JABIL INC
Form 10-Q
January 04, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended November 30, 2017

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 INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of January 1, 2018, there were 175,235,660 shares of the registrant s Common Stock outstanding.

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JABIL INC. AND SUBSIDIARIES INDEX

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

JABIL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except for share data)

	November 30, 2017 (Unaudited)	August 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 746,258	$ 1,189,919
Accounts receivable, net of allowance for doubtful accounts of $13,787 as of November 30, 2017 and $14,134 as of August 31, 2017	1,534,754	1,397,424
Inventories, net	3,283,215	2,942,083
Prepaid expenses and other current assets	1,357,901	1,097,257
Total current assets	6,922,128	6,626,683
Property, plant and equipment, net of accumulated depreciation of $3,273,964 as of November 30, 2017 and $3,125,390 as of August 31, 2017	3,289,754	3,228,678
Goodwill	630,539	608,184
Intangible assets, net of accumulated amortization of $275,565 as of November 30, 2017 and $269,212 as of August 31, 2017	300,950	284,596
Deferred income taxes	216,830	205,722
Other assets	159,364	142,132
Total assets	$ 11,519,565	$ 11,095,995
LIABILITIES AND EQUITY		
Current liabilities:		
Current installments of notes payable, long-term debt and capital lease obligations	$ 427,019	$ 445,498
Accounts payable	4,803,194	4,257,623
Accrued expenses	2,019,511	2,167,472
Total current liabilities	7,249,724	6,870,593
Notes payable, long-term debt and capital lease obligations, less current installments	1,693,433	1,632,592
Other liabilities	75,627	74,237
Income tax liabilities	106,488	100,902
Deferred income taxes	49,601	49,327

Total liabilities	9,174,873	8,727,651
Commitments and contingencies		
Equity:		
Jabil Inc. stockholders equity:		
Preferred stock, $0.001 par value, authorized 10,000,000 shares; no shares issued and no shares outstanding		
Common stock, $0.001 par value, authorized 500,000,000 shares; 255,770,343 and 253,266,684 shares issued and 176,305,660 and 177,727,653 shares outstanding as of November 30, 2017 and August 31, 2017, respectively	256	253
Additional paid-in capital	2,149,173	2,104,203
Retained earnings	1,779,335	1,730,893
Accumulated other comprehensive income	51,484	54,620
Treasury stock at cost, 79,464,683 and 75,539,031 shares as of November 30, 2017 and August 31, 2017, respectively	(1,650,509)	(1,536,455)
Total Jabil Inc. stockholders equity	2,329,739	2,353,514
Noncontrolling interests	14,953	14,830
Total equity	2,344,692	2,368,344
Total liabilities and equity	$ 11,519,565	$ 11,095,995

See accompanying notes to Condensed Consolidated Financial Statements.

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JABIL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except for per share data)

(Unaudited)

	Three months ended November 30, 2017	Three months ended November 30, 2016
Net revenue	$ 5,585,532	$ 5,104,898
Cost of revenue	5,116,247	4,673,392
Gross profit	469,285	431,506
Operating expenses:		
Selling, general and administrative	293,055	214,052
Research and development	9,109	7,623
Amortization of intangibles	9,979	8,322
Restructuring and related charges	11,388	35,902
Operating income	145,754	165,607
Other expense	5,882	4,680
Interest income	(3,813)	(2,455)
Interest expense	36,246	32,844
Income before income tax	107,439	130,538
Income tax expense	43,520	43,837
Net income	63,919	86,701
Net income (loss) attributable to noncontrolling interests, net of tax	124	(1,326)
Net income attributable to Jabil Inc.	$ 63,795	$ 88,027
Earnings per share attributable to the stockholders of Jabil Inc.:		
Basic	$ 0.36	$ 0.48
Diluted	$ 0.35	$ 0.47
Weighted average shares outstanding:		
Basic	176,936	185,292
Diluted	180,203	187,856
Cash dividends declared per common share	$ 0.08	$ 0.08

See accompanying notes to Condensed Consolidated Financial Statements.

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JABIL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(Unaudited)

	Three months ended	
	November 30, 2017	**November 30, 2016**
Net income	$ 63,919	$ 86,701
Other comprehensive (loss) income:		
Foreign currency translation adjustment	(3,801)	(23,619)
Changes in fair value of derivative instruments, net of tax	7,744	8,234
Reclassification of net (gains) losses realized and included in net income related to derivative instruments, net of tax	(5,191)	3,597
Unrealized loss on available for sale securities, net of tax	(1,465)	(1,250)
Actuarial loss, net of tax	(423)	
Total other comprehensive loss	(3,136)	(13,038)
Comprehensive income	$ 60,783	$ 73,663
Comprehensive income (loss) attributable to noncontrolling interests	124	(1,326)
Comprehensive income attributable to Jabil Inc.	$ 60,659	$ 74,989

See accompanying notes to Condensed Consolidated Financial Statements.

