

SANMINA CORP
Form 10-Q
February 03, 2017

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 December 31, 2016

or

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

For the transition period from _____ to _____.

Commission File Number 0-21272

Sanmina Corporation

(Exact name of registrant as specified in its charter)

Delaware 77-0228183
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

2700 N. First St., San Jose, CA 95134
(Address of principal executive offices) (Zip Code)

(408) 964-3500
(Registrant's telephone number, including area code)

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

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

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

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

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

As of January 30, 2017, there were 74,293,480 shares outstanding of the issuer's common stock, \$0.01 par value per share.

SANMINA CORPORATION

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SANMINA CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

	As of	
	December 31,	October 1,
	2016	2016
	(Unaudited)	
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$405,240	\$398,288
Accounts receivable, net of allowances of \$16,866 and \$15,081 as of December 31, 2016 and October 1, 2016, respectively	993,049	973,680
Inventories	963,905	946,239
Prepaid expenses and other current assets	55,394	57,445
Total current assets	2,417,588	2,375,652
Property, plant and equipment, net	620,911	617,524
Deferred tax assets	513,020	514,314
Other	116,468	117,732
Total assets	\$3,667,987	\$3,625,222
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$1,171,230	\$1,121,135
Accrued liabilities	115,371	124,386
Accrued payroll and related benefits	105,232	127,326
Short-term debt, including current portion of long-term debt	43,416	28,416
Total current liabilities	1,435,249	1,401,263
Long-term liabilities:		
Long-term debt	393,298	434,059
Other	176,674	180,097
Total long-term liabilities	569,972	614,156
Contingencies (Note 5)		
Stockholders' equity	1,662,766	1,609,803
Total liabilities and stockholders' equity	\$3,667,987	\$3,625,222

See accompanying notes to condensed consolidated financial statements.

SANMINA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Three Months Ended
 December 31, January 2,
 2016 2016
 (Unaudited)
 (In thousands, except per
 share data)

Net sales	\$ 1,719,977	\$ 1,534,714
Cost of sales	1,587,815	1,411,076
Gross profit	132,162	123,638
Operating expenses:		
Selling, general and administrative	65,140	57,693
Research and development	8,171	9,647
Other	195	2,245
Total operating expenses	73,506	69,585
Operating income	58,656	54,053
Interest income	201	148
Interest expense	(5,267)	(5,878)
Other income (expense), net	1,257	(218)
Interest and other, net	(3,809)	(5,948)
Income before income taxes	54,847	48,105
Provision for income taxes	9,983	20,967
Net income	\$44,864	\$27,138
Net income per share:		
Basic	\$0.61	\$0.35
Diluted	\$0.58	\$0.33
Weighted average shares used in computing per share amounts:		
Basic	73,554	77,921
Diluted	77,175	81,205

See accompanying notes to condensed consolidated financial statements.

SANMINA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended	
	December 31, 2016	February 2, 2016
	(Unaudited)	
	(In thousands)	
Net income	\$44,864	\$27,138
Other comprehensive income (loss), net of tax:		
Change in foreign currency translation adjustments	(2,156)	(891)
Derivative financial instruments:		
Change in net unrealized amount	(2,169)	364
Amount reclassified into net income	1,926	(295)
Defined benefit plans:		
Changes in unrecognized net actuarial loss and unrecognized transition cost	1,060	375
Amortization of actuarial losses and transition costs	599	422
Total other comprehensive loss	(740)	(25)
Comprehensive income	\$44,124	\$27,113

See accompanying notes to condensed consolidated financial statements.

SANMINA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended	
	December 31,	January 2,
	2016	2016
	(Unaudited)	
	(In thousands)	
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net income	\$44,864	\$27,138
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	28,972	25,751
Stock-based compensation expense	11,977	4,052
Deferred income taxes	1,477	12,326
Other, net	644	1,270
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(22,849)	5,848
Inventories	(19,306)	22,508
Prepaid expenses and other assets	1,614	429
Accounts payable	39,391	(12,557)
Accrued liabilities	(32,857)	(24,105)
Cash provided by operating activities	53,927	62,660
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(21,667)	(28,910)
Proceeds from sales of property, plant and equipment	3,582	202
Cash used in investing activities	(18,085)	(28,708)
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Proceeds from revolving credit facility borrowings	208,400	770,500
Repayments of revolving credit facility borrowings	(233,400)	(794,500)
Net proceeds from stock issuances	10,643	4,310
Repurchases of common stock	(13,623)	(28,694)
Holdback payment for a prior business combination	(2,262)	—
Cash used in financing activities	(30,242)	(48,384)
Effect of exchange rate changes	1,352	626
Increase (decrease) in cash and cash equivalents	6,952	(13,806)
Cash and cash equivalents at beginning of period	398,288	412,253
Cash and cash equivalents at end of period	\$405,240	\$398,447
Cash paid during the period for:		
Interest, net of capitalized interest	\$8,543	\$8,957
Income taxes, net of refunds	\$5,593	\$9,339

See accompanying notes to condensed consolidated financial statements.

SANMINA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Sanmina Corporation (the "Company") have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been omitted pursuant to those rules or regulations. The interim condensed consolidated financial statements are unaudited, but reflect all adjustments, consisting primarily of normal recurring adjustments, that are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended October 1, 2016, included in the Company's 2016 Annual Report on Form 10-K.

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

Results of operations for the first quarter of 2017 are not necessarily indicative of the results that may be expected for other interim periods or for the full fiscal year.

The Company operates on a 52 or 53 week year ending on the Saturday nearest September 30. Fiscal 2017 and 2016 are each 52-week years. All references to years relate to fiscal years unless otherwise noted.

Recent Accounting Pronouncements Adopted

In August 2016, the FASB issued ASU 2016-15 "Classification of Certain Cash Receipts and Cash Payments (Topic 230)". This ASU addresses the classification and presentation of eight specific cash flow issues that currently result in diverse practices. The Company adopted this ASU at the beginning of fiscal 2017, the adoption of which did not have a significant effect on the statement of cash flows.

