, recruit and retain and are heavily recruited by our competitors. Should any of our key employees choose to retire or terminate their employment with us, and should we be unable to recruit new employees with the required experience, our operations and growth prospects could be negatively impacted.

Cancellations, reductions in production quantities, delays in production by our customers and changes in customer requirements could reduce our sales and net income.

We generally do not obtain firm, long-term purchase commitments from our customers and our bookings may generally be canceled prior to the scheduled shipment date. Although a customer is generally liable for raw materials we procure on their behalf, finished goods and work-in-process at the time of cancellation, we may be unable or, for other business reasons, choose not to enforce our contractual rights. As a result, cancellations, reductions or delays of orders by customers could reduce our sales and net income, delay or eliminate recovery of our expenditures for inventory purchased in preparation for customer orders and lower our asset utilization, which could result in lower gross margins and lower net income.

We can experience losses due to foreign exchange rate fluctuations, which could reduce our net income.

Because we manufacture and sell a substantial portion of our products abroad, our operating results can be negatively impacted due to fluctuations in foreign currency exchange rates, particularly in volatile currencies to which we are exposed, such as the Euro, Mexican peso, Japanese yen, Chinese Renminbi and Brazilian real. We use financial instruments, primarily short-term foreign currency forward contracts, to hedge our exposure to exchange rate fluctuations. However, the success of our foreign currency hedging activities depends largely upon the accuracy of our forecasts of future sales, expenses, capital expenditures and monetary assets and liabilities. As such, our foreign currency hedging program may not fully cover our exposure to exchange rate fluctuations. If our hedging activities are not successful, we may experience a reduction of our net income.

Our operating results and cash generated from operations are subject to significant uncertainties, which can cause our future sales and net income to be variable.

Our operating results can vary due to a number of significant uncertainties, including:

- conditions in the economy as a whole and in the industries we serve;
- fluctuations in components prices and component shortages caused by high demand, natural disaster or otherwise;
- timing of new product development by our customers, which creates demand for our services, but which can also require us to incur start-up costs relating to new tooling and processes;
- levels of demand in the end markets served by our customers;

- our ability to replace declining sales from end-of-life programs with new business wins;
- timing of orders from customers and the accuracy of their forecasts;
- inventory levels of customers, which if high relative to their normal sales volume, could cause them to reduce their orders to us;
- timing of expenditures in anticipation of increased sales, customer product delivery requirements and shortages of components or labor;
- increased labor costs in the regions in which we operate;
- mix of products ordered by and shipped to major customers, as high volume and low complexity manufacturing services typically have lower gross margins than more complex and lower volume services;
- degree to which we are able to utilize our available manufacturing capacity;
- customer insolvencies resulting in bad debt or inventory exposures that are in excess of our reserves;
- our ability to efficiently move manufacturing activities to lower cost regions;
- the effects of seasonality in our business;
- changes in our tax provision due to changes in our estimates of pre-tax income in the jurisdictions in which we operate, uncertain tax positions, including our ability to utilize our deferred tax assets; and
- political and economic developments in countries in which we have operations which could restrict our operations or increase our costs.

Variability in our operating results may also lead to variability in cash generated by operations, which can adversely affect our ability to make capital expenditures, engage in strategic transactions, redeem debt and repurchase stock and utilize our borrowing facilities.

Unanticipated changes in our tax rates or exposure to additional income tax liabilities could increase our taxes and decrease our net income; our projections of future taxable income driving the release of our valuation allowance could prove to be incorrect, which could cause a charge to earnings.

We are subject to income, sales, value-added, withholding and other taxes in the United States and various foreign jurisdictions. Significant judgment is required in determining our worldwide provision for taxes and, in the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. Our effective tax rates and liability for other taxes could increase as a result of changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws, our cash management strategies and other factors. In addition, our tax determinations are regularly subject to audit by tax authorities. For example, we are currently undergoing audits of our tax returns for certain recent tax years in a number of jurisdictions, including the United States. Developments in these or future audits could adversely affect our tax provisions, including through the disallowance or reduction of deferred tax assets or the assessment of back taxes, interest and penalties. Although we believe that our tax estimates are reasonable and our existing tax reserves are adequate, the final determination of tax audits or tax disputes may be different from what is reflected in our historical tax provisions, which could lead to an increase in our taxes payable and a decrease in our net income.

