SANMINA CORP
Form 10-Q
August 03, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark one)
[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018
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 incorporation or organization)	(I.R.S. Employer 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 [x] No [ ]

Indicate by check mark whether the registrant has submitted electronically if any, every Interactive Data File required to be submitted 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 such files). Yes [x] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company”, and "emerging growth company" in Rule 12b-2 of the Exchange Act:
Large Accelerated Filer [X] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ]
Emerging growth company [ ]

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

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

As of July 30, 2018, there were 67,960,751 shares outstanding of the issuer's common stock, $0.01 par value per share.

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CONDENSED CONSOLIDATED BALANCE SHEETS

	As of June 30, 2018 (Unaudited)	September 30, 2017
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$404,777	$ 406,661
Accounts receivable, net of allowances of $11,643 and $14,334 as of June 30, 2018 and September 30, 2017, respectively	1,153,930	1,110,334
Inventories	1,187,006	1,051,669
Prepaid expenses and other current assets	48,279	47,586
Total current assets	2,793,992	2,616,250
Property, plant and equipment, net	635,733	640,275
Deferred tax assets	345,780	476,554
Other	117,023	114,284
Total assets	$3,892,528	$ 3,847,363
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,348,917	$ 1,280,106
Accrued liabilities	145,954	116,582
Accrued payroll and related benefits	109,155	130,939
Short-term debt, including current portion of long-term debt	611,280	88,416
Total current liabilities	2,215,306	1,616,043
Long-term liabilities:		
Long-term debt	14,562	391,447
Other	185,904	192,189
Total long-term liabilities	200,466	583,636
Contingencies (Note 6)		
Stockholders' equity	1,476,756	1,647,684
Total liabilities and stockholders' equity	$3,892,528	$ 3,847,363

See accompanying notes to condensed consolidated financial statements.

SANMINA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Nine Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
	(Unaudited)			
	(In thousands, except per share data)			
Net sales	$1,813,366	$1,711,377	$5,233,795	$5,113,616
Cost of sales	1,694,830	1,580,689	4,891,095	4,717,556
Gross profit	118,536	130,688	342,700	396,060
Operating expenses:				
Selling, general and administrative	61,421	58,708	190,408	186,236
Research and development	8,144	8,394	23,980	25,002
Restructuring costs (recovery)	1,021	(3,908)	15,972	121
Other	890	918	2,718	1,303
Total operating expenses	71,476	64,112	233,078	212,662
Operating income	47,060	66,576	109,622	183,398
Interest income	492	219	1,064	658
Interest expense	(7,284)	(5,503)	(20,324)	(16,256)
Other income, net	1,000	952	3,747	6,021
Interest and other, net	(5,792)	(4,332)	(15,513)	(9,577)
Income before income taxes	41,268	62,244	94,109	173,821
Provision for income taxes	7,305	25,840	190,424	60,836
Net income (loss)	$33,963	$36,404	$(96,315)	$112,985
Net income (loss) per share:				
Basic	$0.49	$0.48	$(1.37)	$1.52
Diluted	$0.47	$0.47	$(1.37)	$1.45
Weighted average shares used in computing per share amounts:				
Basic	68,907	75,332	70,366	74,548
Diluted	72,053	78,241	70,366	77,917

See accompanying notes to condensed consolidated financial statements.

SANMINA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended		Nine Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
	(Unaudited) (In thousands)			
Net income (loss)	$33,963	$36,404	$(96,315)	$112,985
Other comprehensive income (loss), net of tax:				
Change in foreign currency translation adjustments	(1,024)	176	(470)	(368)
Derivative financial instruments:				
Change in net unrealized amount	(3,462)	514	(2,009)	(861)
Amount reclassified into net income	3,027	(497)	1,685	969
Defined benefit plans:				
Changes in unrecognized net actuarial losses and unrecognized transition costs	606	(550)	(87)	680
Amortization of actuarial losses and transition costs	193	482	692	1,648
Total other comprehensive income (loss)	(660)	125	(189)	2,068
Comprehensive income (loss)	$33,303	$36,529	$(96,504)	$115,053

See accompanying notes to condensed consolidated financial statements.

SANMINA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	June 30, 2018	July 1, 2017
	(Unaudited)	
	(In thousands)	
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net income (loss)	$(96,315)	$112,985
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization	89,134	87,520
Stock-based compensation expense	28,698	26,908
Deferred income taxes	174,060	30,680
Other, net	(881)	(459)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(44,995)	(62,681)
Inventories	(137,036)	(100,583)
Prepaid expenses and other assets	359	10,912
Accounts payable	87,070	112,883
Accrued liabilities	(4,214)	(16,496)
Cash provided by operating activities	95,880	201,669
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(97,468)	(86,801)
Purchases of long-term investments	(2,019)	—
Proceeds from sales of property, plant and equipment	3,948	3,935
Cash used in investing activities	(95,539)	(82,866)
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Repayments of long-term debt	(3,416)	(43,416)
Proceeds from revolving credit facility borrowings	3,015,200	408,670
Repayments of revolving credit facility borrowings	(2,867,200)	(433,670)
Debt issuance costs	(1,701)	—
Net proceeds from stock issuances	3,890	25,751
Repurchases of common stock	(150,162)	(37,593)
Holdback payment for a prior business combination	—	(2,262)
Cash used in financing activities	(3,389)	(82,520)
Effect of exchange rate changes	1,164	929
Increase (decrease) in cash and cash equivalents	(1,884)	37,212
Cash and cash equivalents at beginning of period	406,661	398,288
Cash and cash equivalents at end of period	$404,777	$435,500
Cash paid during the period for:		
Interest, net of capitalized interest	$23,985	$17,439
Income taxes, net of refunds	$27,434	$17,338
Unpaid purchases of property, plant and equipment at the end of period	$32,529	$44,004

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 September 30, 2017, included in the Company's 2017 Annual Report on Form 10-K.

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

Results of operations for the third quarter of 2018 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 2018 and 2017 are each 52-week years. All references to years relate to fiscal years unless otherwise noted.

Recent Accounting Pronouncements Adopted

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 Company adopted this ASU at the beginning of 2018 and recorded an increase to its deferred tax assets of $43 million, with a corresponding increase to retained earnings. This ASU is expected to increase the variability of the Company's provision for income taxes, the effect of which could be material. Additionally, this ASU allows companies to estimate the impact of stock award forfeitures at the grant date and reduce the amount of stock compensation expense recognized over the vesting period of the awards, or to account for forfeitures as they occur. The Company has elected to continue to estimate forfeitures at the grant date. Lastly, this ASU requires the cash effect of excess tax benefits to be classified as an operating cash outflow, as opposed to a financing cash outflow, on the statement of cash flows. Due to the Company’s net operating losses in the U.S., excess tax benefits have no cash impact on the Company's cash flows and therefore there was no impact to the Company’s consolidated statement of cash flows upon adoption of this ASU.

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. There was no impact to the Company upon adoption of this ASU at the beginning of 2018.

Recent Accounting Pronouncements Not Yet Adopted

In June 2018, the FASB issued ASU 2018-07 "Improvements to Non-employee Share-Based Payment Accounting (Topic 718)". The ASU expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from non-employees. The standard aligns measurement and classification guidance for share-based payments to non-employees with the guidance applicable to employees. This ASU is effective for the Company at the beginning of fiscal 2020, including interim periods within that reporting period and early adoption is permitted. The Company is currently evaluating when to adopt this ASU, but does not expect the impact of adoption to be significant.

In February 2018, the FASB issued ASU 2018-02, "Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income", which allows companies to reclassify stranded tax effects resulting from the U.S. Tax Cuts and Jobs Act (H.R. 1), from accumulated other comprehensive income to retained earnings. The guidance also requires certain new disclosures regardless of the election. This ASU is effective for the Company at the beginning of fiscal 2020, and earlier adoption is permitted. The Company is currently evaluating when to adopt this ASU, but does not expect the impact of adoption to be significant.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements for Accounting For Hedging Activities", simplifying hedge accounting guidance and improving the financial reporting of hedging relationships by allowing an entity to better align its risk management activities and financial reporting for hedging relationships through changes to both designation and measurement for qualifying hedging relationships and the presentation of hedge results. This standard eliminates the requirement to separately measure and report hedge ineffectiveness, resulting in full recognition of the change in fair value that impacts earnings in the same income statement line item that is used to present the earnings effect of the hedged item. In addition, the guidance allows more flexibility in the requirements to qualify for and maintain hedge accounting. This ASU is effective for the Company at the beginning of fiscal 2020 and early adoption is permitted. The Company is currently evaluating the potential impact of this ASU and when to adopt it.

