UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended February 28, 2014

or

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

For the transition period from __________ to __________

Commission File Number: 001-14063

JABIL CIRCUIT, INC.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices) (Zip Code)

(727) 577-9749

(Registrant s telephone number, including area code)

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

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

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

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

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

As of March 27, 2014, there were 203,270,802 shares of the registrant s Common Stock outstanding.

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JABIL CIRCUIT, INC. AND SUBSIDIARIES INDEX

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

JABIL CIRCUIT, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except for share data)

	February 28, 2014 (Unaudited)	August 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 675,129	$ 1,011,373
Accounts receivable, net of allowance for doubtful accounts of $4,083 at February 28, 2014 and $2,574 at August 31, 2013	941,059	1,167,254
Inventories	1,821,815	2,118,583
Prepaid expenses and other current assets	905,719	1,136,003
Income taxes receivable	25,978	12,269
Deferred income taxes	53,591	45,532
Assets of discontinued operations	539,388	329,231
Total current assets	4,962,679	5,820,245
Property, plant and equipment, net of accumulated depreciation of $1,854,310 at February 28, 2014 and $1,703,234 at August 31, 2013	2,331,970	2,309,298
Goodwill	369,891	349,011
Intangible assets, net of accumulated amortization of $160,149 at February 28, 2014 and $147,692 at August 31, 2013	255,391	260,434
Deferred income taxes	88,946	91,383
Other assets	119,331	100,801
Non-current assets of discontinued operations		222,609
Total assets	$ 8,128,208	$ 9,153,781
LIABILITIES AND EQUITY		
Current liabilities:		
Current installments of notes payable, long-term debt and capital lease obligations	$ 160,839	$ 215,448
Accounts payable	2,461,765	3,191,145
Accrued expenses	1,082,498	1,216,737
Income taxes payable	9,973	37,631
Deferred income taxes	1,014	6,004
Liabilities of discontinued operations	198,906	197,469

Total current liabilities	3,914,995	4,864,434
Notes payable, long-term debt and capital lease obligations, less current installments	1,675,322	1,690,418
Other liabilities	74,058	77,145
Income tax liabilities	85,702	76,315
Deferred income taxes	57,707	58,047
Non-current liabilities of discontinued operations		31,855
Total liabilities	5,807,784	6,798,214
Commitments and contingencies		
Equity:		
Jabil Circuit, Inc. stockholders equity:		
Preferred stock, $0.001 par value, authorized 10,000,000 shares; no shares issued and outstanding		
Common stock, $0.001 par value, authorized 500,000,000 shares; 243,046,553 and 237,732,562 shares issued and 203,354,328 and 203,164,870 shares outstanding at February 28, 2014 and August 31, 2013, respectively	243	238
Additional paid-in capital	1,851,781	1,853,409
Retained earnings	1,116,461	1,071,175
Accumulated other comprehensive income	94,571	81,248
Treasury stock at cost, 39,692,225 and 34,567,692 shares at February 28, 2014 and August 31, 2013	(767,679)	(670,783)
Total Jabil Circuit, Inc. stockholders equity	2,295,377	2,335,287
Noncontrolling interests	25,047	20,280
Total equity	2,320,424	2,355,567
Total liabilities and equity	8,128,208	$ 9,153,781

See accompanying notes to Condensed Consolidated Financial Statements.

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JABIL CIRCUIT, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except for per share data)

(Unaudited)

	Three months ended		Six months ended	
	February 28, 2014	**February 28, 2013**	**February 28, 2014**	**February 28, 2013**
Net revenue	$ 3,577,315	$ 4,166,355	$ 7,918,271	$ 8,536,236
Cost of revenue	3,364,165	3,877,833	7,371,567	7,936,795
Gross profit	213,150	288,522	546,704	599,441
Operating expenses:				
Selling, general and administrative	164,522	145,622	306,707	294,238
Research and development	6,604	7,655	15,658	14,862
Amortization of intangibles	6,180	2,204	12,501	4,370
Restructuring and related charges	32,203		53,206	
Operating income	3,641	133,041	158,632	285,971
Other expense	1,850	1,554	3,027	3,123
Interest income	(341)	(391)	(1,047)	(878)
Interest expense	31,858	29,168	65,163	58,755
(Loss) income from continuing operations before tax	(29,726)	102,710	91,489	224,971
Income tax expense	2,539	27,418	22,112	59,003
(Loss) income from continuing operations, net of tax	(32,265)	75,292	69,377	165,968
(Loss) income from discontinued operations, net of tax	(6,251)	12,797	10,172	27,705
Net (loss) income	(38,516)	88,089	79,549	193,673
Net income (loss) attributable to noncontrolling interests, net of tax	151	(444)	294	(707)
Net (loss) income attributable to Jabil Circuit, Inc.	(38,667)	88,533	$ 79,255	$ 194,380
(Loss) earnings per share attributable to the stockholders of Jabil Circuit, Inc.:				
Basic:				
(Loss) income from continuing operations, net of tax	$ (0.16)	$ 0.37	$ 0.34	$ 0.82
(Loss) income from discontinued operations, net of tax	$ (0.03)	$ 0.06	$ 0.05	$ 0.14

Net (loss) income	$	(0.19)	$	0.44	$	0.39	$	0.96
Diluted:								
(Loss) income from continuing operations, net of tax	$	(0.16)	$	0.37	$	0.33	$	0.80
(Loss) income from discontinued operations, net of tax	$	(0.03)	$	0.06	$	0.05	$	0.13
Net (loss) income	$	(0.19)	$	0.43	$	0.38	$	0.94
Weighted average shares outstanding:								
Basic		205,251		202,458		205,005		203,393
Diluted		205,251		206,804		206,892		207,474
Cash dividends declared per common share	$	0.08	$	0.08	$	0.16	$	0.16

See accompanying notes to Condensed Consolidated Financial Statements.

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JABIL CIRCUIT, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(Unaudited)

	Three months ended February 28, 2014	Three months ended February 28, 2013	Six months ended February 28, 2014	Six months ended February 28, 2013
Net (loss) income	$ (38,516)	$ 88,089	$ 79,549	$ 193,673
Other comprehensive income:				
Foreign currency translation adjustment	2,063	5,569	11,247	10,478
Change in fair value of derivative instruments, net of tax	(2,916)	(2,238)	(1,494)	509
Reclassification of net losses realized and included in net income related to derivative instruments, net of tax	1,510	1,422	3,570	381
Actuarial gains, net of tax		981		981
Total other comprehensive income	657	5,734	13,323	12,349
Comprehensive (loss) income	$ (37,859)	93,823	92,872	206,022
Comprehensive income (loss) attributable to noncontrolling interests	151	(444)	294	(707)
Comprehensive (loss) income attributable to Jabil Circuit, Inc.	$ (38,010)	$ 94,267	$ 92,578	$ 206,729

See accompanying notes to Condensed Consolidated Financial Statements.

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JABIL CIRCUIT, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in thousands, except for share data)

(Unaudited)

Jabil Circuit, Inc. Stockholders Equity

	Common Stock Shares Outstanding	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Noncontrolling Interests	Total Equity
Balance at August 31, 2013	203,164,870	$ 238	$ 1,853,409	$ 1,071,175	$ 81,248	$ (670,783)	$ 20,280	$ 2,355,567
Shares issued upon exercise of stock options	1,251							
Shares issued under employee stock purchase plan	518,771	5	7,697					7,702
Vesting of restricted stock awards	4,793,969							
Purchases of treasury stock under employee stock plans	(1,487,855)					(32,845)		(32,845)
Treasury shares purchased	(3,636,678)					(64,051)		(64,051)
Recognition of stock-based compensation			(9,232)					(9,232)
Excess tax benefit of stock awards			654					654
Declared dividends				(33,969)				(33,969)
Comprehensive income				79,255	13,323		294	92,872

Adjustment of noncontrolling interests							9,699	9,699
Purchase of noncontrolling interests			(747)				(973)	(1,720)
Sale of noncontrolling interest							(4,278)	(4,278)
Foreign currency adjustments attributable to noncontrolling interests							25	25
Balance at February 28, 2014	203,354,328	$ 243	$ 1,851,781	$ 1,116,461	$ 94,571	$ (767,679)	$ 25,047	$ 2,320,424

See accompanying notes to Condensed Consolidated Financial Statements.

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JABIL CIRCUIT, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Six months ended February 28, 2014	Six months ended February 28, 2013
Cash flows from operating activities:		
Net income	$ 79,549	$ 193,673
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	247,169	195,022
Recognition of stock-based compensation expense and related charges	(7,821)	36,513
Deferred income taxes	(28,265)	860
Restructuring and related charges	24,915	
Excess tax benefits related to stock awards	(714)	(330)
Other, net	11,128	4,989
Changes in operating assets and liabilities, exclusive of net assets acquired:		
Accounts receivable	187,030	(172,161)
Inventories	342,794	(222,645)
Prepaid expenses and other current assets	235,557	(6,349)
Other assets	(33,749)	(2,799)
Accounts payable and accrued expenses	(912,599)	288,004
Income taxes	(10,378)	(9,093)
Net cash provided by operating activities	134,616	305,684
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(286,349)	(371,472)
Proceeds from sale of property, plant and equipment	12,945	9,504
Cash paid for business and intangible asset acquisitions, net of cash acquired		(5,862)
Investments in non-marketable equity securities		(2,942)
Net cash used in investing activities	(273,404)	(370,772)
Cash flows from financing activities:		
Borrowings under debt agreements	3,789,192	2,178,021
Payments towards debt agreements	(3,860,319)	(2,091,043)
Dividends paid to stockholders	(35,792)	(34,748)
Cash paid to purchase noncontrolling interest	(1,720)	
Sale of noncontrolling interest, net of cash disposed	(1,783)	
Net proceeds from exercise of stock options and issuance of common stock under employee stock purchase plan	7,697	10,867

Payments to acquire treasury stock	(64,051)	(129,262)
Treasury stock minimum tax withholding related to vesting of restricted stock	(32,845)	(20,221)
Capital contribution to noncontrolling interest		316
Excess tax benefit related to stock awards	714	330
Net cash used in financing activities	(198,907)	(85,740)
Effect of exchange rate changes on cash and cash equivalents	1,451	(4,773)
Net decrease in cash and cash equivalents	(336,244)	(155,601)
Cash and cash equivalents at beginning of period	1,011,373	1,217,256
Cash and cash equivalents at end of period	$ 675,129	$ 1,061,655

See accompanying notes to Condensed Consolidated Financial Statements.

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JABIL CIRCUIT, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary to present fairly the information set forth therein have been included. The accompanying unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and footnotes included in the Annual Report on Form 10-K of Jabil Circuit, Inc. (the Company) for the fiscal year ended August 31, 2013. Results for the six month period ended February 28, 2014 are not necessarily an indication of the results that may be expected for the full fiscal year ending August 31, 2014. We have made certain reclassification adjustments to conform prior period amounts to the current presentation, including adjustments related to discontinued operations, see Note 2 Discontinued Operations and Note 6 Concentration of Risk and Segment Data for further details.