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JABIL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in thousands, except for share data)

(Unaudited)

	Jabil Inc. Stockholders Equity							
	Common Stock				Accumulated Other			
	Shares Outstanding	Par Value	Additional Paid-in Capital	Retained Earnings	Comprehensive Income	Treasury Stock	Noncontrolling Interests	Total Equity
Balance as of August 31, 2017	177,727,653	$ 253	$ 2,104,203	$ 1,730,893	$ 54,620	$ (1,536,455)	$ 14,830	$ 2,368,344
Shares issued upon exercise of stock options	29,534							
Vesting of restricted stock awards	2,474,125	3	(3)					
Purchases of treasury stock under employee stock plans	(724,323)					(20,745)		(20,745)
Treasury shares purchased	(3,201,329)					(93,309)		(93,309)
Recognition of stock-based compensation			44,973					44,973
Declared dividends				(15,353)				(15,353)
Comprehensive income				63,795	(3,136)		124	60,783
Foreign currency adjustments attributable to noncontrolling interests							(1)	(1)
	176,305,660	256	$ 2,149,173	$ 1,779,335	$ 51,484	$ (1,650,509)	$ 14,953	$ 2,344,692

Balance as of November 30, 2017

See accompanying notes to Condensed Consolidated Financial Statements.

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JABIL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Three months ended November 30, 2017	Three months ended November 30, 2016
Cash flows from operating activities:		
Net income	$ 63,919	$ 86,701
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	194,633	188,901
Restructuring and related charges	6,812	12,640
Recognition of stock-based compensation expense and related charges	44,974	(291)
Deferred income taxes	(11,507)	(16,495)
Other, net	3,812	4,421
Change in operating assets and liabilities, exclusive of net assets acquired:		
Accounts receivable	(125,627)	(170,932)
Inventories	(320,814)	(32,520)
Prepaid expenses and other current assets	(250,857)	(218,379)
Other assets	(13,549)	(34,987)
Accounts payable, accrued expenses and other liabilities	354,617	332,881
Net cash (used in) provided by operating activities	(53,587)	151,940
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(218,617)	(163,866)
Proceeds and advances from sale of property, plant and equipment	20,330	1,472
Cash paid for business and intangible asset acquisitions, net of cash	(95,858)	
Other, net	(1,067)	(2,033)
Net cash used in investing activities	(295,212)	(164,427)
Cash flows from financing activities:		
Borrowings under debt agreements	1,792,000	1,676,000
Payments toward debt agreements	(1,748,599)	(1,685,151)
Payments to acquire treasury stock	(93,309)	(114,165)
Dividends paid to stockholders	(16,231)	(16,059)
Treasury stock minimum tax withholding related to vesting of restricted stock	(20,745)	(9,119)
Other, net	(3,912)	
Net cash used in financing activities	(90,796)	(148,494)

Effect of exchange rate changes on cash and cash equivalents	(4,066)	(3,663)
Net decrease in cash and cash equivalents	(443,661)	(164,644)
Cash and cash equivalents at beginning of period	1,189,919	912,059
Cash and cash equivalents at end of period	$ 746,258	$ 747,415

See accompanying notes to Condensed Consolidated Financial Statements.

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JABIL 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 Inc. (the Company) for the fiscal year ended August 31, 2017. Results for the three months ended November 30, 2017 are not necessarily an indication of the results that may be expected for the full fiscal year ending August 31, 2018.

2. Earnings Per Share and Dividends

Earnings Per Share

The Company calculates its basic earnings per share by dividing net income attributable to Jabil 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. The difference between the weighted average number of basic shares outstanding and the weighted average number of diluted shares outstanding is primarily due to dilutive unvested restricted stock awards and dilutive stock appreciation rights.