In March 2017, the FASB issued ASU 2017-07, "Compensation-Retirement Benefits (Topic 715)". This ASU requires the service costs component of net periodic pension costs to be presented in the same line item as other compensation costs and all other components of net periodic pension costs to be presented in the income statement as non-operating expenses. This ASU is effective for the Company at the beginning of fiscal 2019 and must be applied retrospectively. A practical expedient permits the use of estimates for applying the retrospective presentation requirements. The Company does not expect the impact of adopting this new accounting standard to be significant.

In January 2017, the FASB issued ASU 2017-04, "Intangibles-Goodwill and Other (Topic 350)". This ASU simplifies the test for goodwill impairment by eliminating Step 2 of the goodwill impairment test which requires a hypothetical purchase price allocation to measure goodwill. A goodwill impairment loss will instead be measured at the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill allocated to that reporting unit. This ASU is effective for the Company at the beginning of fiscal 2021, but early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating when to adopt this ASU.

In January 2017, the FASB issued 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 the Company at the beginning of fiscal 2019, including interim periods within that reporting period, but early adoption is permitted.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230)". This ASU requires that the statement of cash flows explains the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Companies will also be required to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. This ASU is effective for the Company at the beginning of fiscal 2019, including interim periods within that annual period. The Company does not expect the impact of adopting this new accounting standard to be significant.

In October 2016, the FASB issued ASU 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 the Company at the beginning of fiscal 2019, including interim periods within that annual period. The Company does not expect the impact of adopting this new accounting standard to be significant.

In February 2016, the FASB issued ASU 2016-02, "Leases: Amendments to the FASB Accounting Standards Codification (Topic 842)". This ASU requires the Company to recognize on the balance sheet the assets and liabilities for the rights and obligations created by leases with terms of more than twelve months. This ASU also requires disclosures enabling the users of financial statements to understand the amount, timing and uncertainty of cash flows arising from leases. The new standard is effective for the Company at the beginning of fiscal 2020, including interim periods within that reporting period. In addition, the FASB provided a practical expedient transition method to adopt the new lease requirements by allowing entities to initially apply requirements by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption that would enable the Company to not provide comparative period financial statements. Instead, the

Company would apply the transition provisions of the leases standard at its effective date. The Company expects the impact of adopting this new accounting standard to be material to its consolidated balance sheet, but is still evaluating the impact to its consolidated statement of income.

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, 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, but the Company does not expect the effect of the new standard to materially impact its revenue or gross profit on a rollover basis in periods after adoption. The Company has decided to adopt the new standard using the modified retrospective method, which does not require prior periods to be restated to conform to the requirements of the new standard.

Note 2. Inventories

Components of inventories were as follows:

	As of June 30, 2018	September 30, 2017
	(In thousands)	
Raw materials	$970,756	$ 834,694
Work-in-process	109,053	106,914
Finished goods	107,197	110,061
Total	$1,187,006	$ 1,051,669

Note 3. Financial Instruments

Fair Value Measurements

Fair Value of Financial Instruments

The fair values of cash equivalents (generally 10% or less 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 June 30, 2018, the fair value of the Company's long-term debt, as estimated based primarily on quoted prices (Level 2 input), was equivalent to its carrying amount. 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 measured using Level 1 inputs. Defined benefit plan assets are measured at fair value only in the fourth quarter of each year. Other financial assets and financial liabilities measured at fair value on a recurring basis include foreign exchange contracts and contingent consideration, neither of which were material as of June 30, 2018 or September 30, 2017.

Offsetting Derivative Assets and Liabilities

The Company has entered into master netting arrangements with each of its derivative counterparties that allows net settlement of derivative assets and liabilities under certain conditions, such as multiple transactions with the same currency maturing on the same date. The Company presents its derivative assets and derivative liabilities on a gross basis on the unaudited condensed consolidated balance sheets. The amount that the Company had the right to offset under these netting arrangements was not material as of June 30, 2018 or September 30, 2017.

Other non-financial assets, such as intangible assets, goodwill and other long-lived assets, 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 June 30, 2018	September 30, 2017
Derivatives Designated as Accounting Hedges:		
Notional amount (in thousands)	$106,106	$ 105,523
Number of contracts	57	58
Derivatives Not Designated as Accounting Hedges:		
Notional amount (in thousands)	$315,259	$ 302,944
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 non-functional currency sales (2) forecasted non-functional currency materials, labor, overhead and other expenses and (3) 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.

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 income, net, in the unaudited condensed consolidated statements of operations. 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 contracts disclosed in the table above, the Company has numerous contracts that have been closed from an economic and financial accounting perspective and will settle early in the first month of the following quarter. Since these offsetting contracts do not expose the Company to risk of fluctuations in exchange rates, these contracts have been excluded from the above table.

In addition to the short-term contracts discussed above, the Company has a foreign currency forward contract that matures in 2020 and was entered into as a hedge of 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 June 30, 2018	September 30, 2017
	(In thousands)	
Senior secured notes due 2019	$375,000	$ 375,000
Non-interest bearing promissory notes	17,842	19,863
Total long-term debt	392,842	394,863
Less: Current portion of non-interest bearing promissory notes	3,280	3,416
Current portion of long-term debt	375,000	—
Long-term debt	$14,562	$ 391,447

Short-term debt

The Company previously had a $375 million secured revolving credit facility (the "Cash Flow Revolver") that was originally set to expire on May 20, 2020.

On February 1, 2018, the Company entered into an amended Cash Flow Revolver (the "Amended Cash Flow Revolver") that increased the amount available under the facility to $500 million and extended the term to February 1, 2023 provided the Company’s available liquidity is at least equal to the outstanding balance of the Company’s senior secured notes due 2019 during the six month period prior to the maturity date of such notes, which is June 1, 2019. Subject to satisfaction of certain conditions, including obtaining additional commitments from existing and/or new lenders, the Company may increase the revolver commitments under the Amended Cash Flow Revolver by up to an additional $200 million and/or add new term loan commitments of up to $375 million.
The Company and certain subsidiary guarantors’ obligations under the Amended Cash Flow Revolver are secured by property of the Company and such guarantors, including, but not limited to cash, accounts receivables, inventory and the shares of the Company's subsidiaries, subject to limited exceptions.

The Amended Cash Flow Revolver requires the Company to comply with a minimum consolidated interest coverage ratio, measured at the end of each fiscal quarter, and at all times a maximum consolidated leverage ratio. The Amended Cash Flow Revolver contains customary affirmative covenants, including covenants regarding the payment of taxes and other obligations, maintenance of insurance, reporting requirements and compliance with applicable laws and regulations.

As of June 30, 2018, there were $233 million of borrowings and $9 million of letters of credit outstanding under the Amended Cash Flow Revolver.

As of June 30, 2018, certain foreign subsidiaries of the Company had a total of $69 million of short-term borrowing facilities, under which no borrowings were outstanding.

Debt covenants

The Company's Amended Cash Flow Revolver requires the Company to comply with certain financial covenants. In addition, the Company's 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. The Company was in compliance with these covenants as of June 30, 2018.

Note 5. Accounts Receivable Sale Program

During the third quarter of 2018, the Company entered into an amended Revolving Master Receivable Purchase Agreement (the “RPA”) with certain third-party banking institutions for the sale of trade receivables generated from sales of the Company's U.S. entities to certain customers. A maximum of $455 million of sold receivables can be outstanding at any point in time under this program. Trade receivables sold pursuant to the RPA are serviced by the Company.

In addition to the RPA, the Company has the option to participate in trade receivables sales programs that have been implemented by certain of the Company's customers, as in effect from time to time. The Company does not service trade receivables sold under these other programs.

Under each of the programs noted above, the Company sells its entire interest in a trade receivable for 100% of face value, less a discount. For the nine months ended June 30, 2018 and July 1, 2017, the Company sold $558 million and $336 million, respectively, of accounts receivable under these programs. Upon sale, these receivables are removed from the condensed consolidated balance sheets and cash received is presented as cash provided by operating activities in the condensed consolidated statement of cash flows. Discounts on sold receivables were not material for any period presented. As of June 30, 2018 and September 30, 2017, $217 million and $140 million, respectively, of sold accounts receivable remained outstanding and had not yet been collected.