During 2015, we released \$288.7 million of our valuation allowance attributable to certain U.S. and foreign deferred tax assets. We based this determination on our assessment of our valuation allowance against deferred tax assets on a jurisdiction by jurisdiction basis, considering all available positive and negative evidence, including future reversals of temporary differences, projected future taxable income and recent financial results. To the extent our projections prove to be incorrect or tax audits significantly reduce our net operating loss carryforwards, we could be required to impair our deferred tax assets or record additional valuation allowances, which would in turn cause a charge to net income.

If we are unable to protect our intellectual property or infringe, or are alleged to infringe, upon intellectual property of others, we could be required to pay significant amounts in costs or damages.

We rely on a combination of copyright, patent, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. However, a number of our patents covering certain aspects of our manufacturing processes or products have expired or will expire in the near future. Such expirations reduce our ability to assert claims against competitors or others who use or sell similar technology. Any failure to protect our intellectual property rights could diminish or eliminate the competitive advantages that we derive from our proprietary technology.

We are also subject to the risk that current or former employees violate the terms of their proprietary information agreements with us. Should a key current or former employee use or disclose any of our or our customers' proprietary information, we could become subject to legal action by our customers or others, our key technologies could become compromised and our ability to compete could be adversely impacted.

In addition, we may become involved in administrative proceedings, lawsuits or other proceedings if others allege that the products we manufacture for our customers infringe on their intellectual property rights. If successful, such claims could force our customers and us to stop producing products that use the challenged intellectual property, to pay up to treble damages and to obtain a license to the relevant technology or redesign those products or services so as not to use the infringed technology. The costs of defense and potential damages of patent litigation could be significant and have a materially adverse impact on our financial results. In addition, although our customers typically indemnify us against claims that the products we manufacture for them infringe others' intellectual property rights, there is no guaranty that these customers will have the financial wherewithal to stand behind such indemnities should the need arise, nor is there any guaranty that any such indemnity could be fully enforced.

We sometimes design products on a contract basis or jointly with our customers. In these situations, we may indemnify our customer against liability caused by claims that the design infringes the intellectual property rights of a third party. Such indemnification claims could require us to assume the defense of such a claim, the cost of which could be significant.

Any of these results could reduce our revenue, increase our costs and reduce our net income and could damage our reputation with our customers.

We may not have sufficient insurance coverage for potential claims and losses, which could leave us responsible for certain costs and damages.

We carry various forms of business and liability insurance in types and amounts we believe are reasonable and customary for similarly situated companies in our industry. However, we do not have insurance coverage for all of the risks and liabilities we assume in connection with our business, including failure to comply with typical customer warranties for workmanship, product liability, intellectual property infringement, product recall claims and environmental contamination. In addition, our policies generally have deductibles and/or limits that could reduce the amount of our potential recoveries from insurance. As a result, not all of our potential business losses are covered under our insurance policies. Should we sustain a significant uncovered loss, our net income could be reduced. Additionally, if one or more counterparties to our insurance coverage were to fail, we could suffer losses.

Cybersecurity breaches and other disruptions of our IT network and systems could interrupt our operations.