2. Discontinued Operations

On December 17, 2013, the Company announced that it entered into a stock purchase agreement with iQor Holdings, Inc. (iQor) for the sale of Jabil s Aftermarket Services (AMS) business for consideration of $725.0 million, which consists of $675.0 million in cash and an aggregate liquidation preference value of $50.0 million in Senior Non-Convertible Cumulative Preferred Stock of iQor that accretes dividends at an annual rate of 8 percent and is redeemable in nine years or upon a change in control. The final purchase price is subject to adjustment based on the amounts, as of the closing date, for cash, indebtedness, taxes, interest and certain working capital accounts of the Company s AMS business. Also, as part of this transaction, the Company is subject to a limited covenant not to compete. As of February 28, 2014, AMS meets the criteria for classification as held for sale and discontinued operations reporting because the Company will not have any significant continuing involvement in the operations of AMS after the disposal transaction and the operations and cash flows of AMS will be eliminated from the ongoing operations of the Company as a result of the disposal transaction. As of February 28, 2014, the carrying value is less than the estimated fair value less cost to sell and, thus, no adjustment to the carrying value of the disposal group is necessary. On April 1, 2014, the Company completed the sale of substantially all of the AMS business except for the Malaysian operations due to certain regulatory approvals that are still pending in that jurisdiction. As a result, $20.0 million associated with the Malaysian operations was included in escrow until the closing of the Malaysian operations, which is anticipated to occur once such approvals are obtained. The amount of proceeds payable at closing was subject to a reduction of $90.5 million for cash, indebtedness, taxes, interest, certain working capital accounts and other items of the Company s AMS business, which is subject to a future reconciliation and potential adjustment. In connection with the AMS transaction, the Company entered into a transition services agreement effective April 1, 2014 to provide certain administrative services to facilitate the orderly transfer of the business operations to iQor. This agreement is not material and the continuing cash flows are not significant.

For all periods presented, the operating results associated with this business have been reclassified into income from discontinued operations, net of tax in the Condensed Consolidated Statements of Operations, and the assets and liabilities associated with this business have been reflected as assets and liabilities of discontinued operations in the

Condensed Consolidated Balance Sheets.

The following table provides a summary of AMS amounts included in discontinued operations (in thousands):

	Three months ended		Six months ended	
	February 28, 2014	February 28, 2013	February 28, 2014	February 28, 2013
Net revenue	$ 224,040	$ 250,896	$ 494,526	$ 518,033
(Loss) income from discontinued operations, before tax	$ (2,386)	$ 16,021	$ 15,246	$ 33,380
Income tax expense	$ 3,865	$ 3,224	$ 5,074	$ 5,675
(Loss) income from discontinued operations, net of tax	$ (6,251)	$ 12,797	$ 10,172	$ 27,705

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3. Earnings Per Share and Dividends

a. Earnings Per Share

The Company calculates its basic earnings per share by dividing net income attributable to Jabil Circuit, Inc. by the weighted average number of common shares outstanding during the period. The Company s diluted earnings per share is calculated in a similar manner, but includes the effect of dilutive securities. To the extent these securities are anti-dilutive, they are excluded from the calculation of diluted earnings per share. The following table sets forth the calculations of basic and diluted earnings per share attributable to the stockholders of Jabil Circuit, Inc. (in thousands, except earnings per share data):

	Three months ended		Six months ended	
	February 28, 2014	February 28, 2013	February 28, 2014	February 28, 2013
Numerator:				
(Loss) income from continuing operations, net of tax	$ (32,265)	$ 75,292	$ 69,377	$ 165,968
Net income (loss) attributable to noncontrolling interests, net of tax	151	(444)	294	(707)
(Loss) income from continuing operations attributable to Jabil Circuit, Inc., net of tax	$ (32,416)	$ 75,736	$ 69,083	$ 166,675
(Loss) income from discontinued operations attributable to Jabil Circuit, Inc., net of tax	$ (6,251)	$ 12,797	$ 10,172	$ 27,705
Net (loss) income attributable to Jabil Circuit, Inc.	$ (38,667)	$ 88,533	$ 79,255	$ 194,380
Denominator for basic and diluted earnings per share:				
Denominator for basic earnings per share	205,251	202,458	205,005	203,393
Dilutive common shares issuable under the employee stock purchase plan and upon exercise of stock options and stock appreciation rights		53	120	77
Dilutive unvested restricted stock awards		4,293	1,767	4,004
Denominator for diluted earnings per share	205,251	206,804	206,892	207,474
(Loss) earnings per share attributable to the stockholders of Jabil Circuit, Inc.:				
Basic:				
(Loss) income from continuing operations, net of tax	$ (0.16)	$ 0.37	$ 0.34	$ 0.82
	$ (0.03)	$ 0.06	$ 0.05	$ 0.14

(Loss) income from discontinued operations, net of tax								
Net (loss) income.	$	(0.19)	$	0.44	$	0.39	$	0.96
Diluted:								
(Loss) income from continuing operations, net of tax	$	(0.16)	$	0.37	$	0.33	$	0.80
(Loss) income from discontinued operations, net of tax	$	(0.03)	$	0.06	$	0.05	$	0.13
Net (loss) income.	$	(0.19)	$	0.43	$	0.38	$	0.94

No potential common shares relating to outstanding stock awards have been included in the computation of diluted earnings per share as a result of the Company s net loss for the three months ended February 28, 2014. The Company accordingly excluded from the computation of diluted earnings per share 3,737,859 restricted stock awards, options to purchase 1,721,068 shares of common stock and 4,172,787 stock appreciation rights for the three months ended February 28, 2014. For the six months ended February 28, 2014 options to purchase 2,159,270 shares of common stock and 4,200,998 stock appreciation rights were excluded from the computation of diluted earnings per share as their effect would have been anti-dilutive. For the three months and six months ended February 28, 2013 options to purchase 3,695,450 and 3,718,067 shares of common stock, respectively, and 4,551,902 and 4,578,718 stock appreciation rights, respectively, were excluded from the computation of diluted earnings per share as their effect would have been anti-dilutive.

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b. Dividends

The following table sets forth certain information relating to the Company s cash dividends declared to common stockholders of the Company during the six months ended February 28, 2014 and 2013 (in thousands, except for per share data):

	Dividend Declaration Date	Dividend per Share	Total Cash Dividends Declared	Date of Record for Dividend Payment	Dividend Cash Payment Date
Fiscal year 2014:	October 17, 2013	$ 0.08	$ 17,221	November 15, 2013	December 2, 2013
	January 22, 2014	$ 0.08	$ 16,976	February 14, 2014	March 3, 2014
Fiscal year 2013:	October 16, 2012	$ 0.08	$ 16,962	November 15, 2012	December 3, 2012
	January 23, 2013	$ 0.08	$ 16,990	February 15, 2013	March 1, 2013

4. Inventories

Inventories consist of the following (in thousands):

	February 28, 2014	August 31, 2013
Raw materials	$ 1,085,746	$ 1,274,510
Work in process	456,023	526,431
Finished goods	280,046	317,642
	$ 1,821,815	$ 2,118,583

5. Stock-Based Compensation

The Company recognizes stock-based compensation expense, reduced for estimated forfeitures, on a straight-line basis over the requisite service period of the award, which is generally the vesting period for outstanding stock awards. The Company recorded $14.7 million and $(7.9) million of stock-based compensation expense gross of tax benefits, which is included in selling, general and administrative expenses within the Condensed Consolidated Statements of Operations during the three months and six months ended February 28, 2014, respectively. During the six months ended February 28, 2014, the Company recorded a $38.4 million reversal to stock-based compensation expense due to decreased expectations for the vesting of certain restricted stock awards. The Company recorded tax benefits related to the stock-based compensation expense of $0.5 million, which is included in income tax expense within the Condensed Consolidated Statements of Operations for both the three months and six months ended February 28, 2014, respectively. The Company recorded $16.3 million and $33.2 million of stock-based compensation expense gross of tax benefits, which is included in selling, general and administrative expenses within the Condensed Consolidated Statements of Operations during the three months and six months ended February 28, 2013, respectively. The Company recorded tax benefits related to the stock-based compensation expense of $0.2 million and $0.4 million, which is included in income tax expense within the Condensed Consolidated Statements of Operations for the three months and six months ended February 28, 2013, respectively.

The following table summarizes shares available for grant and stock option and stock appreciation right activity from August 31, 2013 through February 28, 2014:

	Shares Available for Grant	Options Outstanding	Aggregate Intrinsic Value (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (years)
Balance at August 31, 2013	12,011,073	7,857,127	$ 1,927	$ 26.31	1.95
Options canceled	2,035,611	(2,035,611)		$ 26.30	
Restricted stock awards granted (1)	(3,985,326)				
Options exercised		(26,703)		$ 19.25	
Balance at February 28, 2014	10,061,358	5,794,813	$ 275	$ 26.35	2.04
Exercisable at February 28, 2014		5,794,813	$ 275	$ 26.35	2.04

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

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The following table summarizes restricted stock activity from August 31, 2013 through February 28, 2014:

	Shares	Weighted - Average Grant-Date Fair Value
Non-vested balance at August 31, 2013	11,335,192	$ 17.15
Changes during the period		
Shares granted [(1)]	4,233,839	$ 21.90
Shares vested	(4,793,969)	$ 15.14
Shares forfeited	(248,514)	$ 19.64
Non-vested balance at February 28, 2014	10,526,548	$ 19.91

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

Certain key employees have been granted time-based and performance-based restricted stock awards. The time-based restricted awards granted generally vest on a graded vesting schedule over three years. The performance-based restricted awards generally vest on a cliff vesting schedule over three to five years and provide a range of vesting possibilities of up to a maximum of 100% or 150%, depending on the specified performance condition and the level of achievement obtained. During the six months ended February 28, 2014 and 2013, the Company awarded approximately 1.8 million and 1.9 million time-based restricted stock units, respectively, and 1.6 million and 1.7 million performance-based restricted stock units, respectively.

At February 28, 2014, there was $68.2 million of total unrecognized stock-based compensation expense related to restricted stock awards. This expense is expected to be recognized over a weighted-average period of 1.6 years.

6. Concentration of Risk and Segment Data

a. Concentration of Risk

Sales of the Company s products are concentrated among specific customers. During the six months ended February 28, 2014, the Company s five largest customers accounted for approximately 46% of its net revenue and 68 customers accounted for approximately 90% of its net revenue. Sales to these customers were reported in the Diversified Manufacturing Services (DMS), Enterprise & Infrastructure (E&I) and High Velocity Systems (HVS) operating segments.

The Company procures components from a broad group of suppliers. Almost all of the products manufactured by the Company require one or more components that are available from only a single source.

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

b. Segment Data

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

The Company derives its revenue from providing comprehensive electronics design, production and product management services. The chief operating decision maker evaluates performance and allocates resources on a segment basis. The Company s operating segments consist of three segments DMS, E&I and HVS.

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

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On December 17, 2013, the Company committed to a plan to sell the AMS business, which was included in the DMS segment. Accordingly, for all periods presented, the results of operations of this business are classified as discontinued operations. See Note 2 Discontinued Operations for further details.