Note 6. 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 June 30, 2018 and September 30, 2017, the Company had reserves of $34 million and $36 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.

In January 2018, the Company received a notice of intent from a foreign government agency to bring a claim seeking up to $23 million asserting that the Company had been out of compliance from April 2015 through September 2016 with certain requirements of the Company’s exemption from goods and services tax on imported goods. Such claim, if formally made, could seek payment for allegedly unpaid goods and services tax. No formal claim has been brought to date. The Company believes it has good faith arguments in defense of its actions and has provided these arguments to the government agency in writing, most recently in April 2018. No further communications have been received from the agency since that time and the Company cannot, at this time, determine the outcome of this matter and has not provided a reserve for this matter as of the end of the third quarter of 2018.
Legal Proceedings

Environmental Matters

The Company is subject to various federal, state, local and foreign laws and regulations and administrative orders concerning environmental protection, including those addressing the discharge of pollutants into the environment, the management and disposal of hazardous substances, the cleanup of contaminated sites, the materials used in products, and the recycling, treatment and disposal of hazardous waste. As of June 30, 2018, 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 June 30, 2018, the Company believes it has reserved a sufficient amount to satisfy currently anticipated future investigation and remediation costs at this site. Another such order demands that the Company and other alleged defendants remediate groundwater contamination at two landfills located in Northern California to which the Company may have sent wastewater in the past. The Company continues to investigate the allegations contained in this order and has reserved its estimated exposure for this matter as of June 30, 2018. However, there can be no assurance that the Company's reserve will ultimately be sufficient.

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 appealed this dismissal and the appeals court reversed the judgment in August 2017. In November 2017, the California Supreme Court denied the Company's petition to review this decision and in December 2017 the Court of Appeal remanded the case back to the Superior Court for further proceedings. A trial date has not yet been set. The Company intends to contest the plaintiff's claims vigorously.

Other Matters

Two of the Company's subsidiaries in Brazil are parties to a number of 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 the Company 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 7. Restructuring

Restructuring Plan - 2018
In the first quarter of 2018, the Company adopted a consolidated restructuring plan to address the closure and/or relocation of three of its manufacturing facilities.
The following table is a summary of restructuring costs associated with this plan:

		Restructuring Expense	
	Estimated Costs to Implement	Three Months Ended June 30, 2018	Nine Months Ended June 30, 2018
	(In thousands)		
Severance costs (approximately 2,900 employees)	$27,700	$758	$25,250
Other exit costs (will be recognized as incurred)	7,300	89	363
Total	35,000	847	25,613
Severance reimbursement	(10,000)	—	(10,000)
Total - Q1 FY18 plan	25,000	847	15,613
Costs incurred for other plans	—	174	359
Total - all plans	$25,000	$1,021	$15,972

Actions under the consolidated restructuring plan began in the first quarter of 2018 and are expected to occur through calendar 2019. Cash payments of severance and other costs began in the second quarter of 2018 and are expected to occur through the end of calendar 2019. As of June 30, 2018, accrued restructuring costs of $20 million were recorded in accrued liabilities on the condensed consolidated balance sheet. In connection with this plan, the Company entered into a contractual agreement with a third party pursuant to which up to $10.0 million of severance and retention costs incurred by the Company will be reimbursed. The Company recorded this amount as a reduction of restructuring costs in the second quarter of 2018. Of the $25 million expected restructuring costs, $14.6 million is attributable to the Company's IMS segment and $10.4 million is attributable to the Company's CPS segment. Of the $15.6 million of restructuring costs recorded during the nine months ended June 30, 2018, $11.1 million is attributable to the Company's IMS segment and $4.5 million is attributable to the Company's CPS segment.

Note 8. 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.

On December 22, 2017, the U.S. Tax Cuts and Jobs Act (H.R. 1) (the “Tax Act”) was enacted into law. In accordance with ASC 740, Income Taxes, the Company is required to recognize the effect of the Tax Act in the period of enactment, which was the Company’s first quarter of fiscal 2018 that ended on December 30, 2017. The many changes in the Tax Act include a permanent reduction in the maximum federal corporate income tax rate from 35% to 21% effective as of January 1, 2018. The statutory federal income tax rate applicable for the Company's fiscal year ending September 29, 2018 is expected to be 24.5% based on a fiscal year blended rate calculation. Because of this reduction in rate, the Company was required to revalue its U.S. deferred tax assets and liabilities to the new rate in the Company's first quarter of 2018. The Tax Act also requires a mandatory deemed repatriation of undistributed earnings and profits, at the rate of either 15.5% for cash or 8% for non-liquid assets.

As of the end of the third quarter of 2018, the Company has made reasonable estimates of the impact of the Tax Act and, in accordance with the SEC's Staff Accounting Bulletin No. 118, has recorded a provisional net income tax expense of approximately $162 million, which is comprised of $176 million for remeasurement of the Company’s U.S deferred tax assets, zero for the mandatory deemed repatriation of undistributed earnings and profits, and a tax benefit of $14 million for the conversion to a territorial system. The Company’s actual remeasurement of deferred tax assets and liabilities may vary from the provisional amount because the Company's final analysis will be based on activities through the remainder of the fiscal year. During the remainder of 2018, the Company will continue to analyze the full effects of the Tax Act on the Company's financial statements. The final impact of the Tax Act may differ from the Company's estimate due to, among other things, additional regulatory guidance that may be issued, changes in the Company’s interpretations and assumptions, finalization of calculations of the impact of the Tax Act on foreign tax provisions and actions the Company may take as a result of the Tax Act, including the on-going evaluation of the Company's indefinite reinvestment assertions regarding undistributed earnings and profits. Although the Company currently does not expect to be impacted by the mandatory deemed repatriation provision of the Tax Act, due to the complexity of the Company’s international tax and legal entity structure, the Company will continue to analyze the earnings and profits and tax pools of the Company’s foreign subsidiaries to reasonably estimate the effects of the mandatory deemed repatriation provision of the Tax Act over the one-year measurement period.

The Tax Act also includes provisions for Global Intangible Low-Taxed Income (“GILTI”), which imposes taxes on foreign income in excess of a deemed return on tangible assets of foreign corporations. These new provisions are effective for the Company in fiscal year 2019. This income will effectively be taxed at a 10.5% tax rate. Because of the complexity of the new provisions, the Company is continuing to evaluate how the provisions will be accounted for under U.S. generally accepted accounting principles whereby companies are allowed to make an accounting policy election of either (i) accounting for GILTI as a component of income tax expense in the period in which the Company is subject to the rules (the “period cost method”), or (ii) accounting for GILTI in the Company’s measurement of deferred taxes (the “deferred method”). Currently, the Company has not elected a method and will only do so after completing its analysis of the GILTI provisions of the Tax Act. The Company’s election method will depend, in part, on analyzing the Company’s global income to determine whether the Company expects to have future U.S. inclusions in its taxable income related to GILTI and, if so, the impact that is expected. However, at this time, regardless of the Company’s election method, the Company does not expect the impact of GILTI to be material to the Company’s tax rate or to incur additional cash taxes as a result of GILTI.

The Company's provision for income taxes for the three months ended June 30, 2018 and July 1, 2017 was $7 million (18% of income before taxes) and $26 million (42% of income before taxes), respectively, and $190.4 million (202% of income before taxes) and $60.8 million (35% of income before taxes) for the nine months ended June 30, 2018 and July 1, 2017, respectively. The increase in income tax expense for 2018 on a year-to-date basis was primarily attributable to the estimated impact of the Tax Act as discussed above, which resulted in a net increase to income tax expense of approximately $162 million related to a non-cash reduction in the carrying value of our net deferred tax assets partially offset by a decrease in the US tax rate from 35% to 21% and a $4.8 million discrete tax benefit resulting from a settlement with a foreign tax authority in the third quarter of 2018.

During the third quarter of 2018, the Company recorded a $4.8 million discrete tax benefit resulting from a settlement with a foreign tax authority. The settlement allowed the Company to release an accrual for this uncertain tax position.

During the first quarter of 2017, the Company recorded a discrete tax benefit resulting from the merger of two foreign entities, the surviving entity of which was, and continues to be, included in the Company’s U.S. federal consolidated tax group.

This restructuring allowed the Company to recognize a U.S. deferred tax asset to reflect the federal deductibility of a foreign uncertain tax position that became recognizable upon the merger of the subsidiaries.