We rely on internal and third party information technology networks and systems for worldwide financial reporting, inventory management, procurement, invoicing and email communications, among other functions. Despite our business continuity planning, including "redundant" data sites and network availability, our systems may be susceptible to outages due to fire, floods, power loss, telecommunications failures, terrorist attacks and similar events. In addition, despite the implementation of network security measures, our systems and those of third parties on which we rely may also be vulnerable to hacking, computer viruses, the installation of malware and similar disruptions either by third parties or employees with access to key IT infrastructure. Hacking and malware, if not prevented, could lead to the collection and disclosure of sensitive information relating to our customers, employees or others, exposing us to legal liability and causing us to suffer reputational damage. If we or our vendors are unable to prevent such outages and breaches, our operations could be disrupted, we could incur losses, including losses relating to claims by our customers against us relating to loss of their information, the willingness of customers to do business with us may be damaged and, in the case of our defense business, we could be debarred from future participation in government programs.

Our supply chain is subject to risks that could increase our costs or cause us to delay shipments to customers, reducing our revenue and margins.

Our supply chain is subject to a number of risks and uncertainties. For example, we are dependent on certain suppliers, including limited and sole source suppliers, to provide key components we incorporate into our products. We have experienced, and may experience in the future, delays in delivery and shortages of components, which in turn could result in increased component prices and delays in product shipments to customers, both of which could decrease our revenue and margins.

Our components are manufactured using a number of commodities, including petroleum, gold, copper and other metals that are subject to frequent and unpredictable changes in price due to worldwide demand, investor interest and economic conditions. We do not hedge against the risk of these fluctuations, but rather attempt to adjust our product pricing to reflect such changes. Should significant increases in commodities prices occur and should we not be able to increase our

product prices enough to offset these increased costs, our gross margins and profitability could decrease, perhaps significantly. In addition, we, along with our suppliers and customers, rely on various energy sources in our manufacturing and transportation activities. There has been significant volatility in the prices of energy during the recent past and such volatility is likely to continue in the future. Concern over climate change has led to state, federal and international legislative and regulatory initiatives aimed at reducing carbon dioxide and other greenhouse gas emissions. Such initiatives could lead to an increase in the price of energy. A sustained increase in energy prices for any reason could increase our raw material, components and transportation costs. We may not be able to increase our product prices enough to offset these increased costs, in which case our profitability could be reduced.

We rely on a variety of common carriers to transport our raw materials and components from our suppliers to us, and to transport our products to our customers. The use of common carriers is subject to a number of risks, including increased costs due to rising energy prices and labor, vehicle and insurance costs, and criminal activity resulting in losses of shipments, delivery delays resulting from labor disturbances and strikes and other factors beyond our control. While we attempt to mitigate our liability for any losses resulting from these risks through contracts with our customers, suppliers and insurance carriers, any costs or losses that cannot be mitigated could reduce our profitability, require us to manufacture replacement product or damage our relationships with our customers.

Government regulations, concerning responsible sourcing, such as the Dodd-Frank Act disclosure requirements relating to conflict minerals, are increasing. Such regulations could decrease the availability and increase the prices of components used in our customers' products, particularly if we choose (or are required by our customers) to source such components from different suppliers than we use now.

We may be unable to generate sufficient liquidity to expand our operations, which may reduce the business our customers and vendors are able to do with us; we could experience losses if one or more financial institutions holding our cash or other financial counterparties were to fail.

Our liquidity is dependent on a number of factors, including profitability, business volume, inventory requirements, the extension of trade credit by our suppliers, the degree of alignment of payment terms from our suppliers with payment terms granted to our customers, investments in facilities and equipment, acquisitions, repayments of our outstanding indebtedness, stock repurchase activity and availability under our revolving credit facility. In the event we need additional or desire additional capital to expand our business, make acquisitions, repay additional debt or repurchase stock, there can be no assurance that such additional capital will be available on acceptable terms or at all. A failure to maintain adequate liquidity could cause our stock price to fall and reduce our customers' and vendors' willingness to do business with us.

A principal source of our liquidity is our cash and cash equivalents, which are held with various financial institutions. Although we distribute such funds among a number of financial institutions that we believe to be of high quality, there can be no assurance that one or more of such institutions will not become insolvent in the future, in which case all or a portion of our uninsured funds on deposit with such institutions could be lost. Similarly, if one or more counterparties to our foreign currency hedging, insurance or other financial instruments were to fail, we could suffer losses and our hedging of risk could become less effective.