Potential shares of common stock are excluded from the computation of diluted earnings per share when their effect would be antidilutive. Performance-based restricted stock awards are considered dilutive when the related performance criterion have been met assuming the end of the reporting period represents the end of the performance period. All potential shares of common stock are antidilutive in periods of net loss. Potential shares of common stock not included in the computation of earnings per share because their effect would have been antidilutive or because the performance criterion was not met were as follows (in thousands):

	Three months ended	
	November 30, 2017	**November 30, 2016**
Stock appreciation rights		1,406
Restricted stock awards	2,549	5,028

Dividends

The following table sets forth cash dividends declared by the Company to common stockholders during the three months ended November 30, 2017 and 2016 (in thousands, except for per share data):

	Dividend Declaration Date	Dividend per Share	Total of Cash Dividends Declared	Date of Record for Dividend Payment	Dividend Cash Payment Date
Fiscal Year 2018:	October 19, 2017	$ 0.08	$ 14,588	November 15, 2017	December 1, 2017
Fiscal Year 2017:	October 20, 2016	$ 0.08	$ 15,248	November 15, 2016	December 1, 2016

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3. Inventories

Inventories consist of the following (in thousands):

	November 30, 2017	August 31, 2017
Raw materials	$ 1,739,411	$ 1,574,241
Work in process	919,036	822,628
Finished goods	676,352	591,227
Reserve for excess and obsolete inventory	(51,584)	(46,013)
Inventories, net	$ 3,283,215	$ 2,942,083

4. Stock-Based Compensation

The Company recognized stock-based compensation expense within selling, general and administrative expense as follows

(in thousands):

	Three months ended	
	November 30, 2017	November 30, 2016
Restricted stock and stock appreciation rights	$ 43,507	$ (2,041)
Employee stock purchase plan	1,700	1,750
Other(1)	7,538	
Total	$ 52,745	$ (291)

(1) Represents a one-time cash-settled stock award that vested on November 30, 2017.
As of November 30, 2017, the shares available to be issued under the 2011 Stock Award and Incentive Plan were 12,327,622.

Restricted Stock Awards

Certain key employees have been granted time-based, performance-based and market-based restricted stock unit awards. The time-based restricted stock units generally vest on a graded vesting schedule over three years. The performance-based restricted stock units generally vest on a cliff vesting schedule over three years and up to a maximum of 150%, depending on the specified performance condition and the level of achievement obtained. The market-based restricted stock units generally vest on a cliff vesting schedule over three years and up to a maximum of 200%, depending on the specified performance condition and the level of achievement obtained. The market-based restricted stock units have a vesting condition that is tied to the Company s stock performance in relation to the Standard and Poor s (S&P) Super Composite Technology Hardware and Equipment Index. During the three months ended November 30, 2017 and 2016, the Company awarded approximately 1.3 million and 1.0 million time-based restricted stock units, respectively, 0.4 million and 0.6 million performance-based restricted stock units, respectively and 0.4 million and 0.4 million market-based stock units, respectively.

On October 6, 2017, the Company s Compensation Committee approved the modification of vesting criteria for certain performance-based restricted stock awards granted in fiscal year 2015. As a result of the modification, 0.8 million awards vested during the first quarter of fiscal year 2018, which resulted in approximately $24.9 million of stock-based compensation expense recognized for the three months ended November 30, 2017.

The following represents the stock-based compensation information for the period indicated (in thousands):

	Three months ended November 30, 2017
Unrecognized stock-based compensation expense restricted stock	$ 81,829
Remaining weighted-average period for restricted stock expense	1.5 years

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Share Repurchases

In July 2017, the Company s Board of Directors authorized the repurchase of up to $450.0 million of the Company s common stock (the 2017 Share Repurchase Program). The 2017 Share Repurchase Program expires on August 31, 2018. As of November 30, 2017, 3.2 million shares had been repurchased for $93.2 million and $356.7 million remains available under the 2017 Share Repurchase Program.

5. Concentration of Risk and Segment Data

Concentration of Risk

Sales of the Company s products are concentrated among specific customers. During the three months ended November 30, 2017, the Company s five largest customers accounted for approximately 51% of its net revenue and 74 customers accounted for approximately 90% of its net revenue. Sales to these customers were reported in the Electronics Manufacturing Services (EMS) and Diversified Manufacturing Services (DMS) 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.

Segment Data

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. Segment income does not include amortization of intangibles, stock-based compensation expense and related charges, restructuring and related charges, distressed customer charges, acquisition costs and certain purchase accounting adjustments, loss on disposal of subsidiaries, settlement of receivables and related charges, impairment of notes receivable and related charges, goodwill impairment charges, business interruption and impairment charges, net, income (loss) from discontinued operations, gain (loss) on sale of discontinued operations, 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 those at which we would transact with third parties.