In September 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments (Topic 805)". This ASU requires the Company to recognize adjustments to provisional amounts identified during the measurement period in the reporting period in which the adjustments are determined. Additionally, the Company is required to disclose the amount recorded in current-period earnings that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The Company adopted this ASU at the beginning of fiscal 2017, the adoption of which did not affect the Company's financial statements.

In April 2015, the FASB issued ASU 2015-3, "Simplifying the Presentation of Debt Issuance Costs (Topic 835)". This ASU requires presentation of debt issuance costs in the balance sheet as a direct deduction from the related debt liability, rather than as an asset. The Company adopted this ASU at the beginning of fiscal 2017, the adoption of which did not affect the Company's financial statements.

Recent Accounting Pronouncements Not Yet Adopted

In January 2017, the FASB issued Accounting Standards Update ("ASU") 2017-01, "Business Combinations (Topic 805)". This ASU provides guidance to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The new standard is effective for annual reporting periods beginning after December 15, 2017 and interim periods within those annual periods. The Company is currently evaluating the impact, if any, of adopting this new accounting standard.

In November 2016, the FASB issued ASU 2016-18 "Statement of Cash Flows (Topic 230)". This ASU addresses presentations of total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.

This ASU is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. The Company does not expect the impact of adopting this new accounting standard to be significant.

In October 2016, the FASB issued Accounting Standards Update 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory (Topic 740)". This ASU simplifies the accounting for income tax consequences of intra-entity transfers of assets other than inventory by requiring recognition of current and deferred income tax consequences when such transfers occur. The new standard is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those annual period, but early adoption is permitted. The Company is currently evaluating the impact of adopting this new accounting standard.

In March 2016, the FASB issued ASU 2016-09 "Improvements to Employee Share-Based Payment Accounting (Topic 718)". This ASU addresses several aspects of accounting for share-based payment award transactions, including: (a) income tax consequences, (b) classification of awards as either equity or liabilities, and (c) classification in the statement of cash flows. The new standard is effective for the Company at the beginning of fiscal 2018, including interim periods within that reporting period, but early adoption is allowed. The Company is currently evaluating the impact of adopting this new accounting standard.

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

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

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)." This ASU requires an entity to recognize revenue when goods are transferred or services are provided to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires disclosures enabling users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for the Company in fiscal 2019, including interim periods within that reporting period, using one of two prescribed transition methods. The Company has determined that the new standard will result in a change to the timing of revenue recognition for a significant portion of the Company's revenue stream, whereby revenue will be recognized "over time" as opposed to at a "point in time" upon physical delivery. The new standard could have a material impact to the Company's consolidated financial statements upon initial adoption. The Company has not yet selected a transition method and continues to closely monitor implementation issues and other guidance published by the standard setters.

Note 2. Inventories

Components of inventories were as follows:

	As of	
	December 31,	October 1,
	2016	2016
	(In thousands)	
Raw materials	\$695,421	\$671,240
Work-in-process	128,848	144,355
Finished goods	139,636	130,644
Total	\$963,905	\$946,239

Note 3. Financial Instruments

Fair Value Measurements

Fair Value of Financial Instruments

The fair values of cash equivalents (generally less than 10% of cash and cash equivalents), accounts receivable, accounts payable and short-term debt approximate carrying value due to the short term duration of these instruments.

Fair Value Option for Long-term Debt

As of December 31, 2016, the aggregate carrying amount of the Company's long-term debt instruments was approximately 2% less than fair value as estimated based primarily on quoted prices (Level 2 input). The Company has elected not to record its long-term debt instruments at fair value.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company's primary financial assets and financial liabilities measured at fair value on a recurring basis are deferred compensation plan assets and defined benefit plan assets, which are both Level 1 inputs. Defined benefit plan assets are measured at fair value in the fourth quarter of each year. Foreign exchange contracts and contingent consideration were not material as of December 31, 2016 or October 1, 2016.

Offsetting Derivative Assets and Liabilities

The Company has entered into master netting arrangements with each of its derivative counterparties that allows net settlement of derivative assets and liabilities under certain conditions, such as multiple transactions with the same currency maturing on the same date. The Company presents its derivative assets and derivative liabilities on a gross basis in the unaudited condensed consolidated balance sheets. The amount that the Company had the right to offset under these netting arrangements was not material as of December 31, 2016 or October 1, 2016.

Other non-financial assets, such as intangible assets and goodwill, are measured at fair value as of the date such assets are acquired or in the period an impairment is recorded.

Derivative Instruments

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

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

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

As of
December 31, 2016
October 1, 2016

Derivatives Designated as Accounting Hedges:

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Notional amount (in thousands)	\$81,121	\$ 110,242
Number of contracts	47	43
Derivatives Not Designated as Accounting Hedges:		
Notional amount (in thousands)	\$339,304	\$313,558
Number of contracts	51	46

The Company utilizes foreign currency forward contracts to hedge certain operational (“cash flow”) exposures resulting from changes in foreign currency exchange rates. Such exposures generally result from (1) forecasted sales denominated in currencies other than those used to pay for materials and labor, (2) forecasted non-functional currency labor and

overhead expenses, (3) forecasted non-functional currency operating expenses and (4) anticipated capital expenditures denominated in a currency other than the functional currency of the entity making the expenditures. These contracts are designated as cash flow hedges for accounting purposes and are generally one-to-two months in duration but, by policy, may be up to twelve months in duration.

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is recorded in Accumulated Other Comprehensive Income ("AOCI"), a component of equity, and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The amount of gain (loss) recognized in Other Comprehensive Income ("OCI") on derivative instruments (effective portion), the amount of gain (loss) reclassified from AOCI into income (effective portion) and the amount of ineffectiveness were not material for any period presented herein. As of December 31, 2016, AOCI related to foreign currency forward contracts was not material.