Note 9. Stockholder's Equity

Accumulated Other Comprehensive Income

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

	As of June 30, 2018	September 30, 2017
	(In thousands)	
Foreign currency translation adjustments	$ 90,482	$ 90,952
Unrealized holding losses on derivative financial instruments	(536)	(212)
Unrecognized net actuarial losses and transition costs for benefit plans	(13,341)	(13,946)
Total	$ 76,605	$ 76,794

Stock Repurchase Program

During the nine months ended June 30, 2018 and July 1, 2017, the Company repurchased 4.8 million and 0.5 million shares of its common stock for $138 million and $20 million, respectively. As of June 30, 2018, subject to limitations on stock repurchases contained in certain of the Company's credit and debt agreements, an aggregate of $115 million remains available under repurchase programs authorized by the Board of Directors.

In addition to the repurchases discussed above, the Company repurchased 328,000 and 549,000 shares of its common stock during the nine months ended June 30, 2018 and July 1, 2017, respectively, in settlement of employee tax withholding obligations due upon the vesting of restricted stock units. The Company paid $12 million and $17 million, respectively, in conjunction with these repurchases.

Note 10. Business Segment, Geographic and Customer Information

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

The Company's operations are managed as two businesses: Integrated Manufacturing Solutions (IMS) and Components, Products and Services (CPS). The Company's CPS business consists of multiple operating segments which do not meet the quantitative threshold for being presented as reportable segments. Therefore, financial information for these operating segments is presented in a single category entitled "CPS" and the Company has only one reportable segment - IMS.

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

	Three Months Ended		Nine Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
	(In thousands)			
Gross sales:				
IMS	$1,490,069	$1,408,442	$4,293,497	$4,205,149
CPS	374,642	356,998	1,077,103	1,057,709
Intersegment revenue	(51,345)	(54,063)	(136,805)	(149,242)
Net sales	$1,813,366	$1,711,377	$5,233,795	$5,113,616
Gross profit:				
IMS	$85,381	$106,841	$253,914	$310,122
CPS	31,300	26,229	92,538	95,021
Total	116,681	133,070	346,452	405,143
Unallocated items (1)	1,855	(2,382)	(3,752)	(9,083)
Total	$118,536	$130,688	$342,700	$396,060

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

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

	Three Months Ended		Nine Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
	(In thousands)			
Net sales				
United States	$344,149	$313,123	$980,294	$916,513
Mexico	529,864	479,058	1,513,858	1,422,790
China	305,350	353,372	886,355	988,851
Malaysia	161,478	170,133	497,828	575,791
Other international	472,525	395,691	1,355,460	1,209,671
Total	$1,813,366	$1,711,377	$5,233,795	$5,113,616

Percentage of net sales represented by ten largest customers	52%	53%	53%	53%
Number of customers representing 10% or more of net sales	1	2	1	2

Note 11. Earnings Per Share

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

	Three Months Ended		Nine Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
	(In thousands, except per share data)			
Numerator:				
Net income (loss)	$33,963	$36,404	$(96,315)	$112,985
Denominator:				
Weighted average common shares outstanding	68,907	75,332	70,366	74,548
Effect of dilutive stock options and restricted stock units	3,146	2,909	—	3,369
Denominator for diluted earnings per share	72,053	78,241	70,366	77,917
Net income (loss) per share:				
Basic	$0.49	$0.48	$(1.37)	$1.52
Diluted	$0.47	$0.47	$(1.37)	$1.45

The Company reported a net loss of $96.3 million for the nine months ended June 30, 2018 and, as such, 3.4 million potentially dilutive securities have been excluded from the calculation of diluted earnings per share for the nine months ended June 30, 2018.

Note 12. Stock-Based Compensation

Stock-based compensation expense was attributable to:

	Three Months Ended		Nine Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
	(In thousands)			
Stock options	$1,362	$362	$5,105	$1,292
Restricted stock units, including performance based awards	8,399	6,927	23,593	25,616
Total	$9,761	$7,289	$28,698	$26,908

Stock-based compensation expense was recognized as follows:

	Three Months Ended		Nine Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
	(In thousands)			
Cost of sales	$2,055	$1,879	$6,354	$6,778
Selling, general and administrative	7,490	5,276	22,042	19,492
Research and development	216	134	302	638
Total	$9,761	$7,289	$28,698	$26,908

During the second quarter of 2018, the Company's stockholders approved the reservation of an additional 1.8 million shares of common stock for future issuance under the Company's 2009 Incentive Plan. As of June 30, 2018, an aggregate of 10.3 million shares were authorized for future issuance under the Company's stock plans, of which 6.8 million of such shares were issuable upon exercise of outstanding options and delivery of shares upon vesting of restricted stock units and 3.5 million shares of common stock were available for future grant.

Stock Options

Stock option activity was as follows:

	Number of Shares	Weighted-Average Exercise Price ($)	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value of In-The-Money Options ($)
	(In thousands)			(In thousands)
Outstanding as of September 30, 2017	3,568	11.83	3.82	90,327
Granted	200	38.45		
Exercised/Cancelled/Forfeited/Expired	(381)	11.47		
Outstanding as of June 30, 2018	3,387	13.44	3.64	58,397
Vested and expected to vest as of June 30, 2018	3,385	13.44	3.63	58,384
Exercisable as of June 30, 2018	3,201	12.16	3.34	58,170

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.

Restricted Stock Units

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

	Number of Shares	Weighted-Average Grant Date Fair Value ($)	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ($)
	(In thousands)			(In thousands)
Outstanding as of September 30, 2017	3,359	27.56	1.51	124,800
Granted	1,098	33.52		
Vested/Forfeited/Cancelled	(1,089)	25.18		
Outstanding as of June 30, 2018	3,368	30.27	1.46	101,728
Expected to vest as of June 30, 2018	2,553	29.60	1.46	77,110

As of June 30, 2018, unrecognized compensation expense of $43 million is expected to be recognized over a weighted average period of 1.5 years. Additionally, as of June 30, 2018, unrecognized compensation expense related to performance-based restricted stock units for which achievement of the performance criteria is not currently considered probable was $20 million.

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

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to our expectations for future events and time periods. All statements other than statements of historical fact are statements that could be deemed to be forward-looking statements, including any statements regarding trends in future revenue or results of operations, gross margin or operating margin, expenses, earnings or losses from operations, cash flow, synergies or other financial items; any statements of the plans, strategies and objectives of management for future operations and the anticipated benefits of such plans, strategies and objectives; any statements regarding future economic conditions or performance; any statements regarding pending investigations, claims or disputes; any statements regarding the timing of closing of, future cash outlays for, and benefits of completed, pending or anticipated acquisitions; any statements regarding our restructuring plans; any statements concerning the adequacy of our current liquidity; any statements regarding our expectations for remediation of any material weaknesses; 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,” 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 II, 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 products and services primarily to original equipment manufacturers (OEMs) in the following industries: communications networks, data storage, industrial, defense and aerospace, medical, energy and industries that include embedded computing technologies in products such as set-top boxes, point-of-sales devices, casino gaming machines and automotive components and systems.

Our operations are managed as two businesses:

1. Integrated Manufacturing Solutions (IMS). Our IMS segment consists 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 plastic injection molding) and mechanical systems (enclosures and precision machining). Products include memory, RF, optical and microelectronics solutions from our Viking Technology division, defense and aerospace products from SCI Technology, computing and data storage from our Newisys division and cloud-based manufacturing execution solutions from our 42Q division. Services include design, engineering, logistics and repair services.

Our only reportable segment is IMS, which represented approximately 80% of our total revenue in the first nine months of fiscal 2018 and 2017. Our CPS business consists of multiple operating segments which do not meet the quantitative thresholds for being presented as reportable segments under the accounting rules for segment reporting. Therefore, financial information for these operating segments is presented in a single category entitled “Components, Products and 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 2018 and 2017 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 offer significant growth opportunities and that 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 the potential 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. This includes 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 has been challenging. For example, revenue in our IMS business has been negatively impacted in 2018 by parts shortages and delays in new program ramps caused by customer design changes, yield issues and other factors. These factors, together with unfavorable program mix, under absorption of labor and overhead, and high fixed costs associated with new program ramps have resulted in a decrease in gross margins for our IMS business from 7.6% in the third quarter of 2017 to 5.7% in the third quarter of 2018. Additionally, gross margin for our CPS business was 8.4% in the third quarter of 2018. Although this was an improvement from gross margin of 7.3% in the third quarter of 2017, it was lower than in the second quarter of 2018 and continues to be well below our expectations for this business. We continue to address these challenges on both a short-term and long-term basis. For example, in early July 2018, we completed a previously announced plant closure in our CPS business. This closure is expected to generate cost savings beginning in the fourth quarter of 2018.