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

	Three months ended	
	November 30, 2017	November 30, 2016
Net revenue		
EMS	$ 2,862,060	$ 2,703,290
DMS	2,723,472	2,401,608
	$ 5,585,532	$ 5,104,898
Segment income and reconciliation of income before income tax		
EMS	$ 85,710	$ 89,546
DMS	141,510	119,994
Total segment income	$ 227,220	$ 209,540
Reconciling items:		
Amortization of intangibles	(9,979)	(8,322)
Stock-based compensation expense and related charges	(52,745)	291
Restructuring and related charges	(11,388)	(35,902)
Business interruption and impairment charges, net	(7,354)	
Other expense	(5,882)	(4,680)
Interest income	3,813	2,455
Interest expense	(36,246)	(32,844)
Income before income tax	$ 107,439	$ 130,538

	November 30, 2017	August 31, 2017
Total assets		
EMS	$ 3,156,266	$ 2,778,820
DMS	5,490,658	5,290,468
Other non-allocated assets	2,872,641	3,026,707
	$ 11,519,565	$ 11,095,995

As of November 30, 2017, the Company operated in 29 countries worldwide. Sales to unaffiliated customers are based on the Company s location that maintains the customer relationship and transacts the external sale. Total foreign net revenue represented 92.3% of net revenue during both the three months ended November 30, 2017 and 2016.

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

Notes payable, long-term debt and capital lease obligations outstanding as of November 30, 2017 and August 31, 2017 are summarized below (in thousands):

	Maturity Date	November 30, 2017	August 31, 2017
8.250% Senior Notes[1][2]	March 15, 2018	$ 399,745	$ 399,506
5.625% Senior Notes[1][2]	Dec. 15, 2020	397,326	397,104
4.700% Senior Notes[1][2]	Sept. 15, 2022	496,860	496,696
4.900% Senior Notes[1]	July 14, 2023	298,632	298,571
Borrowings under credit facilities[3]	Nov. 8, 2022		
Borrowings under loans[3]	Nov. 8, 2022	500,360	458,395
Capital lease obligations		27,529	27,818
Total notes payable, long-term debt and capital lease obligations		2,120,452	2,078,090
Less current installments of notes payable, long-term debt and capital lease obligations		427,019	445,498
Notes payable, long-term debt and capital lease obligations, less current installments		$ 1,693,433	$ 1,632,592

(1) The notes are carried at the principal amount of each note, less any unamortized discount and unamortized debt issuance costs.

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(2) The Senior Notes are the Company s senior unsecured obligations and rank equally with all other existing and future senior unsecured debt obligations.

(3) On November 8, 2017, the Company entered into an amended and restated senior unsecured five-year credit agreement. The credit agreement provides for: (i) the Revolving Credit Facility in the initial amount of $1.8 billion, which may, subject to the lenders discretion, potentially be increased up to $2.3 billion and (ii) a $500.0 million Term Loan Facility (collectively the Credit Facility). The Credit Facility expires on November 8, 2022. The Revolving Credit Facility is subject to two whole or partial one-year extensions, at the lenders discretion. Interest and fees on the Credit Facility advances are based on the Company s non-credit enhanced long-term senior unsecured debt rating as determined by Standard & Poor s Ratings Service, Moody s Investors Service and Fitch Ratings.

During the three months ended November 30, 2017, the interest rates on the Revolving Credit Facility ranged from 2.4% to 4.4% and the interest rates on the Term Loan Facility ranged from 2.6% to 2.7%. Interest is charged at a rate equal to (a) for the Revolving Credit Facility, either 0.000% to 0.575% above the base rate or 0.975% to 1.575% above the Eurocurrency rate and (b) for the Term Loan Facility, either 0.125% to 0.875% above the base rate or 1.125% to 1.875% above the Eurocurrency rate. The base rate represents the greatest of: (i) Citibank, N.A. s base rate, (ii) 0.50% above the federal funds rate, and (iii) 1.0% above one-month LIBOR, but not less than zero. The Eurocurrency rate represents adjusted LIBOR or adjusted CDOR, as applicable, for the applicable interest period, but not less than zero. Fees include a facility fee based on the revolving credit commitments of the lenders and a letter of credit fee based on the amount of outstanding letters of credit.

Additionally, the Company s foreign subsidiaries had various additional credit facilities that finance their future growth and any corresponding working capital needs.

As of November 30, 2017, the Company has $2.2 billion in available unused borrowing capacity under its revolving credit facilities.