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

The following tables set forth operating segment information (in thousands):

	Three months ended		Six months ended	
	February 28, 2014	February 28, 2013	February 28, 2014	February 28, 2013
Net revenue				
DMS	$ 1,532,273	$ 1,820,502	$ 3,544,419	$ 3,728,398
E&I	1,233,418	1,357,595	2,569,413	2,776,112
HVS	811,624	988,258	1,804,439	2,031,726
	$ 3,577,315	$ 4,166,355	$ 7,918,271	$ 8,536,236

	Three months ended		Six months ended	
	February 28, 2014	February 28, 2013	February 28, 2014	February 28, 2013
Segment income and reconciliation of income before income tax				
DMS	$ 28,079	$ 95,992	$ 127,065	$ 205,027
E&I	29,988	34,100	68,785	65,278
HVS	2,351	21,427	24,297	53,222
Total segment income	60,418	151,519	220,147	323,527
Reconciling items:				
Amortization of intangibles	6,180	2,204	12,501	4,370
Distressed customer charge	3,742		3,742	
Stock-based compensation expense and related charges	14,652	16,274	(7,934)	33,186
Restructuring and related charges	32,203		53,206	

Other expense	1,850	1,554	3,027	3,123
Interest income	(341)	(391)	(1,047)	(878)
Interest expense	31,858	29,168	65,163	58,755
(Loss) income from continuing operations before tax	$ (29,726)	$ 102,710	$ 91,489	$ 224,971

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	February 28, 2014	August 31, 2013
Total assets		
DMS	$ 3,344,445	$ 3,580,133
E&I	1,034,229	1,110,458
HVS	835,478	1,031,911
Other non-allocated assets	2,374,668	2,879,439
Assets of discontinued operations	539,388	551,840
	$ 8,128,208	$ 9,153,781

The Company operates in 24 countries worldwide, excluding the AMS discontinued operations. Sales to unaffiliated customers are based on the Company s location that maintains the customer relationship and transacts the external sale. Total foreign net revenue represented 83.3% and 84.6% of net revenue during the three months and six months ended February 28, 2014, respectively, compared to 86.4% and 86.8% of net revenue during the three months and six months ended February 28, 2013, respectively.

7. Notes Payable, Long-Term Debt and Capital Lease Obligations

Notes payable, long-term debt and capital lease obligations outstanding at February 28, 2014 and August 31, 2013, are summarized below (in thousands):

	February 28, 2014	August 31, 2013
7.750% Senior Notes due 2016	$ 307,790	$ 306,940
8.250% Senior Notes due 2018	398,472	398,284
5.625% Senior Notes due 2020	400,000	400,000
4.700% Senior Notes due 2022	500,000	500,000
Borrowings under credit facilities (a)	146,069	200,000
Borrowings under loans (b)	46,326	58,447
Capital lease obligations	31,866	35,372
Fair value adjustment related to terminated interest rate swaps on the 7.750% Senior Notes	5,638	6,823
Total notes payable, long-term debt and capital lease obligations	1,836,161	1,905,866
Less current installments of notes payable, long-term debt and capital lease obligations	160,839	215,448
Notes payable, long-term debt and capital lease obligations, less current installments	$ 1,675,322	$ 1,690,418

The $312.0 million of 7.750% senior unsecured notes, $400.0 million of 8.250% senior unsecured notes, $400.0 million of 5.625% senior unsecured notes and $500.0 million of 4.700% senior unsecured notes outstanding are carried at the principal amount of each note, less any unamortized discount. The estimated fair values of these senior notes were approximately $355.0 million, $474.5 million, $428.0 million and $494.0 million, respectively, at

February 28, 2014. The fair value estimates are based upon observable market data (Level 2 criteria).

(a) During the second quarter of fiscal year 2014, a foreign subsidiary of the Company entered into an uncommitted credit facility to finance its growth and any corresponding working capital needs. The credit facility provides for a revolving credit facility in the amount of up to $100.0 million with interest charged at a rate of LIBOR plus 1.7%.

(b) During the third quarter of fiscal year 2012, the Company entered into a master lease agreement with a variable interest entity (the VIE) whereby it sells to and subsequently leases back from the VIE up to $60.0 million in certain machinery and equipment for a period of up to five years. In connection with this transaction, the Company holds a variable interest in the VIE, which was designed to hold debt obligations payable to third-party creditors. The proceeds from such debt obligations are utilized to finance the purchase of the machinery and equipment that is then leased by the Company. The Company is the primary beneficiary of the VIE as it has both the power to direct the activities of the VIE that most significantly impact the VIE s economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. Therefore, the Company consolidates the financial statements of the VIE and eliminates all intercompany transactions. At February 28, 2014, the VIE had approximately $42.2 million of total assets, of which approximately $41.2 million was comprised of a note receivable due from the Company, and approximately $41.5 million of total liabilities, of which approximately $41.5 million were debt obligations to the third-party creditors (as the VIE has utilized approximately $41.5 million of the $60.0 million debt obligation capacity). The third-party creditors have recourse to the Company s general credit only in the event that the Company defaults on its obligations under the terms of the master lease agreement. In addition, the assets held by the VIE can be used only to settle the obligations of the VIE.

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8. Trade Accounts Receivable Securitization and Sale Programs

The Company regularly sells designated pools of trade accounts receivable under two asset-backed securitization programs, a factoring agreement, a committed trade accounts receivable sale program and four uncommitted trade accounts receivable sale programs (collectively referred to herein as the programs). The Company continues servicing the receivables sold and in exchange receives a servicing fee under each of the programs. Servicing fees related to each of the programs recognized during the three months and six months ended February 28, 2014 and 2013, were not material. The Company does not record a servicing asset or liability on the Condensed Consolidated Balance Sheets as the Company estimates that the fee it receives to service these receivables approximates the fair market compensation to provide the servicing activities.

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

a. Asset-Backed Securitization Programs

The Company continuously sells designated pools of trade accounts receivable under its North American asset-backed securitization program, currently scheduled to expire on October 21, 2014, and its foreign asset-backed securitization program, currently scheduled to expire on May 15, 2015, (collectively referred to herein as the asset-backed securitization programs) to special purpose entities, which in turn sell 100% of the receivables to conduits administered by unaffiliated financial institutions (for the North American asset-backed securitization program) and an unaffiliated financial institution (for the foreign asset-backed securitization program). The special purpose entity in the North American asset-backed securitization program is a wholly-owned subsidiary of the Company. The special purpose entity in the foreign asset-backed securitization program is a separate bankruptcy-remote entity whose assets would be first available to satisfy the creditor claims of the unaffiliated financial institution. The Company is deemed the primary beneficiary of this special purpose entity as the Company has both the power to direct the activities of the entity that most significantly impact the entity s economic performance and the obligation to absorb losses or the right to receive the benefits that could potentially be significant to the entity from the transfer of the trade accounts receivable into the special purpose entity. Accordingly, the special purpose entities associated with these asset-backed securitization programs are included in the Company s Condensed Consolidated Financial Statements. Any portion of the purchase price for the receivables which is not paid in cash upon the sale taking place is recorded as a deferred purchase price receivable, which is paid as payments on the receivables are collected. Net cash proceeds of up to a maximum of $200.0 million for the North American asset-backed securitization program are available at any one time. The Company decreased its facility limit from $300.0 million to $200.0 million during the first quarter of fiscal year 2014. In connection with the AMS transaction, on January 31, 2014, certain subsidiaries of the Company terminated their sale of receivables under the North American asset-backed securitization program. Net cash proceeds of up to a maximum of $200.0 million for the foreign asset-backed securitization program are available at any one time.

In connection with the asset-backed securitization programs, the Company sold $2.0 billion and $4.2 billion of eligible trade accounts receivable during the three months and six months ended February 28, 2014, respectively. In exchange, the Company received cash proceeds of $1.6 billion and $3.8 billion during the three months and six months ended February 28, 2014, respectively, (which represented proceeds from collections reinvested in revolving-period transfers as there were no new transfers during these periods) and a deferred purchase price receivable. The Company sold $2.1 billion and $4.3 billion of eligible trade accounts receivable during the three months and six months ended February 28, 2013, respectively. In exchange, the Company received cash proceeds of $1.6 billion and $3.8 billion during the three months and six months ended February 28, 2013, respectively, (which represented proceeds from collections reinvested in revolving-period transfers as there were no new transfers during these periods), and a deferred purchase price receivable. At February 28, 2014 and 2013, the net deferred purchase price receivables recorded in connection with the asset-backed securitization programs totaled approximately $420.0 million and $492.7 million, respectively.

The Company recognized pretax losses on the sales of receivables under the asset-backed securitization programs of approximately $0.9 million and $1.9 million during the three months and six months ended February 28, 2014, respectively, and approximately $1.0 million and $2.1 million during the three months and six months ended February 28, 2013, respectively, which are recorded to other expense within the Condensed Consolidated Statements of Operations.

The deferred purchase price receivables recorded under the asset-backed securitization programs are recorded initially at fair value as prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets and are valued using unobservable inputs (Level 3 inputs), primarily discounted cash flows, and due to their credit quality and short-term maturity the fair values approximated book values. The unobservable inputs consist of estimated credit losses and estimated discount rates, which both have an immaterial impact on the fair value calculations of the deferred purchase price receivables.

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b. Trade Accounts Receivable Factoring Agreement

In connection with a factoring agreement, the Company transfers ownership of eligible trade accounts receivable of a foreign subsidiary without recourse to a third party purchaser in exchange for cash. Proceeds from the transfer reflect the face value of the account less a discount. The discount is recorded as a loss to other expense within the Condensed Consolidated Statements of Operations in the period of the sale. In October 2013, the factoring agreement was extended through March 31, 2014, at which time it was automatically renewed for an additional six-month period.

The Company sold $0.6 million and $1.1 million of trade accounts receivable during the three months and six months ended February 28, 2014, respectively, compared to $8.5 million and $22.7 million during the three months and six months ended February 28, 2013, respectively. In exchange, the Company received cash proceeds of $0.6 million and $1.1 million during the three months and six months ended February 28, 2014, respectively, compared to $8.5 million and $22.7 million during the three months and six months ended February 28, 2013, respectively. The resulting losses on the sales of trade accounts receivables sold under this factoring agreement during the three months and six months ended February 28, 2014 and 2013 were not material.

c. Trade Accounts Receivable Sale Programs

In connection with five separate trade accounts receivable sale agreements with unaffiliated financial institutions, the Company may elect to sell, at a discount, on an ongoing basis, up to a maximum of $200.0 million, $150.0 million, $150.0 million, $100.0 million and $40.0 million, respectively, of specific trade accounts receivable at any one time. The $200.0 million trade accounts receivable sale agreement is a committed facility that was renewed during the first quarter of fiscal year 2014 and is scheduled to expire on November 28, 2014. One $150.0 million trade accounts receivable sale agreement is an uncommitted facility that was renewed during the first quarter of fiscal year 2014 and is scheduled to expire on November 28, 2014. The other $150.0 million trade accounts receivable sale agreement is an uncommitted facility that was entered into during the second quarter of fiscal year 2014 and is subject to expiration on August 31, 2014. The $100.0 million trade accounts receivable sale agreement is an uncommitted facility that was entered into during the first quarter of fiscal year 2014 and is scheduled to expire on November 1, 2014, although any party may elect to terminate the agreement upon 15 days prior notice. The agreement will be automatically extended each year for additional 365 day periods until November 1, 2018, unless any party gives no less than 30 days prior notice that the agreement should not be extended. The $40.0 million trade accounts receivable sale agreement is an uncommitted facility. During the second quarter of fiscal year 2014, the Company terminated this program effective March 19, 2014.