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

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

Note 4. Debt

Long-term debt consisted of the following:

	As of	
	December 31, 2016	October 1, 2016
	(In thousands)	
Secured debt due 2017	\$40,000	\$40,000
Senior secured notes due 2019	375,000	375,000
Non-interest bearing promissory notes	21,714	22,475
Total long-term debt	436,714	437,475
Less: Current portion (includes Secured debt due 2017)	43,416	3,416
Long-term debt	\$393,298	\$434,059

On January 31, 2017, subsequent to the end of the first quarter of 2017, the Company made an irrevocable election to repay its Secured debt due 2017 prior to its scheduled maturity of December 19, 2017. Accordingly, this debt obligation of \$40.0 million will be paid on February 7, 2017, with no penalty for early repayment.

Short-term debt

The Company has a \$375 million secured revolving credit facility (the "Cash Flow Revolver") that may be increased by an additional \$125 million upon obtaining additional commitments from lenders then party to the Cash Flow Revolver or new lenders. The Cash Flow Revolver expires on May 20, 2020, but may be terminated by the lenders as

early as March 4, 2019 if certain conditions exist. As of December 31, 2016, there were no borrowings and \$16.8 million of letters of credit were outstanding under the Cash Flow Revolver.

As of December 31, 2016, certain foreign subsidiaries of the Company had a total of \$74.0 million of short-term borrowing facilities, under which no borrowings were outstanding. Most of these facilities expire at various dates through the first quarter of 2018.

Debt covenants

The Company's Cash Flow Revolver requires the Company to comply with certain financial covenants. Additionally, the agreement governing the Company's \$40 million debt collateralized by the Company's corporate campus requires the Company to comply with a financial covenant if certain conditions exist, none of which existed as of December 31, 2016. This covenant will no longer be applicable after February 7, 2017 when such debt is repaid.

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

The Company was in compliance with these covenants as of December 31, 2016.

Note 5. Contingencies

From time to time, the Company is a party to litigation, claims and other contingencies, including environmental and employee matters and examinations and investigations by governmental agencies, which arise in the ordinary course of business. The Company records a contingent liability when it is probable that a loss has been incurred and the amount of loss is reasonably estimable in accordance with ASC Topic 450, Contingencies, or other applicable accounting standards. As of December 31, 2016 and October 1, 2016, the Company had reserves of \$42.2 million and \$46 million, respectively, for environmental matters, warranty, litigation and other contingencies (excluding reserves for uncertain tax positions) which the Company believes are adequate. However, there can be no assurance that the Company's reserves will be sufficient to settle these contingencies. Such reserves are included in accrued liabilities and other long-term liabilities on the unaudited condensed consolidated balance sheets.

Legal Proceedings

Environmental Matters

The Company is subject to various federal, state, local and foreign laws, regulations and administrative orders concerning environmental protection, including those addressing the discharge of pollutants into the environment, the management and handling of hazardous substances, the cleanup of contaminated sites, the materials used in products, and the generation, recycling, treatment and disposal of hazardous waste. As of December 31, 2016, the Company had been named in a lawsuit and several administrative orders alleging certain of its current and former sites contributed to groundwater contamination. One such order requires the Company's Canadian subsidiary to remediate certain environmental contamination at a site owned by the subsidiary between 1999 and 2006. As of December 31, 2016, the Company believes it has reserved a sufficient amount to satisfy anticipated future investigation and remediation costs at this site.

In June 2008, the Company was named by the Orange County Water District in a suit alleging that its actions contributed to polluted groundwater managed by the plaintiff. The complaint seeks recovery of compensatory and other damages, as well as declaratory relief, for the payment of costs necessary to investigate, monitor, remediate, abate and contain contamination of groundwater within the plaintiff's control. In April 2013, all claims against the Company were dismissed. The plaintiff has appealed this dismissal and the Company expects the appeal to be heard in calendar 2017.

Other Matters

Two of the Company's subsidiaries in Brazil are parties to several administrative and judicial proceedings for claims alleging that these subsidiaries failed to comply with certain bookkeeping and tax rules for certain periods between 2001 and 2011. These claims seek payment of social fund contributions and income and excise taxes allegedly owed by the subsidiaries, as well as fines. The subsidiaries believe they have meritorious positions in these matters and intend to continue to contest the claims.

Other Contingencies

One of the Company's most significant risks is the ultimate realization of accounts receivable and customer inventory exposures. This risk is partially mitigated by ongoing credit evaluations of, and frequent contact with, the Company's customers, especially its most significant customers, thus enabling it to monitor changes in business operations and respond accordingly. Customer bankruptcies also entail the risk of potential recovery by the bankruptcy estate of amounts previously paid to the Company that are deemed a preference under bankruptcy laws.

Note 6. Income Tax

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

The provision for income taxes for the first quarter of 2017 and 2016 was \$10.0 million (18.2% of income before taxes) and \$21.0 million (43.6% of income before taxes), respectively. The decrease in income tax expense in 2017 was primarily attributable to a tax benefit resulting from the restructuring of certain foreign entities.

Note 7. Stockholder's Equity

Accumulated Other Comprehensive Income

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

	As of	
	December 31,	October 1,
	2016	2016
	(In thousands)	
Foreign currency translation adjustments	\$88,208	\$90,364
Unrealized holding losses on derivative financial instruments	(682)	(439)
Unrecognized net actuarial loss and transition cost for benefit plans	(22,885)	(24,544)
Total	\$64,641	\$65,381

Stock Repurchase Program

The Company did not repurchase any of its common stock in the open market during the first quarter of 2017 and repurchased 1.4 million shares of its common stock for \$28.7 million during the first quarter of 2016. As of December 31, 2016, \$212.8 million remains available under a stock repurchase program authorized by the Company's Board of Directors in 2016. This authorization has no expiration date.

In addition to the open market repurchases discussed above, the Company repurchased 453,000 and 20,000 shares of its common stock during the three months ended December 31, 2016 and January 2, 2016, respectively, in settlement of employee tax withholding obligations due upon the vesting of restricted stock units. The Company paid \$13.6 million and \$0.5 million, respectively, in conjunction with these repurchases.

Note 8. Business Segment, Geographic and Customer Information

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

The Company's operations are managed as two businesses: Integrated Manufacturing Solutions (IMS) and Components, Products and Services (CPS). The Company's CPS business consists of multiple operating segments which do not meet the quantitative threshold for being presented as reportable segments. Therefore, financial

information for these operating segments is presented in a single category entitled "CPS" and the Company has only one reportable segment - IMS.