Additionally, a majority of our worldwide cash reserves are generated by, and therefore held in, foreign jurisdictions. Some jurisdictions restrict the amount of cash that can be transferred to the United States or impose taxes and penalties on such transfers of cash. To the extent we have excess cash in foreign locations that could be used in, or is needed by, our United States operations, we may incur significant taxes to repatriate these funds which would reduce the net amount ultimately available for such purposes.



We may not be successful in implementing and integrating strategic transactions or in divesting assets or businesses, which could harm our operating results; goodwill and other assets, if impaired, could lead to a non-cash charge to earnings.

From time to time, we may undertake strategic transactions that give us the opportunity to access new customers and new end markets, to obtain new manufacturing and service capabilities and technologies, to enter new geographic manufacturing locations, to lower our manufacturing costs and improve our profits, and to further develop existing customer relationships. Strategic transactions involve a number of risks, uncertainties and costs, including, integrating acquired operations and businesses, incurring severance and other restructuring costs, diverting management attention, maintaining customer, supplier or other favorable business relationships of acquired operations and terminating unfavorable relationships, losing key employees, integrating the systems of acquired operations into our management information systems and

satisfying the liabilities of acquired businesses, including liability for past violations of law and material environmental liabilities. Any of these risks could cause our strategic transactions not to be ultimately profitable.

In addition, we may be required to record goodwill and other intangible assets in connection with our acquisitions. We evaluate, on a regular basis, whether events or circumstances have occurred that indicate all, or a portion, of the carrying amount of our goodwill and other intangible assets may no longer be recoverable. Should we determine in the future that our goodwill or other intangible assets have become impaired, an impairment charge to earnings would become necessary, which could be significant.

Our credit arrangements contain covenants which may adversely impact our business and the failure to comply with such covenants could cause our outstanding debt to become immediately payable.

Our revolving credit facility contains financial covenants with which we must continue to comply and our Secured Debt agreement covering our corporate headquarters contains a financial covenant not currently applicable to us. In addition, our debt agreements include a number of restrictive covenants, including 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. Collectively, these covenants could constrain our ability to grow our business through acquisition or engage in other transactions, including refinancing our existing debt. In addition, such agreements include covenants requiring, among other things, that we file quarterly and annual financial statements with the SEC, comply with all laws, pay all taxes and maintain casualty insurance. If we are not able to comply with these covenants, for any reason, some or all of our outstanding debt could become immediately due and payable and the incurrence of additional debt under our revolving credit facility would not be allowed, any of which could have a material adverse effect on our liquidity and ability to conduct our business.

If we are unable to maintain our technological and manufacturing process expertise, our business could be adversely affected.

Regular improvements to and refinements of our manufacturing processes are necessary to remain competitive in the marketplace. As a result, we are continually evaluating the cost-effectiveness and feasibility of new manufacturing processes. In some cases, we must make capital expenditures and incur engineering expense in order to qualify and validate any such new process in advance of booking new business that could utilize such processes. Such investments utilize cash and reduce our margins and net income. Any failure to adequately invest in manufacturing technology could reduce our competitiveness and, potentially, our future revenue and net income.

Customer requirements to transfer business may increase our costs.

Our customers sometimes require that we transfer the manufacturing of their products from one facility to another to achieve cost reductions and other objectives. These transfers have resulted in increased costs to us due to facility downtime, less than optimal utilization of our manufacturing capacity and delays and complications related to the transition of manufacturing programs to new locations. These transfers could require us to close or reduce operations at certain facilities and, as a result, we may incur in the future significant costs for the closure of facilities, employee severance and related matters. We may be required to relocate additional manufacturing operations in the future and, accordingly, we may incur additional costs that decrease our net income. Any of these factors could reduce our revenues, increase our expenses and reduce our net income.

