JABIL CIRCUIT INC
Form 10-Q
April 08, 2011

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended February 28, 2011

or

o **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 þ No o

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 þ No o

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

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

As of March 30, 2011, there were 218,513,166 shares of the registrant s Common Stock outstanding.

JABIL CIRCUIT, INC. AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION
Item 1: FINANCIAL STATEMENTS

JABIL CIRCUIT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	February 28, 2011 (Unaudited)	August 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 902,317	$ 744,329
Trade accounts receivable, net of allowance for doubtful accounts of $7,611 at February 28, 2011 and $13,939 at August 31, 2010	1,051,482	1,408,319
Inventories	2,160,275	2,094,135
Prepaid expenses and other current assets	600,816	349,165
Income taxes receivable	38,213	35,560
Deferred income taxes	19,152	22,510
Total current assets	4,772,255	4,654,018
Property, plant and equipment, net of accumulated depreciation of $1,257,927 at February 28, 2011 and $1,166,807 at August 31, 2010	1,547,394	1,451,392
Goodwill	49,094	28,455
Intangible assets, net of accumulated amortization of $116,088 at February 28, 2011 and $112,687 at August 31, 2010	97,750	104,113
Deferred income taxes	67,497	55,101
Other assets	78,795	74,668
Total assets	$ 6,612,785	$ 6,367,747
LIABILITIES AND EQUITY		
Current liabilities:		
Current installments of notes payable and long-term debt	$ 137,508	$ 167,566
Accounts payable	2,672,382	2,741,719
Accrued expenses	699,002	672,252
Income taxes payable	33,275	19,236
Deferred income taxes	4,814	4,401
Total current liabilities	3,546,981	3,605,174
Notes payable and long-term debt, less current installments	1,100,547	1,018,930
Other liabilities	62,711	63,058
Income tax liability	91,889	86,351
Deferred income taxes	2,260	1,462
Total liabilities	4,804,388	4,774,975

Commitments and contingencies Equity:			
Jabil Circuit, Inc. stockholders equity:			
Common stock, $0.001 par value, authorized 500,000,000 shares; 223,439,475 and 219,532,908 shares issued and 213,723,960 and 210,496,989 shares outstanding at February 28, 2011 and August 31, 2010, respectively		223	220
Additional paid-in capital		1,595,848	1,541,507
Retained earnings		253,664	123,303
Accumulated other comprehensive income		161,219	122,062
Treasury stock at cost, 9,715,515 shares at February 28, 2011 and 9,035,919 shares at August 31, 2010		(218,768)	(209,046)
Total Jabil Circuit, Inc. stockholders equity		1,792,186	1,578,046
Noncontrolling interests		16,211	14,726
Total equity		1,808,397	1,592,772
Total liabilities and equity	$	6,612,785	$ 6,367,747

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 February 28, 2011	Three months ended February 28, 2010	Six months ended February 28, 2011	Six months ended February 28, 2010
Net revenue	$ 3,928,663	$ 3,004,644	$ 8,010,844	$ 6,092,900
Cost of revenue	3,632,263	2,781,898	7,403,853	5,638,378
Gross profit	296,400	222,746	606,991	454,522
Operating expenses:				
Selling, general and administrative	141,807	146,264	284,256	277,817
Research and development	6,540	7,425	12,281	15,122
Amortization of intangibles	5,665	6,643	11,634	13,748
Restructuring and impairment charges	196	635	628	4,070
Settlement of receivables and related charges	13,607		13,607	
Loss on disposal of subsidiaries	23,944		23,944	15,722
Operating income	104,641	61,779	260,641	128,043
Other expense	847	1,125	647	2,163
Interest income	(739)	(644)	(1,589)	(1,551)
Interest expense	25,777	20,030	47,939	40,146
Income before income tax	78,756	41,268	213,644	87,285
Income tax expense	23,038	11,446	50,515	28,582
Net income	55,718	29,822	163,129	58,703
Net income (loss) attributable to noncontrolling interests, net of income tax expense	315	(8)	1,049	585
Net income attributable to Jabil Circuit, Inc.	$ 55,403	$ 29,830	$ 162,080	$ 58,118
Earnings per share attributable to the stockholders of Jabil Circuit, Inc.:				
Basic	$ 0.26	$ 0.14	$ 0.75	$ 0.27
Diluted	$ 0.25	$ 0.14	$ 0.74	$ 0.27
Weighted average shares outstanding:				
Basic	215,170	213,625	214,781	214,040
Diluted	221,022	214,760	219,469	215,916