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. One customer represented 10% or more of our net sales for the three months and nine months ended June 30, 2018. Two customers represented 10% or more of our net sales for the three and nine months ended July 1, 2017.

We typically generate 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 manufacture in lower cost regions such as Asia, Latin America and Eastern Europe.

Historically, we have had substantial recurring sales to existing customers. We typically enter into supply agreements with our major OEM customers. These agreements generally have terms ranging from three to five years and can cover the manufacture of a range of products. Under these agreements, a customer typically purchases its requirements for specific products in particular geographic areas from us. However, these agreements generally do not obligate the customer to purchase minimum quantities of products, which can have the effect of reducing revenue and profitability. In addition, some customer contracts contain cost reduction objectives, which can also have the effect of reducing revenue 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 2017 Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 13, 2017.

Results of Operations

Key Operating Results

	Three Months Ended	Nine Months Ended

	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
	(In thousands)			
Net sales	$1,813,366	$1,711,377	$5,233,795	$5,113,616
Gross profit	$118,536	$130,688	$342,700	$396,060
Operating income	$47,060	$66,576	$109,622	$183,398
Net income (loss) (1)	$33,963	$36,404	$(96,315)	$112,985

(1) Results of operations for the nine months ended June 30, 2018 include a $162 million non-cash tax charge due to the enactment of the U.S. Tax Cuts and Jobs Act.

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Net Sales

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

	Three Months Ended				Nine Months Ended			
	June 30, 2018	July 1, 2017	Increase/(Decrease)		June 30, 2018	July 1, 2017	Increase/(Decrease)	
Communications Networks	$673,124	$669,967	$3,157	0.5 %	$1,994,305	$1,937,103	$57,202	3.0 %
Industrial, Automotive and Defense	634,490	613,151	21,339	3.5 %	1,857,543	1,855,847	1,696	0.1 %
Medical	301,721	232,471	69,250	29.8 %	825,055	697,845	127,210	18.2 %
Cloud Solutions	204,031	195,788	8,243	4.2 %	556,892	622,821	(65,929)	(10.6)%
Total	$1,813,366	$1,711,377	$101,989	6.0 %	$5,233,795	$5,113,616	$120,179	2.4 %

Net sales in the third quarter of 2018 were 6.0% higher than those for the third quarter of 2017. Sales to customers in our medical end market increased 29.8% primarily as a result of increased demand for existing customer programs that are gaining traction in the market place and new program wins. Sales to customers in our industrial, automotive and defense market increased 3.5% primarily due to new program ramps in our automotive market, partially offset by reduced demand in our industrial market. Sales to customers in our cloud solutions market increased 4.2% due, in part, to a new program with a Tier 1 cloud service provider.

Net sales for the first nine months of 2018 were 2.4% higher than those for the first nine months of 2017. Sales to customers in our medical end market increased 18.2% primarily as a result of increased demand and new program wins. Sales to customers in our communications networks end market increased 3.0% primarily as a result of increased demand and new program wins for wireless products, partially offset by the effect of decreased demand for optical products. Sales to customers in our cloud solutions end market decreased 10.6% primarily due to reduced demand from a particular storage customer.

Gross Margin

Gross margin decreased to 6.5% for the third quarter of 2018 from 7.6% for the third quarter of 2017, primarily due to a decline in our IMS gross margin partially offset by a $4.8 million benefit associated with a reduction in an accrual for contingent consideration related to an acquisition completed in a previous period. The contingent consideration accrual reversal is not allocated to our operating segments. IMS gross margin decreased to 5.7% for the third quarter of 2018, from 7.6% for the third quarter of 2017 due primarily to unfavorable material costs, freight premiums and other inefficiencies associated with ongoing supply constraints, as well as costs associated with new program ramp-ups. CPS gross margin increased to 8.4% for the third quarter of 2018, from 7.3% for the third quarter of 2017 primarily due to increased sales and improved operational efficiencies.

Gross margin decreased to 6.5% for the nine months ended June 30, 2018, from 7.7% for the nine months ended July 1, 2017. IMS gross margin decreased to 5.9% for the nine months ended June 30, 2018 from 7.4% for the nine months ended July 1, 2017 due primarily to unfavorable program mix, under absorption of labor and overhead costs caused by lower revenue than anticipated due to parts shortages and high fixed costs and yield issues associated with new program ramp-ups. CPS gross margin decreased to 8.6% for the nine months ended June 30, 2018, from 9.0% for the nine months ended July 1, 2017, primarily as a result of decreased sales in our Products group and continued depressed conditions in the oil and gas industry.

We expect our gross margins to continue to fluctuate based on overall production and shipment volumes and changes in the mix of products required 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 extended parts lead times caused by high demand or natural disasters, and related operational disruption and inefficiencies;
- 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;
- Levels of operational efficiency and production yields;

- Wage inflation and rising materials costs;
- Our ability to transition the location of and ramp manufacturing and assembly operations when requested by a customer in a timely and cost-effective manner.

Selling, General and Administrative

Selling, General and Administrative expenses increased $2.7 million, from $58.7 million, or 3.4% of net sales, in the third quarter of 2017 to $61.4 million, or 3.4% of net sales, in the third quarter of 2018. This increase was primarily attributable to increased stock compensation expense associated with a specific market-condition grant. Selling, General and Administrative expenses increased $4.2 million, from $186.2 million, or 3.6% of net sales, for the nine months ended July 1, 2017 to $190.4 million, or 3.6% of net sales, for the nine months ended June 30, 2018. This increase was primarily attributable to increased stock compensation expense as a result of a specific market-condition grant.

Research and Development

Research and Development expenses decreased $0.3 million, from $8.4 million, or 0.5% of net sales, in the third quarter of 2017 to $8.1 million, or 0.4% of net sales, in the third quarter of 2018. Research and Development expenses decreased $1.0 million, from $25.0 million, or 0.5% of net sales, for the nine months ended July 1, 2017 to $24.0 million, or 0.5% of net sales, for the nine months ended June 30, 2018.

Restructuring

In the first quarter of 2018, we adopted a consolidated restructuring plan to address the closure and/or relocation of three of our manufacturing facilities.

The following table is a summary of restructuring costs associated with this plan:

		Restructuring Expense	
	Estimated Costs to Implement	Three Months Ended June 30, 2018	Nine Months Ended June 30, 2018
	(In thousands)		
Severance costs (approximately 2,900 employees)	$27,700	$758	$25,250
Other exit costs (will be recognized as incurred)	7,300	89	363
Total	35,000	847	25,613
Severance reimbursement	(10,000)	—	(10,000)
Total - Q1 FY18 plan	25,000	847	15,613
Costs incurred for other plans	—	174	359
Total - all plans	$25,000	$1,021	$15,972

Actions under the consolidated restructuring plan began in the first quarter of 2018 and are expected to occur through calendar 2019. Cash payments of severance and other costs began in the second quarter of 2018 and are expected to occur through the end of calendar 2019. As of June 30, 2018, accrued restructuring costs of $20 million was recorded in accrued liabilities on the condensed consolidated balance sheet. In connection with this plan, we entered into a contractual agreement with a third party pursuant to which up to $10.0 million of severance and retention costs incurred by us will be reimbursed. We recorded this amount as a reduction of restructuring costs in the second quarter of 2018. Of the $25 million expected restructuring costs, $14.6 million is attributable to our IMS segment and $10.4 million is attributable to our CPS segment. Of the $15.6 million of restructuring costs recorded during the nine months ended June 30, 2018, $11.1 million is attributable to our IMS segment and $4.5 million is attributable our CPS segment.

Other Income, Net

Other income, net in the third quarter of 2018 remained flat from the third quarter of 2017. Other income, net for the nine months ended June 30, 2018 decreased $2.3 million from the nine months ended July 1, 2017 due primarily to lower foreign exchange gains.