Debt Covenants

Borrowings under the Company s debt agreements are subject to various covenants that limit the Company s ability to: incur additional indebtedness, sell assets, effect mergers and certain transactions, and effect certain transactions with subsidiaries and affiliates. In addition, the Revolving Credit Facility and 4.900% Senior Notes contain debt leverage and interest coverage covenants. The Company is also subject to a covenant requiring the repurchase of the 8.250%, 5.625%, or 4.700% Senior Notes upon a change of control. As of November 30, 2017 and 2016, the Company was in compliance with its debt covenants.

Fair Value

The estimated fair values of the Company s publicly traded debt, including the 8.250%, 5.625% and 4.700% senior notes, were approximately $405.6 million, $431.2 million and $525.3 million, respectively, as of November 30, 2017. The fair value estimates are based upon observable market data (Level 2 criteria). The estimated fair value of the Company s private debt, the 4.900% senior notes, was approximately $311.7 million, as of November 30, 2017. This fair value estimate is based on the Company s indicative borrowing cost derived from discounted cash flows (Level 3 criteria). The carrying amounts of borrowings under credit facilities and under loans approximate fair value as interest rates on these instruments approximate current market rates.

7. Trade Accounts Receivable Securitization and Sale Programs

The Company regularly sells designated pools of trade accounts receivable under two asset-backed securitization programs and five uncommitted trade accounts receivable sale programs (collectively referred to herein as the programs). The Company continues servicing the receivables sold and in exchange receives a servicing fee under each of the programs. Servicing fees related to each of the programs recognized during the three months ended November 30, 2017 and 2016 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.

Asset-Backed Securitization Programs

The Company continuously sells designated pools of trade accounts receivable, at a discount, under its North American asset-backed securitization program and its foreign asset-backed securitization program (collectively referred to herein as the asset-backed securitization programs) to special purpose entities, which in turn sell 100% of the receivables to: (i) conduits administered by unaffiliated financial institutions for the North American asset-backed securitization program and (ii) to an unaffiliated financial institution and a conduit administered by an unaffiliated financial institution for the foreign asset-backed securitization program. Any portion of the purchase price for the receivables not paid in cash upon the sale occurring is recorded as a deferred purchase price receivable, which is paid from available cash as payments on the receivables are collected.

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.

Following is a summary of the asset-backed securitization programs and key terms:

	Maximum Amount of Net Cash Proceeds (in millions)(1)		Expiration Date
North American	$	200.0	October 20, 2020(2)
Foreign	$	400.0	May 7, 2018

(1) Maximum amount available at any one time.
(2) On November 9, 2017, the program was extended to October 20, 2020.

In connection with the asset-backed securitization programs, the Company recognized the following (in millions):

	November 30, 2017		November 30, 2016	
Eligible trade accounts receivable sold during the three months ended	$	2,392	$	2,343
Cash proceeds received during the three months ended(1)	$	1,628	$	1,575
Pre-tax losses on sale of receivables during the three months ended(2)	$	4	$	2
Deferred purchase price receivables as of November 30(3)	$	760	$	766

(1) For the three months ended November 30, 2017 and 2016, the amount represented proceeds from collections reinvested in revolving-period transfers as there were no new transfers during the period.
(2) Recorded to other expense within the Condensed Consolidated Statements of Operations.
(3) 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.

The asset-backed securitization programs require compliance with several covenants. The North American asset-based securitization program covenants include compliance with the interest ratio and debt to EBITDA ratio of the Credit Facility. The foreign asset-backed securitization program covenants include limitations on certain corporate actions such as mergers and consolidations. As of November 30, 2017 and August 31, 2017, the Company was in compliance with all covenants under the asset-backed securitization programs.

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Trade Accounts Receivable Sale Programs

The following is a summary of the five trade accounts receivable sale programs with unaffiliated financial institutions where the Company may elect to sell receivables, at a discount, on an ongoing basis:

Program	Maximum Amount (in millions)[(1)]	Type of Facility	Expiration Date
A	$756.5 [(2)]	Uncommitted	August 31, 2022[(3)]
B	$150.0	Uncommitted	August 31, 2018
C	800.0 CNY	Uncommitted	February 15, 2018
D	$100.0	Uncommitted	November 1, 2018[(3)]
E	$50.0	Uncommitted	August 25, 2018

(1) Maximum amount available at any one time.
(2) The maximum amount under the program will be reduced to $650.0 million on February 1, 2018.
(3) Any party may elect to terminate the agreement upon 15 days prior notice.