Cash dividends declared per common share	$	0.07	$	0.07	$	0.14	$	0.14

See accompanying notes to Condensed Consolidated Financial Statements.

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JABIL CIRCUIT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)
(Unaudited)

	Three months ended		Six months ended	
	February 28, 2011	**February 28, 2010**	**February 28, 2011**	**February 28, 2010**
Net income	$ 55,718	$ 29,822	$ 163,129	$ 58,703
Other comprehensive income (loss):				
Foreign currency translation adjustment	25,265	(33,028)	35,996	(25,307)
Change in fair value of derivative instruments, net of tax	1,680	(1,926)	2,529	(166)
Amortization of loss on hedge arrangements, net of tax	(147)	2,025	632	2,537
Comprehensive income (loss)	82,516	(3,107)	202,286	35,767
Comprehensive income (loss) attributable to noncontrolling interests	315	(8)	1,049	585
Comprehensive income (loss) attributable to Jabil Circuit, Inc.	$ 82,201	$ (3,099)	$ 201,237	$ 35,182

Accumulated foreign currency translation adjustments were $204.4 million at February 28, 2011 and $168.4 million at August 31, 2010. Foreign currency translation adjustments primarily consist of adjustments to consolidate subsidiaries that use a foreign currency as their functional currency.

See accompanying notes to Condensed Consolidated Financial Statements.

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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	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Noncontrolling Interests	Total Equity
Balance at August 31, 2010	210,496,989	$ 220	$ 1,541,507	$ 123,303	$ 122,062	$ (209,046)	$ 14,726	$ 1,592,772
Shares issued upon exercise of stock options	654,929		9,145					9,145
Shares issued under employee stock purchase plan	506,250	1	5,648					5,649
Issuance and vesting of restricted stock awards	2,745,143	2	(2)					
Purchases of treasury stock under employee stock plans	(679,351)					(9,722)		(9,722)
Recognition of stock-based compensation			39,718					39,718
Tax (shortfall) of options exercised			(168)					(168)
Declared dividends				(31,719)				(31,719)
Comprehensive income				162,080	39,157		1,049	202,286
Foreign currency adjustments attributable to noncontrolling interests							436	436
Balance at February 28, 2011	213,723,960	$ 223	$ 1,595,848	$ 253,664	$ 161,219	$ (218,768)	$ 16,211	$ 1,808,397

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, 2011	Six months ended February 28, 2010
Cash flows from operating activities:		
Net income	$ 163,129	$ 58,703
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	151,874	142,461
Recognition of deferred grant proceeds	(977)	(979)
Amortization of loss on hedge arrangement	1,953	1,975
Amortization of debt issuance costs and discount	2,734	1,844
Recognition of stock-based compensation expense	39,801	40,493
Deferred income taxes	(6,682)	(4,709)
Restructuring and impairment charges	628	4,070
Provision for allowance for doubtful accounts and notes receivable	225	(264)
Excess tax benefit from options exercised	(72)	(125)
Loss on sale of property	1,983	3,302
Settlement of receivables and related charges	12,673	
Loss on disposal of subsidiaries	23,944	12,756
Change in operating assets and liabilities, exclusive of net assets acquired:		
Trade accounts receivable	178,311	43,214
Inventories	(104,299)	(361,147)
Prepaid expenses and other current assets	(14,590)	(25,152)
Other assets	(10,723)	4,027
Accounts payable and accrued expenses	(84,673)	166,645
Income taxes payable	12,366	17,678
Net cash provided by operating activities	367,605	104,792
Cash flows from investing activities:		
Cash paid for business and intangible asset acquisitions, net of cash acquired	3,985	
Acquisition of property, plant and equipment	(207,347)	(116,371)
Proceeds from sale of property, plant and equipment	9,817	5,325
Cost of receivables acquired, net of cash collections	(33,247)	
Proceeds on disposal of available for sale investments	5,800	
Net cash used in investing activities	(220,992)	(111,046)
Cash flows from financing activities:		
Borrowings under debt agreements	3,149,528	1,948,926
Payments toward debt agreements	(3,100,167)	(1,988,253)