During the three months and six months ended February 28, 2014, the Company sold $0.4 billion and $1.0 billion of trade accounts receivable under these programs, respectively, compared to $0.7 billion and $1.3 billion during the three months and six months ended February 28, 2013, respectively. In exchange, the Company received cash proceeds of $0.4 billion and $1.0 billion during the three months and six months ended February 28, 2014, respectively, compared to $0.7 billion and $1.3 billion during the three months and six months ended February 28, 2013, respectively. The resulting losses on the sales of trade accounts receivable during the three months and six months ended February 28, 2014 and 2013 were not material.

9. Accumulated Other Comprehensive Income

The following table sets forth the changes in accumulated other comprehensive income (AOCI), net of tax, by component from August 31, 2013 to February 28, 2014 (in thousands):

	Foreign currency translation adjustment	Derivative instruments	Actuarial loss	Prior service cost	Total
Balance at August 31, 2013	$ 125,594	$ (5,050)	$ (40,258)	$ 962	$ 81,248
Other comprehensive income before reclassifications	11,247	(1,494)			9,753
Amounts reclassified from accumulated other comprehensive income		3,570			3,570
Other comprehensive income	11,247	2,076			13,323
Balance at February 28, 2014	$ 136,841	$ (2,974)	$ (40,258)	$ 962	$ 94,571

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The following table sets forth the amounts reclassified out of AOCI, net of tax, during the three months and six months ended February 28, 2014 (in thousands):

Details about AOCI Components	Amounts Reclassified from AOCI during the three months ended February 28, 2014	Amounts Reclassified from AOCI during the six months ended February 28, 2014	Affected Line Item in the Condensed Consolidated Statement of Operations
Gains (losses) on derivative instruments:			
Forward foreign exchange contracts	$ (737)	$ (2,999)	Net revenue
Forward foreign exchange contracts	527	2,123	Cost of revenue
Forward foreign exchange contracts	(153)	(255)	Selling, general and administrative
Forward foreign exchange contracts	(182)	(486)	Income from discontinued operations, net of tax
Interest rate swap	(965)	(1,953)	Interest expense
Total reclassified	$ (1,510)	$ (3,570)	

10. Postretirement and Other Employee Benefits

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

The following table provides information about net periodic benefit cost for the pension plans during the three months and six months ended February 28, 2014 and 2013 (in thousands):

	Three months ended		Six months ended	
	February 28, 2014	February 28, 2013	February 28, 2014	February 28, 2013
Service cost	$ 312	$ 437	$ 621	$ 879
Interest cost	1,703	1,518	3,368	3,044
Expected long-term return on plan assets	(1,539)	(1,312)	(3,038)	(2,635)
Amortization of prior service cost	(62)	(7)	(123)	(13)
Recognized actuarial loss	659	627	1,309	1,249
Net periodic benefit cost	$ 1,073	$ 1,263	$ 2,137	$ 2,524

During the six months ended February 28, 2014, the Company made contributions of approximately $2.2 million to its defined benefit pension plans. The Company expects to make total cash contributions of between $3.6 million and $4.4 million to its funded pension plans during fiscal year 2014.

11. Commitments and Contingencies

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

12. Derivative Financial Instruments and Hedging Activities

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

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

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

a. Foreign Currency Risk Management

Forward contracts are put in place to manage the foreign currency risk associated with anticipated foreign currency denominated revenues and expenses. A hedging relationship existed with an aggregate notional amount outstanding of $328.4 million and $565.0 million at February 28, 2014 and August 31, 2013, respectively. The related forward foreign exchange contracts have been designated as hedging instruments and are accounted for as cash flow hedges. The forward foreign exchange contract transactions will effectively lock in the value of anticipated foreign currency denominated revenues and expenses against foreign currency fluctuations. The anticipated foreign currency denominated revenues and expenses being hedged are expected to occur between March 1, 2014 and December 31, 2014.

In addition to derivatives that are designated and qualify for hedge accounting, the Company also enters into forward contracts to economically hedge transactional exposure associated with commitments arising from trade accounts receivable, trade accounts payable, fixed purchase obligations and intercompany transactions denominated in a currency other than the functional currency of the respective operating entity. The aggregate notional amount of these outstanding contracts at February 28, 2014 and August 31, 2013 was $858.1 million and $1.2 billion, respectively.

The following table presents the Company s assets and liabilities related to forward foreign exchange contracts measured at fair value on a recurring basis as of February 28, 2014, aggregated by the level in the fair-value hierarchy in which those measurements are classified (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Forward foreign exchange contracts	$	$ 3,701	$	$ 3,701
Liabilities:				
Forward foreign exchange contracts		(8,502)		(8,502)
Total	$	$ (4,801)	$	$ (4,801)

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

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The following tables present the fair values of the Company s derivative instruments located on the Condensed Consolidated Balance Sheets utilized for foreign currency risk management purposes at February 28, 2014 and August 31, 2013 (in thousands):

Fair Values of Derivative Instruments At February 28, 2014

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives designated as hedging instruments:				
Forward foreign exchange contracts	Prepaid expenses and other current assets	$ 1,944	Accrued expenses	$ 2,510
Derivatives not designated as hedging instruments:				
Forward foreign exchange contracts	Prepaid expenses and other current assets	$ 1,757	Accrued expenses	$ 5,992

Fair Values of Derivative Instruments At August 31, 2013

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives designated as hedging instruments:				
Forward foreign exchange contracts	Prepaid expense and other current assets	$ 4,357	Accrued expenses	$ 3,740
Derivatives not designated as hedging instruments:				
Forward foreign exchange contracts	Prepaid expenses and other current assets	$ 7,091	Accrued expenses	$ 4,645

The following tables present the impact that changes in fair value of derivatives utilized for foreign currency risk management purposes and designated as hedging instruments had on AOCI and earnings during the six months ended February 28, 2014 and 2013 (in thousands).

Derivatives in Cash Flow Hedging Relationship during the Six Months Ended February 28, 2014	Amount of Gain (Loss) Recognized in OCI on	Location of Gain (Loss) Reclassified from AOCI into Income	Amount of Gain (Loss) Reclassified from AOCI	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion

	Derivative (Effective Portion)	(Effective Portion)	into Income (Effective Portion)	and Amount Excluded from Effectiveness Testing)	and Amount Excluded from Effectiveness Testing)
Forward foreign exchange contracts	$ (2,954)	Net revenue	$ (2,999)	Net revenue	$ 33
Forward foreign exchange contracts	$ 2,156	Cost of revenue	$ 2,123	Cost of revenue	$ 4,043
Forward foreign exchange contracts	$ (56)	Selling, general and administrative	$ (255)	Selling, general and administrative	$ 90
Forward foreign exchange contracts	$ (640)	Income from discontinued operations, net of tax	$ (486)	Income from discontinued operations, net of tax	$ 210

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Derivatives in Cash Flow Hedging Relationship during the Six Months Ended February 28, 2013	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Forward foreign exchange contracts	$ (1,361)	Net revenue	$ (1,905)	Net revenue	$ 120
Forward foreign exchange contracts	$ 2,242	Cost of revenue	$ 3,545	Cost of revenue	$ 3,886
Forward foreign exchange contracts	$ 23	Selling, general and administrative	$ 303	Selling, general and administrative	$ 136
Forward foreign exchange contracts	$ (395)	Income from discontinued operations, net of tax	$ (371)	Income from discontinued operations, net of tax	$ 268

As of February 28, 2014, the Company estimates that it will reclassify into earnings during the next 12 months existing losses related to foreign currency risk management hedging arrangements of approximately $2.2 million from the amounts recorded in AOCI as the hedged item affects earnings.

The following tables present the impact that changes in fair value of derivatives utilized for foreign currency risk management purposes and not designated as hedging instruments had on earnings during the six months ended February 28, 2014 and 2013 (in thousands):

Derivatives not designated as hedging instruments	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative during the Six Months Ended February 28, 2014
Forward foreign exchange contracts	Cost of revenue	$ 1,959

Derivatives not designated as hedging instruments	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative during the Six Months Ended February 28, 2013
Forward foreign exchange contracts	Cost of revenue	$ (11,150)

b. Interest Rate Risk Management

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

Fair Value Hedges

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

During the fourth quarter of fiscal year 2011, the Company terminated the interest rate swaps entered into in connection with the 7.750% Senior Notes with a fair value of $12.2 million, including accrued interest of $0.6 million at August 31, 2011. The portion of the fair value that is not accrued interest is recorded as a hedge accounting adjustment to the carrying amount of the 7.750% Senior Notes and is being amortized as a reduction to interest expense over the remaining term of the 7.750% Senior Notes. The Company recorded $1.2 million in amortization as a reduction to interest expense during the six months ended February 28, 2014. At February 28, 2014, the unamortized hedge accounting adjustment recorded is $5.6 million in the Condensed Consolidated Balance Sheets.

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Cash Flow Hedges

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

The following tables present the impact that changes in the fair value of the derivative utilized for interest rate risk management and designated as a hedging instrument had on AOCI and earnings during the six months ended February 28, 2014 and 2013 (in thousands):

Derivatives in Cash Flow Hedging Relationship during the Six Months Ended February 28, 2014	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Interest rate swap	$	Interest expense	$ (1,953)	Interest expense	$

Derivatives in Cash Flow Hedging Relationship during the Six Months Ended February 28, 2013	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Interest rate swap	$	Interest expense	$ (1,953)	Interest expense	$

As of February 28, 2014, the Company estimates that it will reclassify into earnings during the next 12 months existing losses related to interest rate risk management hedging arrangements of approximately $4.0 million from the amounts recorded in AOCI as the hedged item affects earnings.