In connection with the trade accounts receivable sale programs, the Company recognized the following (in millions):

	Three months ended	
	November 30, 2017	November 30, 2016
Trade accounts receivable sold[(1)]	$ 1,095	$ 944
Cash proceeds received	$ 1,092	$ 943

(1) The resulting losses on the sales of trade accounts receivable during the three months ended November 30, 2017 and 2016 were not material and were recorded to other expense within the Condensed Consolidated Statements of Operations.

8. 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, 2017 to November 30, 2017 (in thousands):

	Foreign Currency Translation Adjustment [(1)]	Derivative Instruments [(2)]	Actuarial (Loss) Gain	Prior Service Cost	Available for Sale Securities[(3)]	Total
Balance as of August 31, 2017	$ 57,582	$ 29,967	$ (33,215)	$ 889	$ (603)	$ 54,620
Other comprehensive income (loss) before reclassifications	(3,801)	7,744	(423)		(1,465)	2,055

Amounts reclassified from AOCI		(5,191)				(5,191)
Other comprehensive (loss) income	(3,801)	2,553	(423)		(1,465)	(3,136)
Balance as of November 30, 2017	$ 53,781	$ 32,520	$ (33,638)	$ 889	$ (2,068)	$ 51,484

(1) There is no tax benefit (expense) related to the foreign currency translation adjustment components of AOCI, including reclassification adjustments, for the three months ended November 30, 2017.

(2) $3.5 million of AOCI reclassified into earnings during the three months ended November 30, 2017 for derivative instruments was classified as a reduction of income tax expense. The remaining amount reclassified into earnings was primarily classified as a component of cost of revenue. $11.3 million expected to be reclassified into earnings during the next 12 months will be classified as a reduction of income tax expense. The remaining amount expected to be reclassified into earnings will be classified as a component of cost of revenue. The annual tax benefit (expense) for unrealized gains on derivative instruments is not material for the three months ended November 30, 2017.

(3) There is no tax benefit (expense) related to the available for sale securities components of AOCI, including reclassification adjustments, for the three months ended November 30, 2017.

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9. 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.

The Internal Revenue Service (IRS) completed its field examination of the Company s tax returns for fiscal years 2009 through 2011 and issued a Revenue Agent s Report (RAR) on May 27, 2015, which was updated on June 22, 2016. The IRS completed its field examination of the Company s tax returns for fiscal years 2012 through 2014 and issued an RAR on April 19, 2017. The proposed adjustments in the RAR from both examination periods relate primarily to U.S. taxation of certain intercompany transactions. If the IRS ultimately prevails in its positions, the Company s income tax payment due for the fiscal years 2009 through 2011 and 2012 through 2014 would be approximately $28.6 million and $5.3 million, respectively, after utilization of tax loss carry forwards available through fiscal year 2014. Also, the IRS has proposed interest and penalties with respect to fiscal years 2009 through 2011. The IRS may make similar claims in future audits with respect to these types of transactions. At this time, anticipating the amount of any future IRS proposed adjustments, interest and penalties is not practicable.

The Company disagrees with the proposed adjustments and intends to vigorously contest these matters through the applicable IRS administrative and judicial procedures, as appropriate. As the final resolution of the proposed adjustments remains uncertain, the Company continues to provide for the uncertain tax positions based on the more likely than not standard. While the resolution of the issues may result in tax liabilities, interest and penalties, which may be significantly higher than the amounts accrued for these matters, management currently believes that the resolution will not have a material adverse effect on the Company s financial position, results of operations or cash flows. However, there can be no assurance that management s beliefs will be realized.

10. Derivative Financial Instruments and Hedging Activities

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

Foreign Currency Risk Management

Forward contracts are put in place to manage the foreign currency risk associated with the anticipated foreign currency denominated revenues and expenses. A hedging relationship existed with an aggregate notional amount outstanding of $480.7 million and $314.6 million as of November 30, 2017 and August 31, 2017, respectively. The related forward foreign exchange contracts have been designated as hedging instruments and are accounted for as cash flow hedges. The forward foreign exchange contract transactions will effectively lock in the value of anticipated foreign currency denominated revenues and expenses against foreign currency fluctuations. The anticipated foreign currency denominated revenues and expenses being hedged are expected to occur between December 1, 2017 and August 31, 2018.

In addition to derivatives that are designated as hedging instruments 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 as of November 30, 2017 and August 31, 2017, was $2.4 billion and $2.1 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 November 30, 2017, 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	$	18,731		$ 18,731
Liabilities:				
Forward foreign exchange c				