Net proceeds from exercise of stock options and issuance of common stock under employee stock purchase plan		14,794		5,832
Treasury stock minimum tax withholding related to vesting of restricted stock		(9,722)		(3,288)
Dividends paid to stockholders		(30,214)		(29,921)
Bond issuance costs		(14,547)		
Excess tax benefit from options exercised		72		125
Net cash provided by (used in) financing activities		9,744		(66,579)
Effect of exchange rate changes on cash and cash equivalents		1,631		(9,302)
Net increase (decrease) in cash and cash equivalents		157,988		(82,135)
Cash and cash equivalents at beginning of period		744,329		876,272
Cash and cash equivalents at end of period	$	902,317	$	794,137

See accompanying notes to Condensed Consolidated Financial Statements.

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JABIL CIRCUIT, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 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, 2010. Results for the three month and six month periods ended February 28, 2011 are not necessarily an indication of the results that may be expected for the full fiscal year ending August 31, 2011.

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

Note 2. Inventories

The components of inventories consist of the following (in thousands):

	February 28, 2011	August 31, 2010
Raw materials	$ 1,535,767	$ 1,509,886
Work in process	386,028	390,069
Finished goods	238,480	194,180
Total inventories	$ 2,160,275	$ 2,094,135

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

	Three months ended		Six months ended	
	February 28, 2011	February 28, 2010	February 28, 2011	February 28, 2010
Numerator:				
Net income attributable to Jabil Circuit, Inc.	$ 55,403	$ 29,830	$ 162,080	$ 58,118
Denominator for basic and diluted earnings per share:				
Weighted-average common shares outstanding	213,285	209,182	212,374	208,769
	1,885	4,443	2,407	5,271

Share-based payment awards classified as participating securities				
Denominator for basic earnings per share	215,170	213,625	214,781	214,040
Dilutive common shares issuable under the employee stock purchase plan and upon exercise of stock options and stock appreciation rights	915	285	893	157
Dilutive unvested restricted stock awards	4,937	850	3,795	1,719
Denominator for diluted earnings per share	221,022	214,760	219,469	215,916
Earnings per share:				
Income attributable to the stockholders of Jabil Circuit, Inc.:				
Basic	$ 0.26	$ 0.14	$ 0.75	$ 0.27
Diluted	$ 0.25	$ 0.14	$ 0.74	$ 0.27

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For the three months and six months ended February 28, 2011, options to purchase 4,154,857 and 4,190,297 shares of common stock, respectively, and 5,364,409 and 5,401,785 stock appreciation rights, respectively, 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, 2010, options to purchase 5,328,227 and 6,646,807 shares of common stock, respectively, and 7,997,232 and 7,997,567 stock appreciation rights, respectively, were excluded from the computation of diluted earnings per share as their effect would have been anti-dilutive.

b. Dividends

The following table sets forth certain information relating to the Company s cash dividends declared to common stockholders of the Company during the six months ended February 28, 2011 and 2010:

Dividend Information

	Dividend Declaration Date	Dividend per Share	Total Cash Dividends Declared	Date of Record for Dividend Payment	Dividend Cash Payment Date
		(in thousands, except for per share data)			
Fiscal year 2011:	October 25, 2010	$0.07	$15,563	November 15, 2010	December 1, 2010
	January 25, 2011	$0.07	$15,634	February 15, 2011	March 1, 2011
Fiscal year 2010:	October 22, 2009	$0.07	$15,186(1)	November 16, 2009	December 1, 2009
	January 22, 2010	$0.07	$15,238	February 16, 2010	March 1, 2010

(1) Of the $15.2 million in total dividends declared during the first quarter of fiscal year 2010, $14.4 million was paid out of additional paid-in capital (which represents the amount of dividends declared in excess of the Company s retained earnings balance as of the date that the dividend was declared).