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

	Three Months Ended	
	December 31,	January 2,
	2016	2016
	(In thousands)	
Gross sales:		
IMS	\$ 1,414,270	\$ 1,239,268
CPS	351,074	345,648
Intersegment revenue	(45,367)	(50,202)
Net sales	\$ 1,719,977	\$ 1,534,714
Gross profit:		
IMS	\$ 102,637	\$ 95,609
CPS	33,289	30,102
Total	135,926	125,711
Unallocated items (1)	(3,764)	(2,073)
Total	\$ 132,162	\$ 123,638

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

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

	Three Months Ended	
	December 31,	January 2,
	2016	2016
	(In thousands)	
Net sales		
United States	\$ 299,876	\$ 254,379
Mexico	474,160	484,970
China	321,739	367,259
Malaysia	211,191	46,608
Other international	413,011	381,498
Total	\$ 1,719,977	\$ 1,534,714
Percentage of net sales represented by ten largest customers	51.8%	48.2%
Number of customers representing 10% or more of net sales	2	—

Note 9. Earnings Per Share

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

	Three Months Ended December 31, / January 2, 2016 2016 (In thousands, except per share data)	
Numerator:		
Net income	\$44,864	\$ 27,138
Denominator:		
Weighted average common shares outstanding	73,554	77,921
Effect of dilutive stock options and restricted stock units	3,621	3,284
Denominator for diluted earnings per share	77,175	81,205
Net income per share:		
Basic	\$0.61	\$ 0.35
Diluted	\$0.58	\$ 0.33

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

	Three Months Ended December 31, / January 2, 2016 2016 (In thousands)	
Potentially dilutive securities:		
Employee stock options	29	779
Restricted stock units	72	2
Total	101	781

Note 10. Stock-Based Compensation

Stock-based compensation expense was attributable to:

	Three Months Ended December 31, / January 2, 2016 2016 (In thousands)	
Stock options	\$550	\$ 1,240
Restricted stock units, including performance based awards	11,427	2,812
Total	\$11,977	\$ 4,052

Stock-based compensation expense was recognized as follows:

	Three Months	
	Ended	
	December	January 2,
	2016	2016
	(In thousands)	
Cost of sales	\$2,864	\$ 1,405
Selling, general and administrative	8,840	2,566
Research and development	273	81
Total	\$11,977	\$ 4,052

As of December 31, 2016, an aggregate of 10.3 million shares were authorized for future issuance under the Company's stock plans, of which 8.4 million of such shares were issuable upon exercise of outstanding options and delivery of shares upon vesting of restricted stock units and 1.9 million shares of common stock were available for future grant.

Stock Options

Stock option activity was as follows:

	Number of Shares (In thousands)	Weighted- Average Exercise Price (\$)	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value of In-The-Money Options (\$) (In thousands)
Outstanding as of October 1, 2016	5,514	12.75	4.10	81,659
Granted	—	—		
Exercised/Cancelled/Forfeited/Expired	(709)	15.04		
Outstanding as of December 31, 2016	4,805	12.41	4.03	113,109
Vested and expected to vest as of December 31, 2016	4,786	12.37	4.02	112,836
Exercisable as of December 31, 2016	4,542	11.86	3.82	109,411

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

As of December 31, 2016, unrecognized compensation expense of \$2.3 million is expected to be recognized over a weighted average period of 1.6 years.

Restricted Stock Units

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

	Number of Shares (In thousands)	Weighted- Average Grant Date Fair Value (\$)	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (\$) (In thousands)
Outstanding as of October 1, 2016	3,998	19.57	1.35	110,183
Granted	941	32.56		
Vested/Forfeited/Cancelled	(1,406)	13.42		
Outstanding as of December 31, 2016	3,533	23.35	1.81	127,011
Expected to vest as of December 31, 2016	2,756	24.51	1.83	99,093

As of December 31, 2016, unrecognized compensation expense of \$48.1 million is expected to be recognized over a weighted average period of 1.9 years. Additionally, as of December 31, 2016, unrecognized compensation expense

related to performance-based restricted stock units for which achievement of the performance criteria is not currently considered probable was \$14.3 million.

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

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

Overview

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

In accordance with the accounting rules for segment reporting, our only reportable segment is IMS, which represented approximately 80% of our total revenue in the first quarter of fiscal 2017 and 2016. Our CPS business consists of multiple operating segments which do not meet the quantitative thresholds for being presented as reportable segments. Therefore, financial information for these operating segments is presented in a single category entitled “Components, Products and Services”.

Our operations are managed as two businesses:

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

2. Components, Products and Services (CPS). Components include interconnect systems (printed circuit board fabrication, backplane and cable assemblies) and mechanical systems (enclosures, precision machining and plastic injection molding). Products include memory, RF, optical and microelectronics solutions from our Viking Technology division, defense and aerospace products from SCI Technology, storage solutions from our Newisys division and cloud-based manufacturing execution software from our 42Q Division. Services include design, engineering, logistics and repair services.

All references to years in this section refer to our fiscal years ending on the last Saturday of each year closest to September 30. Fiscal 2017 and 2016 are each 52 weeks.

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

There are many challenges to successfully executing our strategy. For example, we compete with a number of companies in each of our key end markets. These include companies that are much larger than we are and smaller companies that focus on a particular niche. Although we believe we are well-positioned in each of our key end markets and seek to

differentiate ourselves from our competitors, competition remains intense and profitably growing our revenues continues to be challenging. For example, CPS revenue and gross margins have decreased in each of the past two fiscal years, illustrating the challenges to our strategy. We believe this business is capable of consistently delivering much better results. We continue to address these challenges on both a short-term and long-term basis.

A small number of customers have historically generated a significant portion of our net sales. Sales to our ten largest customers have typically represented approximately 50% of our net sales. Two customers represented 10% or more of our net sales for the three months ended December 31, 2016. No customer represented 10% or more of our net sales for the three months ended January 2, 2016.