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

		Six months ended February 28, 2014
Accumulated other comprehensive loss, August 31, 2013	$	(5,050)
Change in fair value of derivative instruments		(1,494)
Reclassification of net losses realized and included in net income related to derivative instruments		3,570
Accumulated other comprehensive loss, February 28, 2014	$	(2,974)

		Six months ended February 28, 2013
Accumulated other comprehensive loss, August 31, 2012	$	(7,153)
Change in fair value of derivative instruments		509
Reclassification of net losses realized and included in net income related to derivative instruments		381
Accumulated other comprehensive loss, February 28, 2013	$	(6,263)

13. Restructuring and Related Charges

a. 2014 Restructuring Plan

In conjunction with the restructuring plan that was approved by the Company s Board of Directors during the first quarter of fiscal year 2014 (the 2014 Restructuring Plan), the Company charged $27.9 million and $42.5 million of restructuring and related

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charges to the Condensed Consolidated Statement of Operations during the three months and six months ended February 28, 2014, respectively. The 2014 Restructuring Plan is intended to address the termination of the Company s business relationship with BlackBerry Limited. The restructuring and related charges during the three months and six months ended February 28, 2014 include cash costs of $4.0 million and $16.4 million related to employee severance and benefit costs, respectively, $1.4 million and $1.7 million related to lease costs, respectively, and $0.2 million and $1.5 million of other related costs, respectively, as well as non-cash costs of $22.3 million and $22.9 million related to asset write off costs, respectively. These restructuring and related charges associated with the 2014 Restructuring Plan were assigned fully to the HVS reportable segment.

The Company currently expects to recognize approximately $45.0 million to $85.0 million in pre-tax restructuring and other related costs over the course of the Company s fiscal year 2014 under the 2014 Restructuring Plan. A majority of the total restructuring costs are expected to be related to employee severance and benefit costs and asset write-offs. The exact amount and timing of these charges and cash outflows, as well as the estimated cost ranges by category type, have not been finalized, but are expected to be complete as of August 31, 2014. Much of the 2014 Restructuring Plan as discussed reflects the Company s intention only and restructuring decisions, and the timing of such decisions, at certain plants are still subject to the finalization of timetables for the transition of functions and consultation with the Company s employees and their representatives.

The tables below set forth the significant components and activity in the 2014 Restructuring Plan during the three months and six months ended February 28, 2014 (in thousands):

2014 Restructuring Plan Three Months Ended February 28, 2014

	Liability Balance at November 30, 2013	Restructuring Related Charges	Asset Write off Charge and Other Non-Cash Activity	Cash Payments	Liability Balance at February 28, 2014
Employee severance and benefit costs	$ 4,773	$ 3,994	$	$ (5,350)	$ 3,417
Lease costs		1,381			1,381
Asset write off costs		22,321	(22,321)		
Other related costs	1,324	169	(27)	(130)	1,336
Total	$ 6,097	$ 27,865	$ (22,348)	$ (5,480)	$ 6,134

2014 Restructuring Plan Six Months Ended February 28, 2014

	Liability Balance at August 31, 2013	Restructuring Related Charges	Asset Write off Charge and Other Non-Cash	Cash Payments	Liability Balance at February 28, 2014

			Activity		
Employee severance and benefit costs	$	$ 16,373	$ 63	$ (13,019)	$ 3,417
Lease costs		1,738		(357)	1,381
Asset write off costs		22,884	(22,884)		
Other related costs		1,493	(27)	(130)	1,336
Total	$	$ 42,488	$ (22,848)	$ (13,506)	$ 6,134

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b. 2013 Restructuring Plan

In conjunction with the restructuring plan that was approved by the Company s Board of Directors in fiscal year 2013 (the 2013 Restructuring Plan), the Company charged $4.3 million and $10.7 million of restructuring and related charges to the Condensed Consolidated Statement of Operations during the three months and six months ended February 28, 2014, respectively. The 2013 Restructuring Plan is intended to better align the Company s manufacturing capacity in certain geographies and to reduce the Company s worldwide workforce in order to reduce operating expenses. These restructuring activities are intended to address current market conditions and customer requirements. The restructuring and related charges during the three months and six months ended February 28, 2014 include cash costs of $1.4 million and $7.7 million related to employee severance and benefit costs, respectively, $0.4 million related to lease costs and $0.5 million and $0.6 million of other related costs, respectively, as well as non-cash costs of $2.0 million related to asset write off costs.

The Company currently expects to recognize approximately $179.0 million, excluding the restructuring and related charges previously incurred for the AMS discontinued operations, in pre-tax restructuring and other related costs over the course of the Company s fiscal years 2013, 2014 and 2015 under the 2013 Restructuring Plan. Since the inception of the 2013 Restructuring Plan, a total of $91.2 million of restructuring and related costs have been recognized. Of the $91.2 million recognized to date, $27.8 million was allocated to the DMS segment, $47.5 million was allocated to the E&I segment, $11.6 million was allocated to the HVS segment and $4.3 million was not allocated to a segment. A majority of the total restructuring costs are expected to be related to employee severance and benefit arrangements. The charges related to the 2013 Restructuring Plan, excluding asset write off costs, are currently expected to result in cash expenditures in a range of $131.0 million to $151.0 million that are payable over the course of the Company s fiscal years 2013, 2014 and 2015. The exact amount and timing of these charges and cash outflows, as well as the estimated cost ranges by category type, have not been finalized. Much of the 2013 Restructuring Plan as discussed reflects the Company s intention only and restructuring decisions, and the timing of such decisions, at certain plants are still subject to the finalization of timetables for the transition of functions and consultation with the Company s employees and their representatives.

The tables below set forth the significant components and activity in the 2013 Restructuring Plan during the three months and six months ended February 28, 2014 (in thousands):

2013 Restructuring Plan Three Months Ended February 28, 2014

	Liability Balance at November 30, 2013	Restructuring Related Charges	Asset Write off Charge and Other Non-Cash Activity	Cash Payments	Liability Balance at February 28, 2014
Employee severance and benefit costs	$ 57,740	$ 1,391	$ 542	$ (6,076)	$ 53,597
Lease costs		387		(25)	362
Asset write off costs		2,013	(2,013)		
Other related costs	55	547		(536)	66
Total	$ 57,795	$ 4,338	$ (1,471)	$ (6,637)	$ 54,025

2013 Restructuring Plan Six Months Ended February 28, 2014

	Liability Balance at August 31, 2013	Restructuring Related Charges	Asset Write off Charge and Other Non-Cash Activity	Cash Payments	Liability Balance at February 28, 2014
Employee severance and benefit costs	$ 55,188	$ 7,685	$ 1,930	$ (11,206)	$ 53,597
Lease costs	251	387		(276)	362
Asset write off costs		2,013	(2,013)		
Other related costs		633		(567)	66
Total	$ 55,439	$ 10,718	$ (83)	$ (12,049)	$ 54,025

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The tables below set forth the significant components and activity in the 2013 Restructuring Plan by reportable segment during the three months and six months ended February 28, 2014 (in thousands):

2013 Restructuring Plan Three Months Ended February 28, 2014

	Liability Balance at November 30, 2013	Restructuring Related Charges	Asset Write off Charge and Other Non-Cash Activity	Cash Payments	Liability Balance at February 28, 2014
DMS	$ 13,155	$ 9,899	$ (2,021)	$ (4,182)	$ 16,851
E&I	40,311	(6,685)	574	(505)	33,695
HVS	4,147	733	(24)	(1,555)	3,301
Other	182	391		(395)	178
Total	$ 57,795	$ 4,338	$ (1,471)	$ (6,637)	$ 54,025

2013 Restructuring Plan Six Months Ended February 28, 2014

	Liability Balance at August 31, 2013	Restructuring Related Charges	Asset Write off Charge and Other Non-Cash Activity	Cash Payments	Liability Balance at February 28, 2014
DMS	$ 9,818	$ 14,782	$ (1,946)	$ (5,803)	$ 16,851
E&I	40,603	(6,737)	1,730	(1,901)	33,695
HVS	4,985	967	133	(2,784)	3,301
Other	33	1,706		(1,561)	178
Total	$ 55,439	$ 10,718	$ (83)	$ (12,049)	$ 54,025

14. Business Acquisition

On July 1, 2013, the Company completed its acquisition of Nypro Inc. (Nypro) by acquiring 100% of the issued and outstanding common shares of Nypro for net aggregate consideration of $679.5 million, which was funded from available cash. Nypro is a provider of manufactured precision plastic products for customers in the healthcare, packaging and consumer electronics industries. Nypro has advanced capabilities in product design, tooling, injection molding, surface decoration and complete product manufacturing.

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The acquisition of Nypro has been accounted for as a business combination using the acquisition method of accounting. The following table (in thousands) summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition. The allocation of the purchase price is considered preliminary pending final valuation by the Company for intangible assets, noncontrolling interests and tax adjustments.

	As reported at August 31, 2013	Adjustments	February 28, 2014
Cash	$ 77,384	$ (12)(a)	$ 77,372
Other current assets	343,446	(648)(a)	342,798
Property, plant and equipment	282,599	(4,579)(b)	278,020
Intangible assets	196,800	7,800 (b)	204,600
Goodwill	335,871	21,559 (c)	357,430
Other assets	28,304	(1,745)(a)	26,559
Current liabilities	(322,397)	(361)(a)	(322,758)
Long-term deferred tax liability	(153,030)	(15,810)(a)	(168,840)
Other liabilities	(72,906)	3,495 (a)	(69,411)
Noncontrolling interests	(36,548)	(9,699)(b)	(46,247)
Net assets acquired	$ 679,523	$	$ 679,523

(a) Adjustment related to the fair value of identifiable assets and liabilities
(b) Adjustment based on final valuation results
(c) Adjustment based on provisional amounts in (a) and (b)

The $204.6 million of acquired intangible assets includes $81.0 million assigned to customer relationships with an assigned useful life of up to 15 years, $51.2 million assigned to intellectual property with an assigned useful life of up to 8 years and $72.4 million assigned to an indefinite-lived trade name.

The excess of the purchase price over the fair value of the acquired assets and assumed liabilities of $357.4 million was recorded to goodwill and was assigned fully to the DMS reportable segment. The goodwill is not expected to be deductible for tax purposes.

15. New Accounting Guidance

a. Recently Adopted Accounting Guidance

During the fourth quarter of fiscal year 2012, the FASB issued new accounting guidance intended to simplify how an entity tests indefinite-lived intangible assets for impairment. The guidance will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the quantitative indefinite-lived intangible asset impairment test. An entity no longer will be required to calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This accounting guidance became effective for the Company for the annual and interim indefinite-lived intangible asset impairment tests performed for fiscal year 2014. The adoption of this guidance did not have a significant impact on the Company s Condensed Consolidated Financial Statements.

During the second quarter of fiscal year 2013, the FASB issued new accounting guidance requiring an entity to report the effect of significant reclassifications out of AOCI on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional information about those amounts. This accounting guidance became effective for the Company beginning in the first quarter of fiscal year 2014. The adoption of this guidance did not have a significant impact on the Company s Condensed Consolidated Financial Statements.

b. Recently Issued Accounting Guidance

During the third quarter of fiscal year 2013, the FASB issued new accounting guidance intended to clarify the applicable guidance for the release of the cumulative translation adjustment when an entity ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity that is a business and when there is a loss of a controlling financial interest in a foreign entity or a step acquisition involving an equity method investment that is a foreign entity. Additionally, the new guidance emphasizes that the release of the cumulative translation adjustment into net income for sales or transfers of a controlling financial interest within a foreign entity is the same irrespective of whether the sale or transfer is of a subsidiary or a group of assets that is a business. This accounting guidance is effective for the Company beginning in the first quarter of fiscal year 2015. The Company does not expect the adoption of this guidance to have a significant impact on its Condensed Consolidated Financial Statements.