Note 4. Stock-Based Compensation

The Company recognizes stock-based compensation expense, reduced for estimated forfeitures, on a straight-line basis over the requisite service period of the award, which is generally the vesting period for outstanding stock awards. The Company recorded $20.3 million and $39.8 million of stock-based compensation expense gross of tax effects, which is included in selling, general and administrative expenses within the Condensed Consolidated Statements of Operations for the three months and six months ended February 28, 2011, respectively. The Company recorded tax effects related to the stock-based compensation expense of $0.3 million and $0.8 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, 2011, respectively. Included in the compensation expense recognized by the Company are $1.3 million and $2.0 million related to the Company s employee stock purchase plan (ESPP) during the three months and six months ended February 28, 2011, respectively. The Company recorded $26.5 million and $40.5 million of gross stock-based compensation expense, which is included in selling, general and administrative expenses within the Condensed Consolidated Statements of Operations for the three months and six months ended February 28, 2010, respectively. The Company recorded tax effects related to the stock-based compensation expense of $0.3 million and $0.6 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, 2010, respectively. Included in the compensation expense recognized by the Company are $1.3 million and $2.2 million related to the Company s ESPP during the three months and six months ended February 28, 2010, respectively. The Company capitalizes stock-based compensation costs related to awards granted to employees whose compensation costs are directly attributable to the cost of inventory. At February 28, 2011 and August 31, 2010, $0.4 million and $0.2 million, respectively, of stock-based compensation costs were classified as inventories on the Condensed Consolidated Balance Sheets.

Cash received from exercises under all share-based payment arrangements, including the Company s ESPP, for the six months ended February 28, 2011 and 2010 was $14.8 million and $5.8 million, respectively. The proceeds for the six months ended February 28, 2011 and 2010 were offset by $9.7 million and $3.3 million, respectively, of restricted shares withheld by the Company to satisfy the minimum amount of its income tax withholding requirements. The market value of the restricted shares withheld was determined on the date that the restricted shares vested and resulted in the withholding of 679,351 shares and 218,782 shares of the Company s common stock during the six months ended February 28, 2011 and 2010, respectively. The shares have been classified as treasury stock on the Condensed Consolidated Balance Sheets. The Company currently expects to satisfy share-based awards with registered shares available to be issued.

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A new stock award and incentive plan (the 2011 Plan) was adopted by the Board of Directors in the first quarter of fiscal year 2011 and approved by the stockholders in the second quarter of fiscal year 2011. The 2011 Plan provides for the granting of restricted stock awards, restricted stock unit awards and other stock-based awards. The maximum aggregate number of shares that may be subject to awards under the 2011 Plan is 8,850,000. If any portion of an outstanding award that was granted under the 2002 Stock Incentive Plan (the 2002 Plan), which was terminated immediately upon the effectiveness of the 2011 Plan, for any reason expires or is terminated or canceled or forfeited on or after the date of termination of the 2002 Plan, the shares allocable to the expired, terminated, canceled, or forfeited portion of such 2002 Plan award shall be available for issuance under the 2011 Plan.