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

Historically, we have had substantial recurring sales to existing customers. We typically enter into supply agreements with our major OEM customers. These agreements generally have terms ranging from three to five years and cover manufacturing services for a range of products in addition to other services. Under these agreements, a customer typically agrees to purchase specific products in particular geographic areas from us. However, these agreements generally do not obligate the customer to purchase minimum quantities of products and some contracts contain cost reduction objectives, which can have the effect of reducing revenue, but not necessarily gross profit, from such customers.

Critical Accounting Policies and Estimates

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

For a complete description of our critical accounting policies and estimates, refer to our 2016 Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 18, 2016.

Results of Operations

Key Operating Results

	Three Months Ended	
	December 31,	January 2,
	2016	2016
	(In thousands)	
Net sales	\$1,719,977	\$1,534,714
Gross profit	\$132,162	\$123,638

Operating income	\$58,656	\$54,053
Net income	\$44,864	\$27,138

Net Sales

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

	Three Months Ended		Increase/(Decrease)	
	December 31, 2016	January 2, 2017		
Communications Networks	\$642,589	\$604,765	\$37,824	6.3 %
Industrial, Medical and Defense	777,497	609,804	167,693	27.5 %
Embedded Computing and Storage	299,891	320,145	(20,254)	(6.3)%
Total	\$1,719,977	\$1,534,714	\$185,263	12.1 %

Net sales increased from \$1.53 billion in the first quarter of 2016 to \$1.72 billion in the first quarter of 2017, an increase of 12.1%. Sales to customers in our industrial, medical and defense market increased 27.5% primarily as a result of a customer program acquisition. Sales to customers in our communications networks end market increased 6.3% primarily as a result of new program wins. Sales to customers in our embedded computing and storage end market decreased 6.3% primarily due to decreased end-market demand for a customer's point-of-sale equipment.

Gross Margin

Gross margin decreased to 7.7% for the first quarter of 2017, from 8.1% for the first quarter of 2016. IMS gross margin decreased to 7.3% for the first quarter of 2017 from 7.7% for the first quarter of 2016 due primarily to unfavorable product mix and costs associated with new program ramp-ups. CPS gross margin increased to 9.5% for the first quarter of 2017 from 8.7% for the first quarter of 2016, primarily as a result of increased sales in our products group.

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

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

Operating Expenses

Operating expenses increased \$3.9 million, from \$69.6 million, or 4.5% of net sales, in the first quarter of 2016 to \$73.5 million, or 4.3% of net sales, in the first quarter of 2017. This increase was primarily attributable to higher incentive compensation, including stock compensation expense which increased as a result of incremental expense for certain performance based stock awards that were deemed probable of achievement in the first quarter of 2017, partially offset by lower research and development expenses.

Interest and Other, Net

Interest and other, net decreased \$2.1 million in the first quarter of 2017 compared to the first quarter of 2016 due primarily to lower daily average borrowings on our revolving credit facility in 2017.

The following table presents the significant components of other income (expense), net:

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	Three Months Ended	
	December 31, 2016	January 2, 2016
	(In thousands)	
Foreign exchange gain (loss)	\$1,226	\$ (829)
Other income, net	31	611
Total	\$1,257	\$ (218)

Provision for Income Taxes

The provision for income taxes for the first quarter of 2017 and 2016 was \$10.0 million (18.2% of income before taxes) and \$21.0 million (43.6% of income before taxes), respectively. Although pre-tax income was higher in the first quarter of 2017, income tax expense decreased primarily as a result of a tax benefit from the restructuring of certain foreign entities.

Liquidity and Capital Resources

	Three Months Ended	
	December 31, 2016	January 2, 2016
	(In thousands)	
Net cash provided by (used in):		
Operating activities	\$53,927	\$62,660
Investing activities	(18,085)	(28,708)
Financing activities	(30,242)	(48,384)
Effect of exchange rate changes on cash and cash equivalents	1,352	626
Increase (decrease) in cash and cash equivalents	\$6,952	\$(13,806)

Key Working Capital Management Measures

	Three Months Ended	
	December 31, 2016	October 1, 2016
Days sales outstanding (1)	52	53
Inventory turns (2)	6.7	6.6
Days inventory on hand (3)	55	55
Accounts payable days (4)	66	66
Cash cycle days (5)	41	42

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

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

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

Cash and cash equivalents were \$405.2 million at December 31, 2016 and \$398.3 million at October 1, 2016. Our cash levels vary during any given quarter depending on the timing of collections from customers and payments to suppliers, borrowings under credit facilities, repurchases of capital stock and other factors. Our working capital was approximately \$1.0 billion as of December 31, 2016 and October 1, 2016.

Net cash provided by operating activities was \$53.9 million and \$62.7 million for the three months ended December 31, 2016 and January 2, 2016, respectively. Cash flows from operating activities consist of: (1) net income adjusted to exclude non-cash items such as depreciation and amortization, deferred income taxes and stock-based compensation expense and (2) changes in net operating assets, which are comprised of accounts receivable, inventories, prepaid expenses and other assets, accounts payable, accrued liabilities and other long-term liabilities. Our working capital metrics tend to fluctuate from quarter-to-quarter based on factors such as the linearity of our shipments to customers

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

During the three months ended December 31, 2016, we generated \$87.9 million of cash from net income, excluding non-cash items, and consumed \$34.0 million of cash from an increase in our net operating assets caused by various factors including payment of 2016 annual and fourth quarter bonuses in the first quarter of 2017 and semi-annual payments of interest expense due in the first quarter of each year. Increased business volume caused accounts receivable and inventory to increase

by \$22.8 million and \$19.3 million, respectively. These increases were substantially offset by a corresponding increase in accounts payable of \$39.4 million. DPO and DSO were consistent in both periods.

Net cash used in investing activities was \$18.1 million and \$28.7 million for the three months ended December 31, 2016 and January 2, 2016, respectively. During the three months ended December 31, 2016, we used \$21.7 million of cash for capital expenditures and received proceeds of \$3.6 million primarily from the sale of a certain property. During the three months ended January 2, 2016, we used \$28.9 million of cash for capital expenditures.