If we manufacture or design defective products, or if our manufacturing processes do not comply with applicable statutory and regulatory requirements, we could be subject to claims, damages and fines and lose customers.

We manufacture products to our customers' specifications, and in some cases our manufacturing processes and facilities need to comply with various statutory and regulatory requirements. For example, many of the medical products that we manufacture, as well as the facilities and manufacturing processes that we use to produce them must comply with standards established by the United States Food and Drug Administration. In addition, our customers' products and the manufacturing processes that we use to produce them often are highly complex. As a result, products that we design or manufacture may at times contain design or manufacturing defects, and our manufacturing processes may be subject to errors or may not be in compliance with applicable statutory and regulatory requirements. Defects in the products we design or manufacture may result in product recalls, warranty claims by customers, including liability for repair costs, delayed shipments to customers or reduced or canceled customer orders. The failure of the products that we design or manufacture or of our manufacturing processes and facilities to comply with applicable statutory and regulatory requirements may subject us to legal fines or penalties and, in some cases, require us to shut down or incur considerable expense to correct a

manufacturing program or facility. In addition, these defects may result in product liability claims against us. The magnitude of such claims may increase as we expand our medical, automotive, defense and aerospace, and oil and gas manufacturing services because defects in these types of products can result in death or significant injury to end users of these products or environmental harm. Even when our customers are contractually responsible for defects in the design of a product, we could nonetheless be named in a product liability suit over such defects and could be required to expend significant resources to defend ourselves. Additionally, insolvency of our customers may result in us being held ultimately liable for our customers' design defects, which could significantly reduce our net income.

The design services that we provide can expose us to different or greater potential liabilities than those we face when providing our regular manufacturing services. For example, we have increased exposure to potential product liability claims resulting from injuries caused by defects in products we design, as well as potential claims that products we design infringe third-party intellectual property rights. Such claims could subject us to significant liability for damages and, regardless of their merits, could be time-consuming and expensive to resolve. Any such costs and damages could be significant and could reduce our net income.

We are subject to a number of U.S. governmental procurement rules and regulations, the failure to comply with which could result in damages or reduction of future revenue.

We are subject to a number of laws and regulations relating to the award, administration and performance of U.S. government contracts and subcontracts. Such laws and regulations govern, among other things, price negotiations, cost accounting standards and other aspects of performance under government contracts. These rules are complex and our performance under them is subject to audit by the Defense Contract Audit Agency and other government regulators. If an audit or investigation reveals a failure to comply with regulations or other improper activities, we may be subject to civil or criminal penalties and administrative sanctions by either the government or the prime customer, including termination of the contract, payment of fines and suspension or debarment from doing further business with the U.S. government. Any of these actions could increase our expenses, reduce our revenue and damage our reputation as a reliable government supplier.

Allegations of failure to comply with domestic or international employment and related laws could result in the payment of significant damages, which would reduce our net income.

We are subject to a variety of domestic and foreign employment laws, including those related to safety, wages and overtime, discrimination, organizing, whistle-blowing, classification of employees, privacy and severance payments. Enforcement activity relating to these laws can increase as a result of increased governmental scrutiny, media attention due to violations by other companies, changes in law, political and other factors. Allegations that we have violated such laws in the future could lead to fines from or settlements with federal, state or foreign regulatory authorities or damages payable to employees, which fines could be substantial and which would reduce our net income.

Any failure to comply with applicable environmental laws could adversely affect our business by causing us to pay significant amounts for cleanup of hazardous materials or for damages or fines.

We are subject to various federal, state, local and foreign environmental laws and regulations, including those governing the use, generation, storage, discharge and disposal of hazardous substances and wastes in the ordinary course of our manufacturing operations. If we violate environmental laws or if we own or operate, or owned or operated in the past a site at which we or a predecessor company caused contamination, we may be held liable for damages and the costs of remedial actions. Although we estimate and regularly reassess our potential liability with respect to violations or alleged violations and accrue for such liability, we cannot assure you that our accruals will be sufficient. Any increase in existing reserves or establishment of new reserves for environmental liability could reduce

our net income. Our failure or inability to comply with applicable environmental laws and regulations could also limit our ability to expand facilities or could require us to acquire costly equipment or to incur other significant expenses to comply with these laws and regulations.