The current ESPP was adopted by the Company s Board of Directors in the first quarter of fiscal year 2002 and approved by the shareholders in the second quarter of fiscal year 2002. Initially there were 2,000,000 shares reserved under the current ESPP. An additional 2,000,000 shares and 3,000,000 shares were authorized for issuance under the current ESPP and approved by stockholders in the second quarter of fiscal years 2006 and 2009, respectively. A new ESPP was adopted by the Company s Board of Directors in the first quarter of fiscal year 2011 and approved by the shareholders in the second quarter of fiscal year 2011 with 6,000,000 shares authorized for issuance. The new ESPP will begin issuing shares after the purchase period ending June 30, 2011. The Company also adopted a tax advantaged sub-plan under the ESPP for its Indian employees. Shares are issued under the Indian sub-plan from the authorized shares under the ESPP.

a. Stock Option and Stock Appreciation Right Plans

The Company applies a lattice valuation model for Options granted, excluding those granted under the ESPP. The lattice valuation model is a more flexible analysis to value employee Options, as compared to a Black-Scholes model, because of its ability to incorporate inputs that change over time, such as volatility and interest rates, and to allow for actual exercise behavior of Option holders.

There were no options granted during the six months ended February 28, 2011. The weighted-average grant-date fair value per share of Options granted during the six months ended February 28, 2010 was $6.36. The total intrinsic value of Options exercised during the six months ended February 28, 2011 and 2010 was $3.5 million and $1.0 million, respectively. As of February 28, 2011, there was $3.0 million of unrecognized compensation costs related to non-vested Options that is expected to be recognized over a weighted-average period of 1.0 year. The total fair value of Options vested during the six months ended February 28, 2011 and 2010 was $4.9 million and $10.2 million, respectively.

Following are the grant date weighted-average and range assumptions, where applicable, used for each respective period:

	Three months ended		Six months ended	
	February 28, 2011	February 28, 2010	February 28, 2011	February 28, 2010
Expected dividend yield	*	1.9%	*	1.9%
Risk-free interest rate	*	0.1% to 3.4%	*	0.1% to 3.4%
Weighted-average expected volatility	*	60.2%	*	60.2%
Weighted-average expected life	*	5.6 years	*	5.6 years

* The Company did not grant Options during the three months and six months ended February 28, 2011.

The following table summarizes Option activity from August 31, 2010 through February 28, 2011:

	Shares Available	Options	Aggregate	Weighted-Average Exercise	Weighted-Average Remaining Contractual

	for Grant	Outstanding	Intrinsic Value (in thousands)	Price	Life (years)
Balance at August 31, 2010	10,480,001	13,154,272	$ 95	$ 24.10	4.09
Options authorized	8,850,000				
Options expired	(810,611)			$ 31.74	
Options granted					
Options canceled	1,072,898	(1,072,898)		$ 9.84	
Restricted stock awards[(1)]	(4,753,554)				
Options exercised		(663,640)		$ 14.08	
Balance at February 28, 2011	14,838,734	11,417,734	$ 14,585	$ 24.10	4.0
Exercisable at February 28, 2011		10,979,767	$ 14,070	$ 24.26	3.9

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

b. Restricted Stock Awards

Certain key employees have been granted time-based, performance-based, and market-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 years and provide a range of vesting possibilities from 0% to 200%, depending on the level of achievement of the specified performance condition. The market-based restricted awards have a vesting condition that is tied to the Standard and Poor s 500 Composite Index.

The stock-based compensation expense for these restricted stock awards (including restricted stock and restricted stock units) is measured at fair value on the date of grant based on the number of shares expected to vest and the quoted market price of the Company s common stock. For restricted stock awards with performance conditions, stock-based compensation expense is originally based on the number of shares that would vest if the Company achieved 100% of the performance goal, which was the probable outcome at the grant date. Throughout the requisite service period, management monitors the probability of achievement of the performance condition. If it becomes probable, based on the Company s performance, that more or less than the current estimate of the awarded shares will vest, an adjustment to stock-based compensation expense will be recognized as a change in accounting estimate. For restricted stock awards with market conditions, the market conditions are considered in the grant date fair value of the award using a lattice model, which utilizes multiple input variables to determine the probability of the Company achieving the specified market conditions. Stock-based compensation expense related to an award with a market condition will be recognized over the requisite service period regardless of whether the market condition is satisfied, provided that the requisite service period has been completed.