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

	Three Months Ended		Nine Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
	(In thousands)			
Foreign exchange gains (losses)	$(639)	$ 349	$757	$4,154
Other, net	1,639	603	2,990	1,867
Total	$1,000	$ 952	$3,747	$6,021

Provision for Income Taxes

On December 22, 2017, the U.S. Tax Cuts and Jobs Act (H.R. 1) (the "Tax Act") was enacted into law. In accordance with ASC 740, Income Taxes, we are required to recognize the effect of the Tax Act in the period of enactment, which was our first quarter of fiscal 2018 that ended on December 30, 2017. The many changes in the Tax Act include a permanent reduction in the maximum federal corporate income tax rate from 35% to 21% effective as of January 1, 2018. The statutory federal income tax rate applicable for our fiscal year ending September 29, 2018 is expected to be 24.5% based on a fiscal year blended rate calculation. Because of this reduction in rate, we were required to revalue our U.S. deferred tax assets and liabilities to the new rate in our first quarter of 2018. The Tax Act also requires a mandatory deemed repatriation of undistributed earnings and profits, at the rate of either 15.5% for cash or 8% for non-liquid assets.

As of the end of the third quarter of 2018, we have made reasonable estimates of the impact of the Tax Act and, in accordance with the SEC's Staff Accounting Bulletin No. 118, have recorded a provisional net income tax expense of approximately $162 million, which is comprised of $176 million for remeasurement of our U.S deferred tax assets, zero for the mandatory deemed repatriation of undistributed earnings and profits, and a tax benefit of $14 million for the conversion to a territorial system. Our actual remeasurement of deferred tax assets and liabilities may vary from the provisional amount because our final analysis will be based on activities through the remainder of the fiscal year. During the remainder of 2018, we will continue to analyze the full effects of the Tax Act on our financial statements. The final impact of the Tax Act may differ from our estimate due to, among other things, additional regulatory guidance that may be issued, changes in our interpretations and assumptions, finalization of calculations of the impact of the Tax Act on foreign tax provisions and actions we may take as a result of the Tax Act, including the on-going evaluation of our indefinite reinvestment assertions regarding undistributed earnings and profits. Although we currently do not expect to be impacted by the mandatory deemed repatriation provision of the Tax Act, due to the complexity of our international tax and legal entity structure, we will continue to analyze the earnings and profits and tax pools of our foreign subsidiaries to reasonably estimate the effects of the mandatory deemed repatriation provision of the Tax Act over the one-year measurement period.

The Tax Act also includes provisions for Global Intangible Low-Taxed Income ("GILTI"), which imposes taxes on foreign income in excess of a deemed return on tangible assets of foreign corporations. These new provisions are effective for us in fiscal year 2019. This income will effectively be taxed at a 10.5% tax rate. Because of the complexity of the new provisions, we are continuing to evaluate how the provisions will be accounted for under U.S. generally accepted accounting principles whereby companies are allowed to make an accounting policy election of either (i) accounting for GILTI as a component of income tax expense in the period in which we are subject to the rules (the “period cost method”), or (ii) accounting for GILTI in our measurement of deferred taxes (the “deferred method”). Currently, we have not elected a method and will only do so after completing our analysis of the GILTI provisions of the Tax Act. Our election method will depend, in part, on analyzing our global income to determine whether we expect to have future U.S. inclusions in our taxable income related to GILTI and, if so, the impact that is expected. However, at this time, regardless of our election, we do not expect the impact of GILTI to be material to our tax rate or to incur additional cash taxes as result of GILTI.

Our provision for income taxes for the three months ended March 31, 2018 and April 1, 2017 were $7 million (18% of income before taxes) and $26 million (42% of income before taxes), respectively and $190.4 million (202% of income before taxes) and $60.8 million (35% of income before taxes) for the nine months ended June 30, 2018 and July 1, 2017, respectively. Income tax expense for 2018 on a year-to-date basis was primarily attributable to the estimated impact of the Tax Act, resulting in a net increase to income tax expense of approximately $162 million. The increase in income tax expense for 2018 on a year-to-date basis was primarily attributable to the estimated impact of the Tax Act as discussed above, which resulted in a net increase to income tax expense of approximately $162 million that was related to a non-cash reduction in the carrying value of our net deferred tax assets, partially offset by a decrease in the US tax rate 35% to 21%, and a $4.8 million discrete tax benefit resulting from a settlement with a foreign tax authority in the third quarter of 2018.

During the third quarter of 2018, we recorded a $4.8 million discrete tax benefit resulting from a settlement with a foreign tax authority. The settlement allowed us to release an accrual for this uncertain tax position.

During the first quarter of 2017, we recorded a discrete tax benefit resulting from the merger of two foreign entities, the surviving entity of which was, and continues to be, included in our U.S. federal consolidated tax group. This restructuring allowed us to recognize a U.S. deferred tax asset to reflect the federal deductibility of a foreign uncertain tax position that became recognizable upon the merger of the subsidiaries.

Liquidity and Capital Resources

	Nine Months Ended	
	June 30, 2018	July 1, 2017
	(In thousands)	
Net cash provided by (used in):		
Operating activities	$95,880	$201,669
Investing activities	(95,539)	(82,866)
Financing activities	(3,389)	(82,520)
Effect of exchange rate changes on cash and cash equivalents	1,164	929
Increase (decrease) in cash and cash equivalents	$(1,884)	$37,212

Key Working Capital Management Measures

	As of	
	June 30, 2018	September 30, 2017
Days sales outstanding (1)	56	55
Inventory turns (2)	5.9	6.2
Days inventory on hand (3)	62	59
Accounts payable days (4)	69	71
Cash cycle days (5)	49	43

(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.

(4) 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 million at June 30, 2018 and $407 million at September 30, 2017. 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 $0.6 billion and $1 billion as of June 30, 2018 and September 30, 2017, respectively.

Net cash provided by operating activities was $96 million and $202 million for the nine months ended June 30, 2018 and July 1, 2017, 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, the extent to which we factor customer receivables and the negotiation of payment terms with customers and suppliers. These fluctuations can significantly affect our cash flows from operating activities.

During the nine months ended June 30, 2018, we generated $195 million of cash primarily from earnings, excluding non-cash items, and consumed $99 million of cash due to an increase in our net operating assets caused primarily by a net increase in inventory, accounts receivable and accounts payable of $95 million. The increases are primarily due to an increase in business volume. Inventory increased primarily as a result of customer demand changes, parts shortages that prevented us from using previously purchased inventory in the manufacture of products for our customers, new product ramps and anticipated revenue growth for the remainder of the fiscal year. DPO decreased from 71 days as of September 30, 2017 to 69 days as of June 30, 2018 due to unfavorable supplier payment terms mix.

Net cash used in investing activities was $96 million and $83 million for the nine months ended June 30, 2018 and July 1, 2017, respectively. During the nine months ended June 30, 2018, we used $97 million of cash for capital expenditures, received proceeds of $4 million primarily from the sale of a certain property and used $2 million for funding a shortfall in our deferred compensation plan upon liquidation of our COLI investments. During the nine months ended July 1, 2017, we used $87 million of cash for capital expenditures and received proceeds of $4 million primarily from the sale of a certain property.

Net cash used in financing activities was $3 million and $83 million for the nine months ended June 30, 2018 and July 1, 2017. During the nine months ended June 30, 2018, we used $150 million of cash to repurchase common stock (including $12 million related to employee tax withholdings on vested restricted stock units), borrowed $148 million of cash under the Cash Flow Revolver, repaid $3 million of long-term debt and received $4 million of net proceeds from issuances of common stock pursuant to stock option exercises. During the nine months ended July 1, 2017, we used $38 million of cash to repurchase common stock (including $17 million related to employee tax withholdings on vested restricted stock units), used $25 million of cash for net repayments of short-term borrowings, repaid $43 million of long-term debt, paid $2 million in connection with a previous business combination and received $26 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 repurchased 4.8 million shares of our common stock for $138 million during the nine months ended June 30, 2018. As of June 30, 2018, subject to limitations on stock repurchases contained in certain of our credit and debt agreements, an aggregate of $115 million remained available under our stock repurchase programs authorized by the Board of Directors, none of which is subject to an expiration date.