Net cash used in financing activities was \$30.2 million and \$48.4 million for the three months ended December 31, 2016 and January 2, 2016, respectively. During the three months ended December 31, 2016, we used \$13.6 million of cash for repurchases of common stock related to employee tax withholdings on vested restricted stock units, used \$25.0 million of cash for net repayments of short-term borrowings, paid \$2.3 million in connection with a previous business combination and received \$10.6 million of net proceeds from issuances of common stock pursuant to stock option exercises. During the three months ended January 2, 2016, we used \$28.7 million of cash to repurchase common stock on the open market, repaid a net amount of \$24.0 million of short-term borrowings and received \$4.3 million of net proceeds from issuances of common stock pursuant to stock option exercises.

Other Liquidity Matters

Our Board of Directors has authorized us to repurchase shares of our common stock, subject to a dollar limitation. The timing of repurchases will depend upon capital needs to support the growth of our business, market conditions and other factors. Although stock repurchases are intended to increase stockholder value, purchases of shares will reduce our liquidity. We did not repurchase any of our common stock during the first quarter of 2017 and, as of December 31, 2016, we had \$212.8 million remaining available to repurchase shares of our common stock under programs authorized by the Board of Directors.

On January 31, 2017, subsequent to the end of the first quarter of 2017, we made an irrevocable election to repay our Secured debt due 2017 prior to its scheduled maturity of December 19, 2017. Accordingly, this debt obligation of \$40.0 million will be paid on February 7, 2017, with no penalty for early repayment.

Our \$375 million secured revolving credit facility (the "Cash Flow Revolver") requires us to comply with certain financial covenants and our Secured Debt loan agreement contains a financial covenant that is only applicable to us if certain conditions exist, none of which existed as of December 31, 2016. The covenant associated with our Secured Debt will no longer be applicable after February 7, 2017 when such debt is repaid. Additionally, our debt agreements contain a number of restrictive covenants, including restrictions on incurring additional debt, making investments and other restricted payments, selling assets, paying dividends and redeeming or repurchasing capital stock and debt, subject to certain exceptions. These covenants could constrain our ability to grow our business through acquisition or engage in other transactions which the covenants could otherwise restrict, including refinancing our existing debt. In addition, such agreements include covenants requiring, among other things, that we file quarterly and annual financial statements with the SEC, comply with all laws, pay all taxes and maintain casualty insurance. If we are not able to comply with all of these covenants, for any reason, some or all of our outstanding debt could become immediately due and payable and the incurrence of additional debt under our asset-backed revolving credit facility would not be allowed, any of which could have a material adverse effect on our liquidity and ability to conduct our business. As of December 31, 2016, we were in compliance with these covenants.

In the ordinary course of business, we are or may become party to legal proceedings, claims and other contingencies, including environmental, warranty and employee matters and examinations by government agencies. As of December 31, 2016, we had reserves of \$42.2 million related to such matters. We cannot accurately predict the outcome of these matters or the amount or timing of cash flows that may be required to defend ourselves or to settle

such matters or that these reserves will be sufficient to fully satisfy our contingent liabilities.

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

As of December 31, 2016, we had a liability of \$89.7 million for uncertain tax positions. Our estimate of liabilities for uncertain tax positions is based on a number of subjective assessments, including the likelihood of a tax obligation being assessed, the amount of taxes (including interest and penalties) that would ultimately be payable, and our ability to settle any such obligations on favorable terms. Therefore, the amount of future cash flows associated with uncertain tax positions may be significantly higher or lower than our recorded liability and we are unable to reliably estimate when cash settlement may occur.

Our liquidity needs are largely dependent on changes in our working capital, including the extension of trade credit by our suppliers, investments in manufacturing inventory, facilities and equipment, repayments of obligations under outstanding indebtedness and repurchases of common stock. Our primary sources of liquidity as of December 31, 2016 consisted of (1) cash and cash equivalents of \$405.2 million; (2) our Cash Flow Revolver, under which \$358.2 million, net of outstanding letters of credit, was available as of December 31, 2016; (3) foreign short-term borrowing facilities of \$74.0 million, all of which was available as of December 31, 2016 (an aggregate of \$25.5 million of such facilities expire at various dates through the third quarter of 2017); and (4) cash generated from operations.

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

As of December 31, 2016, 54% of our cash balance was held in the United States. Should we choose or need to remit cash to the United States from our foreign locations, we may incur tax obligations which would reduce the amount of cash ultimately available to the United States. We believe that cash held in the United States, together with liquidity available under our Cash Flow Revolver and cash from foreign subsidiaries that could be remitted to the United States without tax consequences, will be sufficient to meet our United States liquidity needs for at least the next twelve months.

Off-Balance Sheet Arrangements

As of December 31, 2016, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC, that have or are reasonably likely to have a current or future effect on our financial condition, changes in our financial condition, revenues, or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to investors.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our primary exposure to market risk for changes in interest rates relates to certain of our outstanding long-term debt obligations and our revolving credit facility. As of December 31, 2016, \$40 million of our debt bears interest at a floating rate. However, this debt is being repaid in full on February 7, 2017, prior to its scheduled maturity of December 19, 2017 (see Note 4 of Notes to Condensed Consolidated Financial Statements). Additionally, the interest rate we pay for borrowings under our \$375 million short-term revolving credit facility is determined at the time of borrowing based on a floating index. Therefore, although we can elect to fix the interest rate at the time of borrowing, the facility does expose us to market risk for changes in interest rates. An immediate 10 percent change in interest rates would not have a significant impact on our results of operations.

Foreign Currency Exchange Risk

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

Our primary foreign currency cash flows are in certain Asian and European countries, Israel, Brazil and Mexico. We enter into short-term foreign currency forward contracts to hedge currency exposures associated with certain monetary assets and liabilities denominated in non-functional currencies. These contracts generally have maturities of up to two months, although we entered into a four-year contract in the second quarter of 2016 to hedge a non-functional currency denominated note payable due in 2020. These forward contracts are not designated as part of a hedging relationship for accounting purposes. All outstanding foreign currency forward contracts are marked-to-market at the end of the period with unrealized gains and losses included in other income (expense), net, in the unaudited condensed consolidated statements of income. As of December 31, 2016, we had outstanding foreign currency forward contracts to exchange various foreign currencies for U.S. dollars in the aggregate notional amount of \$339.3 million.