At February 28, 2011, there was $99.8 million of total unrecognized stock-based compensation expense related to restricted stock awards granted under the 2002 Plan and 2011 Plan. This expense is expected to be recognized over a weighted-average period of 1.5 years.

The following table summarizes restricted stock activity from August 31, 2010 through February 28, 2011:

	Shares	Weighted - Average Grant-Date Fair Value
Non-vested balance at August 31, 2010	12,189,271	$13.13
Changes during the period		
Shares granted[1]	6,102,534	$14.23
Shares vested	(2,649,143)	$17.03
Shares forfeited	(1,348,980)	$13.04
Non-vested balance at February 28, 2011	14,293,682	$12.88

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

c. Employee Stock Purchase Plan

Employees are eligible to participate in the ESPP after 90 days of employment with the Company. The ESPP permits eligible employees to purchase common stock through payroll deductions, which may not exceed 10% of an employee s compensation, as defined in the ESPP, at a price equal to 85% of the fair value of the common stock at the beginning or end of the offering period, whichever is lower. The ESPP is intended to qualify under Section 423 of the

Internal Revenue Code.

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The maximum number of shares that a participant may purchase in an offering period is determined in June and December. As such, there were 506,250 and 740,720 shares purchased under the ESPP during the six months ended February 28, 2011 and 2010, respectively. At February 28, 2011, a total of 6,297,969 shares had been issued under the ESPP.

The fair value of shares issued under the ESPP was estimated on the commencement date of each offering period using the Black-Scholes option pricing model. The following weighted-average assumptions were used in the model for each respective period:

	Three months ended		Six months ended	
	February 28, 2011	February 28, 2010	February 28, 2011	February 28, 2010
Expected dividend yield	1.1%	0.8%	1.1%	0.8%
Risk-free interest rate	0.2%	0.2%	0.2%	0.2%
Weighted-average expected volatility	49.7%	49.0%	49.7%	49.0%
Expected life	.5 years	.5 years	.5 years	.5 years

Note 5. Concentration of Risk and Segment Data

a. Concentration of Risk

The Company operates in 24 countries worldwide. Sales to unaffiliated customers are based on the Company s location that provides the comprehensive electronics design, production and product management services. The following table sets forth external net revenue, net of intercompany eliminations, and long-lived asset information where individual countries represent a material portion of the total (in thousands):

	Three months ended		Six months ended	
	February 28, 2011	February 28, 2010	February 28, 2011	February 28, 2010
External net revenue:				
Mexico	$ 943,808	$ 716,051	$ 1,958,835	$ 1,559,181
China	791,137	520,147	1,595,142	1,137,750
United States	591,461	509,953	1,144,807	938,834
Hungary	416,137	282,061	839,016	522,103
Malaysia	280,228	280,272	556,547	499,842
Brazil	171,052	137,958	371,331	272,690
Other	734,840	558,202	1,545,166	1,162,500
	$ 3,928,663	$ 3,004,644	$ 8,010,844	$ 6,092,900

	February 28, 2011	August 31, 2010
Long-lived assets:		
China	$ 513,366	$ 483,181
United States	257,839	255,108
Mexico	203,294	212,409
Poland	124,065	98,395
Taiwan	116,465	110,237
Malaysia	114,907	102,700
Other	364,302	321,930

	$ 1,694,238	$ 1,583,960

Total foreign source net revenue represented 84.9% and 85.7% of net revenue for the three months and six months ended February 28, 2011, respectively, compared to 83.0% and 84.6% for the three months and six months ended February 28, 2010, respectively.

Sales of the Company s products are concentrated among specific customers. For the six months ended February 28, 2011, the Company s five largest customers accounted for approximately 47% of its net revenue and 49 customers accounted for approximately 90% of its net revenue. Sales to the above customers were reported in the Diversified Manufacturing Services (DMS), Enterprise & Infrastructure (E&I) and High Velocity Systems (HVS) segments.