On February 1, 2018, we entered into an amended cash flow revolver (the “Amended Cash Flow Revolver”) that increased the amount available under our revolving credit facility to $500 million and extended the term to February 1, 2023 provided our available liquidity is at least equal to the outstanding balance of our senior secured notes due 2019 during the six month period prior to the maturity date of such notes, which is June 1, 2019. Subject to satisfaction of certain conditions, including obtaining additional commitments from existing and/or new lenders, we may increase the revolver commitments under the Amended Cash Flow Revolver by up to an additional $200 million and/or add new term loan commitments of up to $375 million. Sanmina’s and certain subsidiary guarantors’ obligations under the Amended Cash Flow Revolver are secured by property of Sanmina and such guarantors, including, but not limited to cash, accounts receivable, inventory and the shares of our subsidiaries, subject to limited exceptions.
The Amended Cash Flow Revolver requires us to comply with a minimum consolidated interest coverage ratio, measured at the end of each fiscal quarter, and at all times a maximum consolidated leverage ratio. The Amended Cash Flow Revolver contains customary affirmative covenants, including covenants regarding the payment of taxes and other obligations, maintenance of insurance, reporting requirements and compliance with applicable laws and regulations. Further, the Amended Cash Flow Revolver contains customary negative covenants limiting the ability of the Sanmina and its subsidiaries, among other things, to incur debt, grant liens, make investments, make acquisitions, make certain restricted payments, repurchase its shares and sell assets, subject to certain exceptions. As of June 30, 2018, we were in compliance with these covenants.

During the third quarter of 2018, we entered into an amended Revolving Master Receivable Purchase Agreement (the “RPA”) with certain third-party banking institutions for the sale of trade receivables generated from sales of our U.S. entities to certain customers. A maximum of $455 million of sold receivables can be outstanding at any point in time under this program. Trade receivables sold pursuant to the RPA are serviced by us.

In addition to the RPA, we have the option to participate in trade receivables sales programs that have been implemented by certain of our customers, as in effect from time to time. We do not service trade receivables sold under these other programs.

Under each of the programs noted above, we sell our entire interest in a trade receivable for 100% of face value, less a discount. For the nine months ended June 30, 2018, and July 1, 2017, we sold $558 million and $336 million, respectively, of accounts receivable under these programs. Upon sale, these receivables are removed from the condensed consolidated balance sheets and cash received is presented as cash provided by operating activities in the condensed consolidated statement of cash flows. Discounts on sold receivables were not material for any period presented. As of June 30, 2018 and September 30, 2017, $217 million and $140 million, respectively, of sold accounts receivable remained outstanding and had not yet been collected.

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 June 30, 2018, we had reserves of $34 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 January 2018, we received a notice of intent from a foreign government agency to bring a claim seeking up to $23 million asserting that we had been out of compliance from April 2015 through September 2016 with certain requirements of our exemption from goods and services tax on imported goods. Such claim, if formally made, could seek payment for allegedly unpaid goods and services tax. No formal claim has been brought to date. We believe we have good faith arguments in defense of our actions and have provided these arguments to the government agency in writing, most recently in April 2018. No further communications have been received from the agency since that time. As a result we cannot, at this time, determine the outcome of this matter and have not provided a reserve for this matter as of the end of the third quarter of 2018.

As of June 30, 2018, we had a liability of $91 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 consisted of (1) cash and cash equivalents of $405 million as of June 30, 2018; (2) our Amended Cash Flow Revolver, under which $258 million, net of outstanding borrowings and letters of credit, was available as of June 30, 2018; (3) foreign short-term borrowing facilities of $69 million, all of which was available as of June 30, 2018 (an aggregate of $50 million of such facilities expire at various dates through the second quarter of 2019); (4) proceeds from sales of customer receivables under our RPA and related facilities; and (5) 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 June 30, 2018, 69% 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 Amended 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 June 30, 2018, 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 our revolving credit facility as the interest rate we pay for borrowings 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 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 currently have a four-year contract that hedges 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 consolidated statements of operations. As of June 30, 2018, we had outstanding foreign currency forward contracts to exchange various foreign currencies for U.S. dollars in the aggregate notional amount of $315 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 non-functional currency sales, (2) forecasted non-functional currency materials, labor, overhead and other expenses and (3) 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 $106 million as of June 30, 2018.

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 June 30, 2018 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, including internal control over financial reporting, will prevent all errors and all fraud. Because of inherent limitations, disclosure controls and procedures, no matter how well conceived and operated, may not prevent or detect misstatements and 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.

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the third quarter of fiscal 2018 was performed under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. This evaluation was performed to determine if our disclosure controls and procedures, including internal control over financial reporting, were effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, as amended, was accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure and were effective to provide reasonable assurance that such information was recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

Based on management’s evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of June 30, 2018 due to a material weakness that existed in our internal control over financial reporting as described below.

This control weakness did not result in a material misstatement to the consolidated financial statements for any period presented herein.

Update on Internal Control over Financial Reporting

During the second quarter of fiscal 2018, our management identified a material weakness related to the failed operation in the first quarter of fiscal 2018 of a business performance review control in one of our significant divisions. This control weakness did not result in any material misstatements to our financial statements or disclosures, but did result in an immaterial out-of-period adjustment to increase cost of sales and accrued liabilities during the quarter ended March 31, 2018. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

We concluded we did not have effective business performance review controls used to monitor the completeness and accuracy of the financial results of one of our significant divisions and to identify potential failures in lower level controls. Specifically, these controls did not detect errors in a timely manner that, when aggregated, could have been material to our interim or annual financial statements. Therefore, this control deficiency could result in misstatements of our consolidated financial statements or disclosures that would result in a material misstatement to our interim or annual financial statements that would not be prevented or detected.

Remediation Efforts to Address Material Weakness

During the third quarter of fiscal 2018, management enhanced its business performance review control procedures to include additional documentation to evidence its operation and to clearly define control operation and accountability.

We believe these measures, and others that may be implemented, will remediate the material weakness in internal control over financial reporting described above.

Our enhanced review procedures were in place and operated during the third quarter of fiscal 2018. We are in the process of testing the newly implemented internal controls and related procedures. The material weakness can not be considered formally remediated until the control has operated for a sufficient period of time and management has concluded, through testing, that the control is operating effectively. We expect to remediate this prior to the end of fiscal 2018.

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 September 30, 2017 and Part II, Item 1 of Sanmina’s Quarterly Report on Form 10-Q for the quarter ended December 30, 2017.

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 6 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 data storage, industrial, defense and aerospace, medical, automotive, energy and industries that include embedded computing technologies in products such as set-top boxes, point-of-sales devices and casino gaming machines. 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;
- failure of our customers' products to gain widespread commercial acceptance which could decrease the volume of orders customers place with us;
- changes in regulatory requirements affecting the products we build for our customers, leading to product obsolescence and potentially causing us to lose business; 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 substantially reducing our revenue and net income. There can be no assurance that we will not experience declines in demand in this or in other end markets in the future.

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:

- our ability to replace declining sales from end-of-life programs with new business wins;
- conditions in the economy as a whole and in the industries we serve;
- fluctuations in components prices and component shortages or extended parts lead time 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;
- 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 new program ramps in which expenditures are made in anticipation of increased sales or for which low product yields and design changes can significantly impact profitability;
- customer product delivery requirements and shortages of components or labor;
- customer payment terms and the extent to which we factor customer receivables during the quarter;
- increasing 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;
- 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, and 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 and repurchase stock.

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.

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 currency controls;
- changes in trade and tax laws that may result in us or our customers being subjected to increased taxes, duties and tariffs and thus increase our costs and/or reduce our customers' willingness to use our services in countries in which we are currently manufacturing their products;
- compliance with laws concerning the export of U.S. technology, including the International Traffic in Arms Regulations ("ITAR") and the Export Administration Regulations ("EAR"), sanctions administered by the Office of Foreign Asset Controls ("OFAC") and the Foreign Corrupt Practices Act;
- rising labor costs;
- compliance with foreign labor laws, which generally provide for increased notice, severance and consultation requirements compared to U.S. laws;
- permit and licensing requirements;
- labor unrest, including strikes;
- difficulties in staffing due to immigration or travel restrictions imposed by national governments, including the U.S.;
- 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 our international operations;
- fluctuations in currency exchange rates, which may either increase or decrease our operating costs and for which we have significant exposure;
- 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.

We operate in countries that have experienced labor unrest, political instability or conflict and strife, including Brazil, China, India, 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 may breach our customer agreements, we could incur significant start-up costs at new facilities and our lease expense may increase, potentially significantly.

We are subject to intense competition in the EMS industry which could cause us to lose sales and therefore harm 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, including Benchmark Electronics, Inc., Celestica, Inc., Flex Ltd., Hon Hai Precision Industry Co., Ltd. (Foxconn), 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.