We also utilize foreign currency forward contracts to hedge certain operational (“cash flow”) exposures resulting from changes in foreign currency exchange rates. Such exposures result from (1) forecasted sales denominated in currencies other than those used to pay for materials and labor, (2) forecasted non-functional currency labor and overhead expenses, (3) forecasted non-functional currency operating expenses and (4) anticipated capital expenditures denominated in a currency other than the functional currency of the entity making the expenditures. These contracts may be up to twelve months in duration and are designated as cash flow hedges for accounting purposes. The effective portion of changes in the fair value of the contracts is recorded in stockholders' equity as a separate component of accumulated other comprehensive income and recognized in earnings when the hedged item affects earnings. We had forward contracts related to cash flow hedges in various foreign currencies in the aggregate notional amount of \$81.1 million as of December 31, 2016.

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

Item 4. Controls and Procedures

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures will prevent all error and all fraud. Disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that their objectives are met. Further, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and the benefits of disclosure controls and procedures must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of disclosure controls and procedures can provide absolute assurance that all disclosure control issues and instances of fraud, if any, have been detected. Nonetheless, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2016, (1) our disclosure controls and procedures were designed to provide reasonable assurance of achieving their objectives, and (2) our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported as and when required, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding its required disclosure.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to the legal proceedings disclosed in Part I, Item 3 of Sanmina's Annual Report on Form 10-K for the year ended October 1, 2016.

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

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

Item 1A. Risk Factors

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

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

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

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

We are subject to risks arising from our international operations.

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

- the imposition of government controls;
- compliance with U.S and foreign laws concerning trade (including the International Traffic in Arms Regulations (“ITAR”), the Export Administration Regulations (“EAR”) and the Foreign Corrupt Practices Act (“FCPA”);
- difficulties in obtaining or complying with export license requirements;
- changes in tariffs;
- rising labor costs;
 - compliance with foreign labor laws, which generally provide for increased notice, severance and consultation requirements compared to U.S. laws;
- labor unrest, including strikes;
- difficulties in staffing due to immigration or travel restrictions imposed by national governments;
- security concerns;
- political instability and/or regional military tension or hostilities;

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

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

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

Certain of our foreign manufacturing facilities are leased from third parties. To the extent we are unable to renew the leases covering such facilities as they expire on reasonable terms, or are forced to move our operations at those facilities to other locations as a result of a failure to agree upon renewal terms, production for our customers may be interrupted, we could incur significant start-up costs at new facilities and our lease expense may increase, potentially significantly.

Changes in international trade agreements could increase the cost of using our offshore manufacturing services for our U.S customers, leading them to reduce orders to us and decreasing our revenue and net income.

Although we maintain significant manufacturing capacity in the U.S., the substantial majority of our manufacturing operations are located outside the U.S. This manufacturing footprint has allowed us to provide cost-effective volume manufacturing for our customers. However, the willingness of our U.S customers to have us manufacture their products in our offshore facilities could be reduced should trade agreements involving the U.S change following the recent U.S Presidential election in a manner that increases the costs to such customers of importing their products into the U.S, through increased tariffs, or otherwise. Although the details of any such changes, should they occur, remain unclear, any decision by a large number of our U.S customers to cease using our offshore manufacturing services without commensurately increasing their use of our domestic manufacturing services would materially reduce our revenue and net income.

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

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

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

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

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

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

A key part of our strategy is to grow our CPS business, which includes printed circuit boards, backplane and cable assemblies, mechanical systems, memory, defense and aerospace and computing products and design, engineering, logistics and repair services. A decrease in orders for these components, products and services can have a disproportionately adverse impact on our profitability since these components, products and services generally carry higher than average contribution margins than our core IMS business. In addition, in order to grow this portion of our business profitably, we must continue to

make substantial investments in the development of our product development capabilities, research and development activities, test and tooling equipment and skilled personnel, all of which reduce our operating results in the short term. The success of our CPS business also depends on our ability to increase sales of our proprietary products, convince our customers to agree to purchase our components for use in the manufacture of their products, rather than directing us to buy them from third parties, and expand the number of our customers who contract for our design, engineering, logistics and repair services. We may face challenges in achieving commercially viable yields and difficulties in manufacturing components in the quantities and to the specifications and quality standards required by our customers, as well as in qualifying our components for use in our customers' designs. Our proprietary products and design, engineering, logistics and repair services must compete with products and services offered by established vendors which focus solely on development of similar technologies or the provision of similar services. Any of these factors could cause our CPS revenue and margins to be less than expected, which could have an overall adverse and potentially disproportionate effect on our revenues and profitability.

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

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

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

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

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

Some companies in the industries for which we provide products have previously experienced significant financial difficulty, with a few of the participants filing for bankruptcy. Such financial difficulty, if experienced by one or more of our customers, may negatively affect our business due to the decreased demand from these financially distressed customers, the lengthening of customer payment terms, the potential inability of these companies to make full payment on amounts owed to us or to purchase inventory we acquired to support their businesses. Customer bankruptcies also entail the risk of potential recovery by the bankruptcy estate of amounts previously paid to us that are deemed a preference under bankruptcy laws.

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

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

Cyberattacks and other disruptions of our IT network and systems could interrupt our operations, lead to loss of our customer data and intellectual property and subject us to damages.