Primarily as a result of certain of our acquisitions, we have incurred liabilities associated with environmental contamination. These liabilities include ongoing investigation and remediation activities at a number of current and former sites. The time required to perform environmental remediation can be lengthy and there can be no assurance that the scope, and therefore cost, of these activities will not increase as a result of the discovery of new contamination or contamination on adjoining landowner's properties or the adoption of more stringent regulatory standards covering sites at which we are currently performing remediation activities.

We cannot assure you that past disposal activities will not result in liability that will materially affect us in the future, nor can we provide assurance that we do not have environmental exposures of which we are unaware and which could adversely affect our future operating results.

Over the years, environmental laws have become, and in the future may continue to become, more stringent, imposing greater compliance costs and increasing risks and penalties associated with violations. We operate in several environmentally sensitive locations and are subject to potentially conflicting and changing regulatory agendas of government authorities, business and environmental groups. Changes in or restrictions on discharge limits, emissions levels, permitting requirements and material storage or handling could require a higher than anticipated level of remediation activities, operating expenses and capital investment or, depending on the severity of the impact of the foregoing factors, costly plant relocation.

We are subject to risks associated with natural disasters and global events.

We conduct a significant portion of our activities, including manufacturing, administration and information technology management in areas that have experienced natural disasters, such as major earthquakes, hurricanes, floods and tsunamis. Our insurance coverage with respect to damages to our facilities or our customers' products caused by natural disasters is limited and is subject to deductibles and coverage limits and, as a result, may not be sufficient to cover all of our losses. For example, our policies have very limited coverage for damages due to earthquake. In addition, such coverage may not continue to be available at commercially reasonable rates and terms. In the event of a major earthquake or other disaster affecting one or more of our facilities, our operations and management information systems, which control our worldwide procurement, inventory management, shipping and billing activities, could be significantly disrupted. Such events could delay or prevent product manufacturing for an extended period of time. Any extended inability to continue our operations at affected facilities following such an event could reduce our revenue.

Changes in financial accounting standards or policies have affected, and in the future may affect, our reported financial condition or results of operations; there are inherent limitations to our system of internal controls; changes in securities laws and regulations have increased, and are likely to continue to increase, our operating costs.

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States, or U.S. GAAP. Our preparation of financial statements in accordance with U.S. GAAP requires that we make estimates and assumptions that affect the recorded amounts of assets and liabilities, provide disclosure of those assets and liabilities as of the date of the financial statements and the recorded amounts of expenses during the reporting period. A change in the facts and circumstances surrounding those estimates could result in a change to our estimates and could impact our future operating results.

These principles are subject to interpretation by the Financial Accounting Standards Board (FASB), the SEC and various bodies formed to interpret and create accounting policies. A change in those policies can have a significant effect on our reported results and may affect our reporting of transactions which are completed before a change is announced. For example, significant changes to revenue recognition rules have been enacted and will be effective for us in fiscal 2019. We could incur significant costs to implement these new rules, including costs to modify our IT systems. In addition, accounting policies affecting many other aspects of our business, particularly rules relating to lease accounting, are under review or being revised. Changes to accounting rules or challenges to our interpretation or application of the rules by regulators may have a material adverse effect on our reported financial results or on the way we conduct business. In addition, the anticipated convergence of U.S. GAAP and international financial reporting standards creates uncertainty as to the financial accounting policies and practices we will need to adopt in the future.

Our system of internal and disclosure controls was designed to provide reasonable assurance of achieving their objectives. However, no evaluation of controls can provide absolute assurance that all control issues and instances of

fraud, if any, within the company have been or will be detected. As a result, there can be no assurance that our system of disclosure and internal controls and procedures will be successful in preventing all errors, theft and fraud, or in informing management of all material information in a timely manner.