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Production levels for the HVS segment 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 HVS segment 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 it may earn revenues and incur expenses; for which separate financial information is available; and whose operating results are regularly reviewed by the chief operating decision maker to assess the performance of the individual segment and make decisions about resources to be allocated to the segment.

The Company derives its revenue from providing comprehensive electronics design, production and product management services. Management, including the Chief Executive Officer, the Chief Financial Officer and the Chief Operating Officer evaluates performance and allocates resources on a segment basis. Prior to the first quarter of fiscal year 2011, the Company managed its business based on three segments, Electronic Manufacturing Services, Consumer and Aftermarket Services. On September 1, 2010, the Company reorganized its reporting structure to align with the chief operating decision maker s management of resource allocation and performance assessment. Accordingly, the Company s operating segments now consist of three segments DMS, E&I and HVS. All prior period disclosures below have been restated to reflect this change.

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

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

	Three months ended		Six months ended	
	February 28, 2011	**February 28, 2010**	**February 28, 2011**	**February 28, 2010**
Net revenue				
DMS	$ 1,401,361	$ 951,242	$ 2,796,005	$ 1,904,605
E&I	1,236,805	1,038,261	2,400,917	1,941,246
HVS	1,290,497	1,015,141	2,813,922	2,247,049
	$ 3,928,663	$ 3,004,644	$ 8,010,844	$ 6,092,900

Segment income and reconciliation of income before income tax

	Three months ended		Six months ended	
	February 28, 2011	**February 28, 2010**	**February 28, 2011**	**February 28, 2010**
DMS	$ 85,908	$ 40,888	$ 181,184	$ 99,382
E&I	57,271	46,820	109,358	76,806
HVS	25,175	7,861	59,713	25,888

Total segment income	168,354	95,569	350,255	202,076
Reconciling items:				
Stock-based compensation expense	20,301	26,512	39,801	40,493
Amortization of intangibles	5,665	6,643	11,634	13,748
Restructuring and impairment charges	196	635	628	4,070
Settlement of receivables and related charges	13,607		13,607	
Loss on disposal of subsidiaries	23,944		23,944	15,722
Other expense	847	1,125	647	2,163

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	Three months ended		Six months ended	
	February 28, 2011	February 28, 2010	February 28, 2011	February 28, 2010
Interest income	(739)	(644)	(1,589)	(1,551)
Interest expense	25,777	20,030	47,939	40,146
Income before income tax	$ 78,756	$ 41,268	$ 213,644	$ 87,285

	February 28, 2011	August 31, 2010
Total assets		
DMS	$ 2,176,440	$ 2,194,998
E&I	1,252,744	1,033,910
HVS	1,108,403	1,469,476
Other non-allocated assets	2,075,198	1,669,363
	$ 6,612,785	$ 6,367,747

Note 6. Commitments and Contingencies

a. Legal Proceedings

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

b. Warranty Provision

The Company maintains a provision for limited warranty repair of shipped products, which is established under the terms of specific manufacturing contract agreements. The warranty liability is included in accrued expenses on the Condensed Consolidated Balance Sheets. The warranty period varies by product and customer industry sector. The provision represents management s estimate of probable liabilities, calculated as a function of sales volume and historical repair experience, for each product under warranty. The estimate is re-evaluated periodically for accuracy. A rollforward of the warranty liability for the six months ended February 28, 2011 and 2010 is as follows (in thousands):

	Amount
Balance at August 31, 2010	$ 10,828
Accruals for warranties	3,960
Warranty liabilities acquired	3,986
Settlements	(96)
Balance at February 28, 2011	$ 18,678

	Amount
Balance at August 31, 2009	$ 14,280
Accruals for warranties	4,237
Settlements	(4,215)
Balance at February 28, 2010	$ 14,302

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Note 7. Goodwill and Other Intangible Assets

The Company performs a goodwill impairment analysis using the two-step method on an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The recoverability of goodwill is measured at the reporting unit level, which the Company has determined to be consistent with its operating segments, by comparing the reporting unit s carrying amount, including goodwill, to the fair value of the reporting unit. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired and a second step is performed to measure the amount of loss, if any.