We rely on internal and third party information technology networks and systems for worldwide financial reporting, inventory management, procurement, invoicing and email communications, among other functions. Despite our business continuity planning, including redundant data sites and network availability, our systems may be susceptible to outages due to fire, floods, power loss, telecommunications failures, terrorist attacks and similar events. In addition, despite the implementation of network security measures that we believe to be reasonable, our systems and those of third parties on which we rely may also be vulnerable to hacking, computer viruses, the installation of malware and similar disruptions either by third parties or employees with access to key IT infrastructure. Cybersecurity attacks can come in many forms, including distributed denial of service attacks, advanced persistent threat, phishing and business email compromise efforts. Hacking, malware and other cybersecurity attacks, if not prevented, could lead to the collection and disclosure of sensitive personal information, including intellectual property, relating to our customers, employees or others, exposing us to legal liability and causing us to suffer reputational damage. In addition, our SCI defense division is subject to government regulations requiring the safeguarding of certain unclassified government information and to report to the government certain cyber incidents that affect such information. The increasing sophistication of cyberattacks requires us to continually evaluate new technologies and processes intended to detect and prevent these attacks. There can be no assurance that the security measures we choose to implement will be sufficient to protect the data we manage. If we or our vendors are unable to prevent such outages and cyberattacks, our operations could be disrupted, we could incur losses, including losses relating to claims by our customers against us relating to loss of their information, the willingness of customers to do business with us may be damaged and, in the case of our defense business, we could be debarred from future participation in government programs.

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

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

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

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

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

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

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

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

During 2016, we released \$96.2 million of our valuation allowance attributable to certain U.S. and foreign deferred tax assets. We based this determination on our assessment of our valuation allowance against deferred tax assets on a jurisdiction by jurisdiction basis, considering all available positive and negative evidence, including future reversals of temporary differences, projected future taxable income and recent financial results. To the extent our projections prove to be incorrect or tax audits significantly reduce our net operating loss carryforwards, we could be required to impair our deferred tax assets or record additional valuation allowances, which would in turn cause a charge to net income.

We can experience losses due to foreign exchange rate fluctuations and currency controls, which could reduce our net income and impact our ability to repatriate funds.

Because we manufacture and sell the majority of our products abroad, our operating results can be negatively impacted due to fluctuations in foreign currency exchange rates, particularly in volatile currencies to which we are exposed, such as the Euro, Mexican peso, Japanese yen, Chinese Renminbi and Brazilian real. We use financial instruments, primarily short-term foreign currency forward contracts, to hedge our exposure to exchange rate fluctuations. However, the success of our foreign currency hedging activities depends largely upon the accuracy of our forecasts of future sales, expenses, capital expenditures and monetary assets and liabilities. As such, our foreign currency hedging program may not fully cover our exposure to exchange rate fluctuations. If our hedging activities are not successful, we may experience a reduction of our net income. In addition, certain countries in which we operate have adopted, or are considering adopting, currency controls requiring that local transactions be settled only in local currency rather than in our functional currency which could be different than the local currency. Such controls could require us to hedge larger amounts of local currency than we otherwise would and/or prevent us from repatriating cash generated by our operations in such countries.

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

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

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

- levels of demand in the end markets served by our customers;
- our ability to replace declining sales from end-of-life programs with new business wins;
- timing of orders from customers and the accuracy of their forecasts;
- inventory levels of customers, which if high relative to their normal sales volume, could cause them to reduce their orders to us;
 - timing of expenditures in anticipation of increased sales, customer product delivery requirements and shortages of components or labor;
- increased labor costs in the regions in which we operate;
- mix of products ordered by and shipped to major customers, as high volume and low complexity manufacturing services typically have lower gross margins than more complex and lower volume services;
- degree to which we are able to utilize our available manufacturing capacity;
- customer insolvencies resulting in bad debt or inventory exposures that are in excess of our reserves;
- our ability to efficiently move manufacturing activities to lower cost regions;

the effects of seasonality in our business;

- changes in our tax provision due to changes in our estimates of pre-tax income in the jurisdictions in which we operate, uncertain tax positions, including our ability to utilize our deferred tax assets; and
- political and economic developments in countries in which we have operations which could restrict our operations or increase our costs.

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

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

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

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

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

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

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

Our components are manufactured using a number of commodities, including petroleum, gold, copper and other metals that are subject to frequent and unpredictable changes in price due to worldwide demand, investor interest and economic conditions. We do not hedge against the risk of these fluctuations, but rather attempt to adjust our product

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

We rely on a variety of common carriers to transport our raw materials and components from our suppliers to us, and to transport our products to our customers. The use of common carriers is subject to a number of risks, including increased

costs due to rising energy prices and labor, vehicle and insurance costs, and hijacking and theft resulting in losses of shipments, delivery delays resulting from labor disturbances and strikes and other factors beyond our control. Although we attempt to mitigate our liability for any losses resulting from these risks through contracts with our customers, suppliers and insurance carriers, any costs or losses that cannot be mitigated could reduce our profitability, require us to manufacture replacement product or damage our relationships with our customers.

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

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

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

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

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

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

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

environmental liabilities. Any of these risks could cause our strategic transactions not to be ultimately profitable.

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

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

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

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

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

Customer requirements to transfer business may increase our costs.

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

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

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

we design or manufacture or of our manufacturing processes and facilities to comply with applicable statutory and regulatory requirements may subject us to legal fines or penalties and, in some cases, require us to shut down or incur considerable expense to correct a manufacturing program or facility. In addition, these defects may result in product liability claims against us. The magnitude of such claims may increase as we expand our medical, automotive, defense and aerospace, and oil and gas manufacturing services because defects in these types of products can result in death or significant injury to end users of these products or environmental harm. Even when our customers are contractually responsible for defects in the design of a product, we could nonetheless be named in a product liability suit over such defects and could be required to expend significant resources to defend ourselves. Additionally, insolvency of our customers may result in us being held ultimately liable for our customers' design defects, which could significantly reduce our net income.

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

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

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

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

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

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

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

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

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

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

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

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

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

Our system of internal and disclosure controls and procedures were designed to provide reasonable assurance of achieving their objectives. However, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been or will be detected. As a result, there can be no assurance that our system of internal and disclosure controls and procedures will be successful in preventing all errors, theft and fraud, or in informing management of all material information in a timely manner.

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

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

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

Item 6. Exhibits

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

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

SIGNATURES

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

SANMINA CORPORATION
(Registrant)

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

Date: February 3, 2017

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

Date: February 3, 2017

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