Finally, corporate governance, public disclosure and compliance practices continue to evolve based upon continuing legislative action, SEC rulemaking and stockholder activism. As a result, the number of rules and regulations applicable to us may increase, which could also increase our legal and financial compliance costs and the amount of time management must devote to compliance activities. Increasing regulatory burdens could also make it more difficult for us to attract and retain qualified members of our Board of Directors, particularly to serve on our Audit Committee, and qualified executive officers in light of an increase in actual or perceived workload and liability for serving in such positions.

The market price of our common stock is volatile and is impacted by factors other than our financial performance.

The stock market in recent years has experienced significant price and volume fluctuations that have affected our stock price. These fluctuations have often been unrelated to our operating performance. Factors that can cause such fluctuations include announcements by our competitors or other events affecting companies in the electronics industry, currency fluctuations, general market fluctuations and macro economic conditions, any of which may cause the market price of our common stock to fluctuate.



## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In September 2015, our Board of Directors authorized us to repurchase up to \$200 million of our common stock in the open market or in negotiated transactions off the market. This authorization has no expiration date. The table below sets forth information regarding our repurchases of our common stock under this authorization during the third quarter of 2016.

| Period (1)                           | TOTAL<br>NUMBER OF<br>SHARES<br>PURCHASED | AVERAGE<br>PRICE<br>PAID PER<br>SHARE<br>(2) | TOTAL<br>NUMBER OF<br>SHARES<br>PURCHASED<br>AS PART OF<br>PUBLICLY<br>ANNOUNCED<br>PROGRAMS | MAXIMUM<br>DOLLAR<br>VALUE OF<br>SHARES<br>THAT MAY<br>YET BE<br>PURCHASED<br>UNDER THE<br>PROGRAMS<br>(2) |
|--------------------------------------|---|--|--|--|
| Month #1                             |   |  |  |  |
| April 3, 2016 through April 30, 2016 | —   | \$ —   | —  | \$ 100,490,110   |
| Month #2                             |   |  |  |  |
| May 1, 2016 through May 28, 2016     | 409,900                                   | \$ 24.16                                     | 409,900  | \$ 90,587,747  |
| Month #3                             |   |  |  |  |
| May 29, 2016 through July 2, 2016    | —   | \$ —   | —  | \$ 90,587,747  |
| Total                                | 409,900                                   | \$ 24.16                                     | 409,900  |  |

(1) All months shown are our fiscal months.

(2) Amounts do not include commissions payable on shares repurchased.

Our Cash Flow Revolver requires us to comply with certain financial covenants and our Secured Debt loan agreement contains a financial covenant that is only applicable to us if certain conditions exist, none of which existed as of July 2, 2016. Our debt agreements contain a number of restrictive covenants, including 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. We were in compliance with these covenants as of July 2, 2016.

## Item 6. Exhibits

| Exhibit<br>Number | Description  |
|-------------------|--|
| 31.1              | Certification of the Principal Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith). |
| 31.2              | Certification of the Principal Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith). |
| 32.1 (1)          | Certification of the Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).                            |
| 32.2 (1)          | Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).                            |
| 101.INS           | XBRL Instance Document   |
| 101.SCH           | XBRL Taxonomy Extension Schema Document  |
| 101.CAL           | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF           | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB           | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE           | XBRL Taxonomy Extension Presentation Linkbase Document   |

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(1) This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference in any filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

SIGNATURES

Pursuant to the Requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SANMINA CORPORATION  
(Registrant)

By: /s/ JURE SOLA  
Jure Sola  
Chief Executive Officer (Principal Executive Officer)

Date: July 29, 2016

By: /s/ ROBERT K. EULAU  
Robert K. Eulau  
Executive Vice President and  
Chief Financial Officer (Principal Financial Officer)

Date: July 29, 2016

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