16. Income Taxes

The effective tax rate differed from the U.S. federal statutory rate of 35.0% during the three months and six months ended February 28, 2014 and 2013 primarily due to: (a) a partial valuation allowance release related to the U.S. deferred tax assets in the first quarter of fiscal year 2014; (b) income in tax jurisdictions with lower statutory tax rates than the U.S.; (c) tax incentives granted to sites in Brazil, Malaysia, Poland, Singapore and Vietnam; (d) income and losses in tax jurisdictions with existing valuation allowances and (e) a tax benefit from revaluing deferred tax assets related to the enactment of the Mexico 2014 tax reform in the second quarter of fiscal year 2014. The material tax incentives expire at various dates through 2020. Such tax incentives are subject to conditions with which the Company expects to continue to comply.

17. Subsequent Events

The Company has evaluated subsequent events that occurred through the date of the filing of the Company s second quarter of fiscal year 2014 Form 10-Q. No significant events, other than those disclosed below, occurred subsequent to the balance sheet date and prior to the filing date of this report that would have a material impact on the Condensed Consolidated Financial Statements.

On April 1, 2014, the Company completed its previously announced sale of its AMS business through a stock purchase agreement with iQor. Refer to Note 2 Discontinued Operations for further details surrounding the transaction.

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JABIL CIRCUIT, INC. AND SUBSIDIARIES

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

- *business conditions and growth or declines in our customers industries, the electronic manufacturing services industry and the general economy;*
- *variability of our operating results;*
- *our dependence on a limited number of major customers;*
- *any potential future termination, or substantial winding down, of significant customer relationships;*
- *availability of components;*
- *our dependence on certain industries;*
- *the susceptibility of our production levels to the variability of customer requirements, including seasonal influences on the demand for certain end products;*

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

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

our ability to successfully negotiate definitive agreements and consummate acquisitions, and to integrate operations following the consummation of acquisitions (including the recently completed acquisition of Nypro Inc. (Nypro));

our ability to successfully negotiate definitive agreements and consummate dispositions, and to disentangle operations following the consummation of dispositions (including the recently completed disposition of our Aftermarket Services (AMS) business);

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

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

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

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

For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations sections contained in this document, as well as our Annual Report on Form 10-K for the fiscal year ended August 31, 2013, any subsequent reports on Form 10-Q and Form 8-K and other filings with the Securities and Exchange Commission (the SEC). Given these risks and uncertainties, the reader should not place undue reliance on these forward-looking statements.

All forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date of this Quarterly Report on Form 10-Q, and we do not undertake any obligation to publicly update or correct any forward-looking statements to reflect events or circumstances that subsequently occur, or of which we hereafter become aware. You should read this document and the documents that we incorporate by reference into this Quarterly Report on Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect. We may not update these forward-looking statements, even if our situation changes in the future. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

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

Overview

We are one of the leading providers of worldwide electronic manufacturing services and solutions. We provide comprehensive electronics design, production and product management services to companies in the aerospace, automotive, computing, consumer, defense, healthcare, industrial, instrumentation, medical, networking, packaging, peripherals, solar, storage and telecommunications industries. We serve our customers primarily with dedicated business units that combine highly automated, continuous flow manufacturing with advanced electronic design and design for manufacturability. We currently depend, and expect to continue to depend, upon a relatively small number of customers for a significant percentage of our revenue, net of estimated return costs (net revenue). Based on net revenue, during the six months ended February 28, 2014, our largest customers currently include Apple, Inc., BlackBerry Limited, Cisco Systems, Inc., Ericsson, Hewlett-Packard Company, Ingenico S.A., International Business Machines Corporation, NetApp, Inc., Valeo and Zebra. During the six months ended February 28, 2014, we had net revenues of approximately $7.9 billion and net income attributable to Jabil Circuit, Inc. of approximately $79.3 million.

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

- integrated design and engineering;
- component selection, sourcing and procurement;
- automated assembly;
- design and implementation of product testing;
- parallel global production;
- enclosure services;
- systems assembly, direct order fulfillment and configure to order; and
- injection molding, metal, plastics, precision machining and automation.

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

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

Uncertainty remains regarding the extent and timing of the current global economic recovery, particularly in those countries (such as in much of Europe) where economic conditions remain at risk. We will continue to monitor the current economic environment and its potential impact on both the customers that we serve as well as our end-markets and closely manage our costs and capital resources so that we can respond appropriately as circumstances continue to change.

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Summary of Results

The following table sets forth, for the three month and six month periods indicated, certain key operating results and other financial information (in thousands, except per share data):

	Three months ended		Six months ended	
	February 28, 2014	February 28, 2013	February 28, 2014	February 28, 2013
Net revenue	$ 3,577,315	$ 4,166,355	$ 7,918,271	$ 8,536,236
Gross profit	$ 213,150	$ 288,522	$ 546,704	$ 599,441
Operating income	$ 3,641	$ 133,041	$ 158,632	$ 285,971
Net (loss) income attributable to Jabil Circuit, Inc.	$ (38,667)	$ 88,533	$ 79,255	$ 194,380
Net (loss) earnings per share basic	$ (0.19)	$ 0.44	$ 0.39	$ 0.96
Net (loss) earnings per share diluted	$ (0.19)	$ 0.43	$ 0.38	$ 0.94
Cash dividend per share declared	$ 0.08	$ 0.08	$ 0.16	$ 0.16

Key Performance Indicators

Management regularly reviews financial and non-financial performance indicators to assess the Company s operating results. The following table sets forth, for the quarterly periods indicated, certain of management s key financial performance indicators:

	Three months ended			
	February 28, 2014	November 30, 2013	August 31, 2013	May 31, 2013
Sales cycle	7 days	3 days	1 day	1 day
Inventory turns (annualized)	7 turns	8 turns	8 turns	7 turns
Days in accounts receivable	24 days	27 days	23 days	20 days
Days in inventory	49 days	45 days	46 days	49 days
Days in accounts payable	66 days	69 days	68 days	68 days

The sales cycle is calculated as the sum of days in accounts receivable and days in inventory, less the days in accounts payable; accordingly, the variance in the sales cycle quarter over quarter is a direct result of changes in these indicators. During the three months ended February 28, 2014, days in accounts receivable decreased three days to 24 days as compared to the prior sequential quarter primarily due to the timing of sales and collections activity. During the three months ended February 28, 2014, days in inventory increased four days to 49 days as compared to the prior sequential quarter due to decreased sales levels. During the three months ended February 28, 2014, days in accounts payable decreased three days to 66 days from the prior sequential quarter primarily due to the timing of purchases and cash payments for purchases during the respective quarters. The sales cycle was 7 days during the three months ended February 28, 2014. The changes in the sales cycle are due to the changes in accounts receivable, accounts payable and inventory that are discussed above.

Critical Accounting Policies and Estimates

The preparation of our Condensed Consolidated Financial Statements and related disclosures in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and judgments that affect our reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, we evaluate our estimates and assumptions based upon historical experience and various other factors and circumstances. Management believes that our estimates and assumptions are reasonable under the circumstances; however, actual results may vary from these estimates and assumptions under different future circumstances. For further discussion of our significant accounting policies, refer to Note 1 Description of Business and Summary of Significant Accounting Policies to the Consolidated Financial Statements and Management s Discussion and Analysis of Financial Condition and Results Operations Critical Accounting Policies and Estimates in our Annual Report on Form 10-K for the fiscal year ended August 31, 2013.

Recent Accounting Pronouncements

See Note 15 New Accounting Guidance to the Condensed Consolidated Financial Statements for a discussion of recent accounting guidance.

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Results of Operations

The following table sets forth, for the periods indicated, certain statements of operations data expressed as a percentage of net revenue:

	Three months ended		Six months ended	
	February 28, 2014	February 28, 2013	February 28, 2014	February 28, 2013
Net revenue	100.0%	100.0%	100.0%	100.0%
Cost of revenue	94.0%	93.0%	93.0%	93.0%
Gross profit	6.0%	7.0%	7.0%	7.0%
Operating expenses:				
Selling, general and administrative	4.6%	3.5%	3.9%	3.4%
Research and development	0.2%	0.2%	0.2%	0.2%
Amortization of intangibles	0.2%	0.1%	0.2%	0.1%
Restructuring and related charges	0.9%	0.0%	0.7%	0.0%
Operating income	0.1%	3.2%	2.0%	3.3%
Other expense	0.0%	0.0%	0.0%	0.0%
Interest income	(0.0)%	(0.0)%	(0.0)%	(0.0)%
Interest expense	0.9%	0.7%	0.8%	0.7%
(Loss) income from continuing operations before income tax expense	(0.8)%	2.5%	1.2%	2.6%
Income tax expense	0.1%	0.7%	0.3%	0.6%
(Loss) income from continuing operations, net of tax	(0.9)%	1.8%	0.9%	2.0%
(Loss) income from discontinued operations, net of tax	(0.2)%	0.3%	0.1%	0.3%
Net (loss) income	(1.1)%	2.1%	1.0%	2.3%
Net income (loss) attributable to noncontrolling interests, net of income tax	0.0%	(0.0)%	0.0%	(0.0)%
Net (loss) income attributable to Jabil Circuit, Inc.	(1.1)%	2.1%	1.0%	2.3%

The Three Months and Six Months Ended February 28, 2014, Compared to the Three Months and Six Months Ended February 28, 2013

Net Revenue. Net revenue decreased 14.1% to $3.6 billion during the three months ended February 28, 2014, compared to $4.2 billion during the three months ended February 28, 2013. Specific decreases include an 18%

decrease in the sale of High Velocity Systems (HVS) products due principally to reductions in the sale of mobility handsets as a result of our disengagement from BlackBerry Limited, a 16% decrease in the sale of Diversified Manufacturing Services (DMS) products as a result of reduced production levels due to weakened end user product demand within specialized services which was partially offset by increased revenue from new customers as a result of the Nypro acquisition and a 9% decrease in the sale of Enterprise & Infrastructure (E&I) products due to the decline in enterprise and infrastructure spending.

Net revenue decreased 7.2% to $7.9 billion during the six months ended February 28, 2014, compared to $8.5 billion during the six months ended February 28, 2013. Specific decreases include an 11% decrease in the sale of HVS products due principally to reductions in the sale of mobility handsets as a result of our disengagement from BlackBerry Limited, a 7% decrease in the sale of E&I products due to the decline in enterprise and infrastructure spending and a 5% decrease in the sale of DMS products as a result of reduced production levels due to weakened end user product demand within specialized services which was partially offset by increased revenue from new customers as a result of the Nypro acquisition.

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

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The distribution of revenue across our sectors has fluctuated, and will continue to fluctuate, as a result of numerous factors, including but not limited to the following: fluctuations in customer demand as a result of recessionary conditions; efforts to de-emphasize the economic performance of certain sectors; seasonality in our business; business growth from new and existing customers; specific product performance; and the current termination of our business relationship with BlackBerry Limited and any other potential future termination, or substantial winding down, of other significant customer relationships.