The Company completed its annual impairment test for goodwill during the fourth quarter of fiscal year 2010 and determined the fair values of the reporting units were substantially in excess of the carrying values and that no impairment existed as of the date of the impairment test. For each annual impairment test the Company consistently determines the fair value of its reporting units based on an average weighting of both projected discounted future results and the use of comparative market multiples. On September 1, 2010, the Company reorganized its business into the DMS, E&I and HVS segments. In doing so, the Company reassigned its goodwill to the new reporting units (which are deemed to be consistent with the new segments) and was required to perform an interim goodwill impairment test based on these new reporting units. Based on this interim goodwill impairment test, the Company determined that the fair values of its new reporting units were substantially in excess of the carrying values and that no impairment existed as of the date of the interim impairment test.

The following table presents the changes in goodwill allocated to the Company s reportable segments during the six months ended February 28, 2011 (in thousands):

	August 31, 2010				February 28, 2011		
Reportable Segment	**Gross Balance**	**Accumulated Impairment Balance**	**Acquisitions & Adjustments**	**Foreign Currency Impact**	**Gross Balance**	**Accumulated Impairment Balance**	**Net Balance**
DMS	$ 583,423	$ (558,768)	$	$ 377	$ 583,800	$ (558,768)	$ 25,032
E&I	335,584	(331,784)	20,262		355,846	(331,784)	24,062
HVS	132,269	(132,269)			132,269	(132,269)	
Total	$ 1,051,276	$ (1,022,821)	$ 20,262	$ 377	$ 1,071,915	$ (1,022,821)	$ 49,094

Intangible assets consist primarily of contractual agreements and customer relationships, which are being amortized on a straight-line basis over periods of up to 10 years, intellectual property which is being amortized on a straight-line basis over a period of up to five years and a trade name which has an indefinite life. The Company completed its annual impairment test for its indefinite-lived intangible asset during the fourth quarter of fiscal year 2010 and determined that no impairment existed as of the date of the impairment test. Significant judgments inherent in this analysis included assumptions regarding appropriate revenue growth rates, discount rates and royalty rates. No significant residual value is estimated for the amortizable intangible assets. The value of the Company s intangible assets purchased through business acquisitions is principally determined based on valuations of the net assets acquired. The following tables present the Company s total purchased intangible assets at February 28, 2011 and August 31, 2010 (in thousands):

February 28, 2011	**Gross carrying amount**	**Accumulated amortization**	**Net carrying amount**
Contractual agreements and customer relationships	$ 84,746	$ (48,660)	$ 36,086
Intellectual property	77,535	(67,428)	10,107
Trade name	51,557		51,557

Total	$ 213,838	$ (116,088)	$ 97,750

August 31, 2010	Gross carrying amount	Accumulated amortization	Net carrying amount
Contractual agreements and customer relationships	$ 83,746	$ (43,698)	$ 40,048
Intellectual property	85,166	(68,989)	16,177
Trade name	47,888		47,888
Total	$ 216,800	$ (112,687)	$ 104,113

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The weighted-average amortization period for aggregate net intangible assets at February 28, 2011 is 7.6 years, which includes a weighted-average amortization period of 9.5 years for net contractual agreements and customer relationships and a weighted-average amortization period of 5.0 years for net intellectual property.

The estimated future amortization expense is as follows (in thousands):

Fiscal year ending August 31,	**Amount**
2011 (remaining six months)	$ 10,222
2012	13,228
2013	8,837
2014	7,653
2015	4,748
Thereafter	1,505
Total	$ 46,193

Note 8. Trade Accounts Receivable Securitization and Sale Programs

The Company regularly sells designated pools of trade accounts receivable under two asset-backed securitization programs, two trade accounts receivable sale programs and a factoring program.

a. Asset-Backed Securitization Program

In connection with the asset-backed securitization program, the Company regularly sells a designated pool of trade accounts receivable to a wholly-owned subsidiary, which in turn sells 100% of the eli