On April 1, 2014, we completed the sale of the AMS business, which was included in the DMS segment. Accordingly, the results of operations of this business are classified as discontinued operations. See Note 2 Discontinued Operations to the Condensed Consolidated Financial Statements for further details.

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

	Three months ended		Six months ended	
	February 28, 2014	February 28, 2013	February 28, 2014	February 28, 2013
DMS	**42%**	**43%**	**45%**	**44%**
E&I	**35%**	**34%**	**32%**	**32%**
HVS	**23%**	**23%**	**23%**	**24%**
Total	**100%**	**100%**	**100%**	**100%**

Foreign source revenue represented 83.3% and 84.6% of our net revenue during the three months and six months ended February 28, 2014, respectively, compared to 86.4% and 86.8% of our net revenue during the three months and six months ended February 28, 2013, respectively. We currently expect our foreign source revenue to remain relatively consistent as compared to current levels over the course of the next 12 months.

Gross Profit. Gross profit decreased to $213.2 million (6.0% of net revenue) and $546.7 million (7.0% of net revenue) during the three months and six months ended February 28, 2014, respectively, compared to $288.5 million (7.0% of net revenue) and $599.4 million (7.0% of net revenue) during the three months and six months ended February 28, 2013, respectively. The decrease in gross profit is due to our revenues from existing customers decreasing at a higher rate than certain of our fixed costs, partially offset by increased revenue from new customers.

Selling, General and Administrative. Selling, general and administrative expenses increased to $164.5 million (4.6% of net revenue) and $306.7 million (3.9% of net revenue) during the three months and six months ended February 28, 2014, respectively, compared to $145.6 million (3.5% of net revenue) and $294.2 million (3.4% of net revenue) during the three months and six months ended February 28, 2013, respectively. The increases during the three months and six months ended February 28, 2014 as compared to the three months and six months ended February 28, 2013 were primarily the result of an increase to incremental selling, general and administrative expense resulting from the acquisition of Nypro during the fourth quarter of fiscal year 2013. The increase during the six months ended February 28, 2014 compared to the six months ended February 28, 2013 was partially offset by a decrease to selling, general and administrative expense resulting from a $38.4 million reversal to stock-based compensation expense during the first quarter of fiscal year 2014 due to decreased expectations for the vesting of certain restricted stock awards.

Research and Development. Research and development expenses decreased to $6.6 million (0.2% of net revenue) during the three months ended February 28, 2014 compared to $7.7 million (0.2% of net revenue) during the three months ended February 28, 2013. Research and development expense as a percentage of net revenue remained relatively consistent over the prior period. Research and development expenses increased to $15.7 million (0.2% of net revenue) during the six months ended February 28, 2014 compared to $14.9 million (0.2% of net revenue) during the six months ended February 28, 2013. Research and development expense as a percentage of net revenue remained relatively consistent over the prior period. The increase in absolute dollars is primarily due to new projects in targeted growth sectors and an increase to incremental expense resulting from the Nypro acquisition.

Amortization of Intangibles. Amortization of intangible assets increased to $6.2 million and $12.5 million during the three months and six months ended February 28, 2014, respectively, compared to $2.2 million and $4.4 million during the three months and six months ended February 28, 2013, respectively. The increase was primarily attributable to amortization expense associated with the definite lived intangible assets acquired in connection with the acquisition of Nypro.

Restructuring and Related Charges.

a. 2014 Restructuring Plan

In conjunction with the 2014 Restructuring Plan, we charged $27.9 million and $42.5 million of restructuring and related charges to the Condensed Consolidated Statement of Operations during the three months and six months ended February 28, 2014, respectively. The 2014 Restructuring Plan is intended to address the termination of our business relationship with Blackberry Limited. The restructuring and related charges during the three months and six months ended February 28, 2014 include cash costs of $4.0 million and $16.4 million related to employee severance and benefit costs, respectively, $1.4 million and $1.7 million related to lease costs, respectively, and $0.2 million and $1.5 million of other related costs, respectively, as well as non-cash costs of $22.3 million and $22.9 million related to asset write off costs, respectively.

At February 28, 2014, accrued liabilities of approximately $6.1 million related to the 2014 Restructuring Plan are expected to be paid over the next twelve months. During the three months and six months ended February 28, 2014, $5.5 million and $13.5 million, respectively, was paid relating to the 2014 Restructuring Plan.

We currently expect to recognize approximately $45.0 million to $85.0 million in pre-tax restructuring and other related costs over the course of fiscal year 2014 under the 2014 Restructuring Plan. A majority of the total restructuring costs are expected to be related to employee severance and benefit costs and asset write offs. The exact amount and timing of these charges and cash outflows, as well as the estimated cost ranges by category type, have not been finalized, but are expected to be complete as of August 31, 2014. Much of the 2014 Restructuring Plan as discussed reflects our intention only and restructuring decisions, and the timing of such decisions, at certain plants are still subject to the finalization of timetables for the transition of functions and consultation with our employees and their representatives.

Upon its completion, the 2014 Restructuring Plan is expected to yield annualized cost savings in the range of $10.0 million to $25.0 million on a net basis after taking into account potential future BlackBerry Limited revenues that will not be earned due to the termination of our business relationship. The majority of these annual cost savings are expected to be reflected as a reduction in cost of revenue. We have begun to realize a portion of these cost savings in the second quarter of fiscal year 2014 and we are still evaluating the full effect of the cost savings and any cost savings offsets.

b. 2013 Restructuring Plan

In conjunction with the 2013 Restructuring Plan, we charged $4.3 million and $10.7 million of restructuring and related charges to the Condensed Consolidated Statement of Operations during the three months and six months ended February 28, 2014, respectively. The 2013 Restructuring Plan is intended to better align our manufacturing capacity in certain geographies and to reduce our worldwide workforce in order to reduce operating expenses. These restructuring activities are intended to address current market conditions and customer requirements. The restructuring and related charges during the three months and six months ended February 28, 2014 include cash costs of $1.4 million and $7.7 million related to employee severance and benefit costs, respectively, $0.4 million related to lease costs and $0.5 million and $0.6 million of other related costs, respectively, as well as non-cash costs of $2.0 million related to asset write off costs.

At February 28, 2014, accrued liabilities of approximately $54.0 million related to the 2013 Restructuring Plan are expected to be paid over the next twelve months. During the three months and six months ended February 28, 2014, $6.6 million and $12.0 million, respectively, was paid relating to the 2013 Restructuring Plan.

We currently expect to recognize approximately $179.0 million, excluding the restructuring and related charges previously incurred for the AMS discontinued operations, in pre-tax restructuring and other related costs over the course of fiscal years 2013, 2014 and 2015 under the 2013 Restructuring Plan. While we expect the total amount of pre-tax restructuring and other related costs will be $179.0 million, we can only provide estimate ranges for certain of the major types of costs associated with the action): $123.0 million to $143.0 million of employee severance and benefit costs; $28.0 million to $48.0 million of asset write-off costs; $3.0 million of contract termination costs and $5.0 million of other related costs. Since the inception of the 2013 Restructuring Plan, a total of $91.2 million of restructuring and related costs have been recognized. A majority of the total restructuring costs are expected to be related to employee severance and benefit arrangements. The charges related to the 2013 Restructuring Plan, excluding asset write off costs, are currently expected to result in cash expenditures in a range of $131.0 million to $151.0 million that will be payable over the course of our fiscal years 2013, 2014 and 2015. The exact amount and timing of these charges and cash outflows, as well as the estimated cost ranges by category type, have not been finalized. Much of the 2013 Restructuring Plan as discussed reflects our intention only and restructuring decisions, and the timing of such decisions, at certain plants are still subject to the finalization of timetables for the transition of functions and consultation with our employees and their representatives.

Upon its completion, the 2013 Restructuring Plan is expected to yield annualized cost savings of approximately $65.9 million. The expected avoided annual costs consist of a reduction in employee related expenses of $64.4 million, a reduction in depreciation expense associated with asset disposals of $1.1 million, and a reduction in rent expense associated with leased buildings that have been vacated of approximately $0.4 million. The majority of these annual cost savings are expected to be reflected as a reduction in cost of revenue as well as a reduction of selling, general and administrative expense. These annual costs savings are expected to be partially offset by decreased revenues and incremental costs expected to be incurred by those plants to which certain production will be shifted. After considering these partial cost savings offsets, we expect to realize annual cost savings of approximately $65.0 million.

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Other Expense. Other expense remained relatively consistent at $1.9 million and $3.0 million during the three months and six months ended February 28, 2014, respectively, compared to $1.6 million and $3.1 million during the three months and six months ended February 28, 2013, respectively.

Interest Income. Interest income remained relatively consistent at $0.3 million and $1.0 million during the three months and six months ended February 28, 2014, respectively, compared to $0.4 million and $0.9 million during the three months and six months ended February 28, 2013, respectively.

Interest Expense. We recorded interest expense of $31.9 million and $65.2 million during the three months and six months ended February 28, 2014, respectively, compared to $29.2 million and $58.8 million during the three months and six months ended February 28, 2013, respectively. The increase was primarily due to increased borrowings associated with our five year unsecured credit facility amended as of March 19, 2012 (the Amended and Restated Credit Facility).

Income Tax Expense. Income tax expense reflects an effective tax rate of (8.5)% and 24.2% during the three months and six months ended February 28, 2014, respectively, as compared to an effective tax rate of 26.7% and 26.2% during the three months and six months ended February 28, 2013, respectively. The effective tax rate for the three months ended February 28, 2014 decreased from the effective tax rate for the three months ended February 28, 2013 primarily due to the loss from continuing operations and a tax benefit from revaluing deferred tax assets related to the enactment of the Mexico 2014 tax reform. These effective tax rate decreases were partially offset by the tax impact of decreases in income in low tax-rate jurisdictions and restructuring costs with minimal related tax benefit. The effective tax rate for the six months ended February 28, 2014 decreased from the effective tax rate for the six months ended February 28, 2013 primarily due to a tax benefit from revaluing deferred tax assets related to the enactment of the Mexico 2014 tax reform, a partial valuation allowance release related to the U.S. deferred tax assets and the reversal of stock-based compensation expense with minimal related tax expense. These effective tax rate decreases were partially offset by the tax impact of decreases in income in low tax-rate jurisdictions and restructuring costs with minimal related tax benefit.

The effective tax rate differed from the U.S. federal statutory rate of 35.0% during these periods primarily due to: (a) a partial valuation allowance release related to the U.S. deferred tax assets; (b) income in tax jurisdictions with lower statutory tax rates than the U.S.; (c) tax incentives granted to sites in Brazil, Malaysia, Poland, Singapore and Vietnam; (d) income and losses in tax jurisdictions with existing valuation allowances and (e) a tax benefit from revaluing deferred tax assets related to the enactment of the Mexico 2014 tax reform. The material tax incentives expire at various dates through 2020. Such tax incentives are subject to conditions with which we expect to continue to comply.

Non-U.S. GAAP Core Financial Measures

The following discussion and analysis of our financial condition and results of operations include certain non-U.S. GAAP financial measures as identified in the reconciliation below. The non-U.S. GAAP financial measures disclosed herein do not have standard meaning and may vary from the non-U.S. GAAP financial measures used by other companies or how we may calculate those measures in other instances from time to time. Non-U.S. GAAP financial measures should not be considered a substitute for, or superior to, measures of financial performance prepared in accordance with U.S. GAAP. Also, our core financial measures should not be construed as an inference by us that our future results will be unaffected by those items which are excluded from our core financial measures.

Management believes that the non-U.S. GAAP core financial measures set forth below are useful to facilitate evaluating the past and future performance of our ongoing manufacturing operations over multiple periods on a comparable basis by excluding the effects of the amortization of intangibles, distressed customer charge, stock-based compensation expense and related charges, restructuring and related charges, acquisition costs and purchase accounting adjustments and loss (income) from discontinued operations. Among other uses, management uses non-U.S. GAAP core financial measures as a factor in determining certain employee performance when determining incentive compensation.

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

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Included in the table below is a reconciliation of the non-U.S. GAAP financial measures to the most directly comparable U.S. GAAP financial measures as provided in our Condensed Consolidated Financial Statements (in thousands):

	Three months ended		Six months ended	
	February 28, 2014	**February 28, 2013**	**February 28, 2014**	**February 28, 2013**
Operating income (U.S. GAAP)	$ 3,641	$ 133,041	$ 158,632	$ 285,971
Amortization of intangibles	6,180	2,204	12,501	4,370
Distressed customer charge	3,742		3,742	
Stock-based compensation expense and related charges	14,652	16,274	(7,934)	33,186
Restructuring and related charges	32,203		53,206	
Core operating income (Non-U.S. GAAP)	$ 60,418	$ 151,519	$ 220,147	$ 323,527
Net (loss) income attributable to Jabil Circuit, Inc. (U.S. GAAP)	$ (38,667)	$ 88,533	$ 79,255	$ 194,380
Amortization of intangibles, net of tax	8,250	2,205	9,423	4,371
Distressed customer charge, net of tax	2,337		2,337	
Stock-based compensation expense and related charges, net of tax	14,192	16,064	(8,413)	32,783
Restructuring and related charges, net of tax	27,892		45,589	
Acquisition costs and purchase accounting adjustments, net of tax (a)			(9,064)	
Loss (income) from discontinued operations, net of tax	6,251	(12,797)	(10,172)	(27,705)
Core earnings (Non-U.S. GAAP)	$ 20,255	$ 94,005	$ 108,955	$ 203,829
Net (loss) earnings per share: (U.S. GAAP)				
Basic	$ (0.19)	$ 0.44	$ 0.39	$ 0.96
Diluted	$ (0.19)	$ 0.43	$ 0.38	$ 0.94
Core earnings per share: (Non-U.S. GAAP)				
Basic	$ 0.10	$ 0.46	$ 0.53	$ 1.00
Diluted	$ 0.10	$ 0.45	$ 0.53	$ 0.98
Weighted average shares outstanding used in the calculations of earnings per				

share (U.S. GAAP):				
Basic	205,251	202,458	205,005	203,393
Diluted	205,251	206,804	206,892	207,474
Weighted average shares outstanding used in the calculations of earnings per share (Non-U.S. GAAP):				
Basic	205,251	202,458	205,005	203,393
Diluted	206,622	206,804	206,892	207,474

(a) This tax benefit relates to the partial release of the U.S. valuation allowance due to the U.S. deferred tax liabilities from the Nypro acquisition, which represent future sources of taxable income to support the realization of the deferred tax assets.

Core operating income decreased 60.1% to $60.4 million and 32.0% to $220.1 million during the three months and six months ended February 28, 2014, respectively, compared to $151.5 million and $323.5 million during the three months and six months ended February 28, 2013, respectively. Core earnings decreased 78.5% to $20.3 million and 46.5% to $109.0 million during the three months and six months ended February 28, 2014, respectively, compared to $94.0 million and $203.8 million for the three months and six months ended February 28, 2013, respectively. These decreases were the result of the same factors described above in Management s Discussion and Analysis of Financial Condition and Results of Operations The Three Months and Six Months Ended February 28, 2014, Compared to the Three Months and Six Months Ended February 28, 2013.

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Acquisitions and Expansion

As discussed in Note 14 Business Acquisition to the Condensed Consolidated Financial Statements, we completed our acquisition of Nypro during the fourth quarter of fiscal year 2013. Acquisitions are accounted for using the acquisition method of accounting. Our Condensed Consolidated Financial Statements include the operating results of each business from the date of acquisition. See Risk Factors We have on occasion not achieved, and may not in the future achieve, expected profitability from our acquisitions.

Seasonality

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

Liquidity and Capital Resources

At February 28, 2014, our principal sources of liquidity consisted of cash, available borrowings under our credit facilities, our asset-backed securitization programs, our trade accounts receivable factoring agreement and our committed and uncommitted trade accounts receivable sale programs.

Cash Flows

The following table sets forth selected consolidated cash flow information during the six months ended February 28, 2014 and 2013 (in thousands):

	Six months ended	
	February 28, 2014	**February 28, 2013**
Net cash provided by operating activities	$ 134,616	$ 305,684
Net cash used in investing activities	(273,404)	(370,772)
Net cash used in financing activities	(198,907)	(85,740)
Effect of exchange rate changes on cash and cash equivalents	1,451	(4,773)
Net decrease in cash and cash equivalents	$ (336,244)	$ (155,601)

Net cash provided by operating activities during the six months ended February 28, 2014 was approximately $134.6 million. This resulted primarily from net income of $79.5 million, a $342.8 million decrease in inventories, $247.2 million in non-cash depreciation and amortization expense, a $235.6 million decrease in prepaid expenses and other current assets and a $187.0 million decrease in accounts receivable; which were partially offset by a $912.6 million decrease in accounts payable and accrued expense. The decrease in inventories was primarily a result of a continued focus on inventory management coupled with lower sales levels. The decrease in prepaid expenses and other current assets was primarily due to decreases in the deferred purchase price receivable under our asset-backed securitization programs due to lower levels of sales and the timing of cash funding provided by the unaffiliated conduits and financial institutions as well as decreases in advance deposits. The decrease in accounts receivable was primarily driven by the timing of sales and collections activity coupled with lower sales levels. The decrease in accounts payable and accrued expenses was primarily driven by the timing of purchases and cash payments as well as decreased salary and salary related expenses associated with headcount reductions.

Net cash used in investing activities during the six months ended February 28, 2014 was $273.4 million. This consisted primarily of capital expenditures of $286.3 million principally for machinery and equipment for new business within our DMS segment, maintenance levels of machinery and equipment and information technology infrastructure upgrades.

Net cash used in financing activities during the six months ended February 28, 2014 was $198.9 million. This resulted from our receipt of approximately $3.8 billion of proceeds from borrowings under existing debt agreements, which primarily included an aggregate of $3.7 billion of borrowings under the Amended and Restated Credit Facility. This was offset by repayments in an aggregate amount of approximately $3.9 billion, which primarily included an aggregate of $3.8 billion of repayments under the Amended and Restated Credit Facility. In addition, during the six months ended February 28, 2014, we paid $64.1 million, including commissions, to repurchase 3,636,678 of our common shares, we paid $35.8 million in dividends to stockholders and we paid $32.8 million to the IRS or 1,487,855 of our common shares on behalf of certain employees to satisfy minimum tax obligations related to the vesting of certain restricted stock awards (as consideration for these payments to the IRS, we withheld $32.8 million of employee-owned common stock related to this vesting).

Sources

We may need to finance day-to-day working capital needs, as well as future growth and any corresponding working capital needs, with additional borrowings under our Amended and Restated Credit Facility (which is further discussed in the following paragraphs) and our other revolving credit facilities described below, as well as additional public and private offerings of our debt and equity. Currently, we have a shelf registration statement with the SEC registering the potential sale of an indeterminate amount of debt and equity securities in the future, from time-to-time over the three years following the registration, to augment our liquidity and capital resources. The current shelf registration statement will expire in the first quarter of fiscal year 2015 at which time we currently anticipate filing a new shelf registration statement. Any future sale or issuance of equity or convertible debt securities could result in dilution to current or future shareholders. Further, we may issue debt securities that have rights and privileges senior to those of holders of ordinary shares, and the terms of this debt could impose restrictions on operations, increase debt service obligations, limit our flexibility as a result of debt service requirements and restrictive covenants, potentially negatively affect our credit ratings, and limit our ability to access additional capital or execute our business strategy. We continue to assess our capital structure and evaluate the merits of redeploying available cash to reduce existing debt or repurchase common shares.

We regularly sell designated pools of trade accounts receivable under two asset-backed securitization programs, a factoring agreement, a committed trade accounts receivable sale program and four uncommitted trade accounts receivable sale programs (collectively referred to herein as the programs). Transfers of the receivables under the programs are accounted for as sales and, accordingly, net receivables sold under the programs are excluded from accounts receivable on the Condensed Consolidated Balance Sheets and are reflected as cash provided by operating activities on the Condensed Consolidated Statements of Cash Flows. Discussion of each of the programs is included in the following paragraphs. In addition, refer to Note 8 Trade Accounts Receivable Securitization and Sale Programs to the Condensed Consolidated Financial Statements for further details on the programs.

Also, as described in Note 2 Discontinued Operations and Note 17 Subsequent Events to the Condensed Consolidated Financial Statements, we recently completed the sale of our AMS business for consideration of $725.0 million, which consists of $675.0 million in cash and an aggregate liquidation preference value of $50.0 million in Senior Non-Convertible Cumulative Preferred Stock of iQor that accretes dividends at an annual rate of 8 percent and is redeemable in nine years or upon a change in control. As a result of the sale, we have additional funds to finance certain of our needs.

a. Asset-Backed Securitization Programs

We continuously sell designated pools of trade accounts receivable under our asset-backed securitization programs to special purpose entities, which in turn sell 100% of the receivables to conduits administered by unaffiliated financial institutions (for the North American asset-backed securitization program) and an unaffiliated financial institution (for the foreign asset-backed securitization program). Any portion of the purchase price for the receivables which is not paid in cash upon the sale taking place is recorded as a deferred purchase price receivable, which is paid from available cash as payments on the receivables are collected. Net cash proceeds up to a maximum of $200.0 million for the North American asset-backed securitization program, currently scheduled to expire on October 21, 2014, are available at any one time. We decreased our facility limit from $300.0 million to $200.0 million during the first quarter of fiscal year 2014. Net cash proceeds up to a maximum of $200.0 million for the foreign asset-backed securitization program, currently scheduled to expire on May 15, 2015, are available at any one time.

In connection with our asset-backed securitization programs, at February 28, 2014, we had sold $772.6 million of eligible trade accounts receivable, which represents the face amount of total sold outstanding receivables at that date. In exchange, we received cash proceeds of $352.6 million, and a deferred purchase price receivable. At February 28, 2014, the deferred purchase price receivable in connection with the asset-backed securitization programs totaled $420.0 million. The deferred purchase price receivable was recorded initially at fair value as prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets.

b. Trade Accounts Receivable Factoring Agreement