Our supply chain is subject to a number of economic, regulatory and environmental risks that could increase our costs or cause us to delay shipments to customers, reducing our revenue and margins and increasing our inventory.

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 are currently experiencing, and may continue to experience in the future, delays in delivery and shortages of components, particularly certain types of capacitors, resistors and discrete semiconductors used in many of the products we manufacture. These conditions have and could continue to result in increased component prices and delays in product shipments to customers, both of which could decrease our revenue and margins, as well as increases of inventory of other components, which would reduce our operating cash flow.

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, such as the Dodd-Frank Act disclosure requirements relating to conflict minerals, and customer interest in responsible sourcing could decrease the availability and increase the prices of components used in our customers' products.

Changes in U.S. trade policy could increase the cost of using both our onshore and offshore manufacturing services for our U.S customers, leading them to reduce their orders to us.

Although we maintain significant manufacturing capacity in the United States, the substantial majority of our manufacturing operations are located outside the United States. 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 for import into the U.S. could be reduced should the U.S. government (1) exit or renegotiate trade agreements and frameworks to which it is currently bound or to which it adheres, including the North American Free Trade Act and the rules of the World Trade Organization; or (2) impose any import tariff covering any such products. Both the U.S. and China have recently imposed tariffs impacting certain products imported into such countries. In some cases, these tariffs will apply to components imported into the U.S. for use in the manufacture of products at our U.S.

plants. Any decision by a large number of our U.S customers to cease using our offshore manufacturing services due to these tariffs without commensurately increasing their use of our domestic manufacturing services would materially reduce our revenue and net income. Although we currently believe that the incremental costs to us of these tariffs will be immaterial, should the amount of these tariffs increase, should they be applied to additional categories of components used in our U.S. manufacturing activities and should we for any reason be unable to pass on such tariffs to our customers, the profitability of our domestic plants would be reduced as would the willingness of our customers to use our domestic manufacturing services.

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 that drove the release of our valuation allowance in prior years could prove to be incorrect, which could cause a charge to earnings; recent corporate tax reform measures have reduced the value of our deferred tax assets and could result in taxation of untaxed foreign earnings.

We are or may become subject to income, sales, value-added, goods and services, 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, compliance with local trade laws 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. In addition, the recently enacted U.S. Tax Cuts and Jobs Act provides for a substantial reduction in the U.S. corporate income tax rate and for a one-time mandatory deemed repatriation tax on previously untaxed foreign earnings. We currently estimate the impact of the Tax Act to be approximately $162 million for the reduction in the value of our deferred tax assets as a result of the corporate tax rate reduction and conversion to a territorial system. We do not anticipate any impact for the mandatory deemed repatriation tax. However, should our estimates or provisionally-recorded amounts change as a result of further analysis of the Tax Act or otherwise, we could be required to further reduce the carrying value of our deferred tax assets and the amount of the deemed repatriation tax could increase, which amounts could be significant.

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 and plastic injection molding, mechanical systems, memory, RF, optical and micoelectronic solutions, defense and aerospace products and storage solutions 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.

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. 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 filing for bankruptcy in the past. 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.

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. 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.

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

We rely on internal and cloud-based networks and systems furnished by third parties for worldwide financial reporting, inventory management, procurement, invoicing and email communications, among other functions. In addition, our 42Q manufacturing execution solutions software used by us and certain of our customers operates in the cloud. Despite our business continuity planning, including redundant data sites and network availability, both our internal and cloud-based infrastructure 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, both our internal and our cloud-based infrastructure 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 or confidential information 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 U.S. government regulations requiring the safeguarding of certain unclassified government information and to report to the U.S. 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. Our insurance for cyber-attacks is limited. There can be no assurance that the security measures we choose to implement will be sufficient to protect the data we manage. If we and our cloud infrastructure vendors are not successful in preventing such outages and cyberattacks, our operations could be disrupted, we could incur losses, including losses relating to claims by our customers or employees 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 U.S. government programs.

Customer requirements to transfer business may increase our costs.

Our customers sometimes require that we transfer the manufacturing of their products from one Sanmina 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, and any decision by a significant customer to terminate manufacturing services in a particular facility, 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.

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.

If we are unable to protect our intellectual property or if we infringe, or are alleged to infringe, upon the 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 contractual restrictions to protect our intellectual property rights. However, a number of our patents covering certain aspects of our manufacturing processes or products have expired and will continue to expire in the 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 own manufacturing processes and products 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 become subject to claims that products we design infringe third party intellectual property rights and may also be required to indemnify our customer against liability caused by such claims.

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

We 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, Malaysian ringgit, 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 in preventing foreign exchange losses 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.

Allegations of failures 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.

We are subject to a number of U.S. governmental procurement rules and regulations and failure to comply with such rules and regulations 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 practices, equal opportunity and affirmative action in employment and other aspects of performance under government contracts. These rules are complex, our performance under them is subject to audit by the Defense Contract Audit Agency, the Office of Federal Contract Compliance Programs and other government regulators, and in most cases must be complied with by our suppliers. If an audit or investigation reveals a failure to comply with regulations, 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.

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, our insurance program does not generally cover failure to comply with typical customer warranties for workmanship, product and medical device liability, intellectual property infringement, product recall claims, certain natural disasters, such as earthquake, and environmental contamination. In addition, our policies generally have deductibles and/or limits or may be limited to certain lines or business or customer engagements 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 will 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.

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 waste 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, our accruals may not be sufficient. Any increase in existing reserves or establishment of new reserves for environmental liability would 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.

Partly 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, any of which would reduce our net income.

We may not be successful in implementing and integrating strategic transactions or in divesting assets or businesses, which could harm our operating results; we could become required to book a charge to earnings should we determine that goodwill and other acquired assets are impaired.

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 commercial arrangements, 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.

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 U.S. 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 U.S. operations, we may incur significant foreign taxes to repatriate these funds which would reduce the net amount ultimately available for such purposes.

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. 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.

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 continue to 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.

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 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, a new accounting standard for lease accounting has recently been finalized and will require adoption in fiscal 2020. 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.

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. For example, during the second quarter of fiscal 2018, we identified a material weakness in the operation of a business performance review control in the first quarter of fiscal 2018 that did not result in a material misstatement of the financial statements. Although we expect to fully remediate the material weakness and complete testing by the end of the fourth quarter of fiscal 2018, there can be no assurance that we will be successful in this regard, nor can we assure you that we will not identify additional material weaknesses in our internal control over financial reporting in the future. If we are unable to remediate the material weakness, our ability to record, process and report financial information accurately, and to prepare financial statements within the time periods specified by the rules and forms of the Securities and Exchange Commission, could be adversely affected. The occurrence of or failure to remediate the material weakness may adversely affect our reputation and business and the market price of our common stock.

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 2. Unregistered Sales of Equity Securities and Use of Proceeds

In September 2017, our Board of Directors authorized us to repurchase up to $200 million of our common stock in the open market or in negotiated transactions off the market. The table below sets forth information regarding our repurchases of our common stock under these authorizations during the third quarter of 2018.

Period (1)	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE (2)	TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PROGRAMS	MAXIMUM DOLLAR VALUE OF SHARES THAT MAY YET BE PURCHASED UNDER THE PROGRAMS (2)
Month #1				
April 1, 2018 through April 28, 2018	—	$ —	—	$ 143,969,585
Month #2				
April 29, 2018 through May 26, 2018	800	$ 29.84	800	$ 143,945,710
Month #3				
May 27, 2018 through June 30, 2018	961,661	$ 30.01	961,661	$ 115,084,716
Total	962,461	$ 30.01	962,461	

(1) All months shown are our fiscal months.

(2) Amounts do not include commission payable on shares repurchased. The total average price paid per share is a weighted average based on the total number of shares repurchased during the period.

Our debt agreements contain a number of restrictive covenants, including restrictions on paying dividends and on the amount of stock we may repurchase, which may cause us not to be able to repurchase the entire amount approved by the Board.

Item 6. Exhibits

Exhibit Number	Description
10.34‡	Joinder Agreement and Amendment No. 1 to the Receivables Purchase Agreement dated June 25, 2018 among Sanmina Corporation, MUFG Bank, Ltd. (formerly known as The Bank of Tokyo-Mitsubishi, Ltd.) (“MUFG Bank”), Wells Fargo Bank, N.A., Bank of the West and MUFG Bank as administrative agent.
31.1	Certification of the Principal Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of the Principal Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1 (1)	Certification of the Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2 (1)	Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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‡ Portions of this exhibit have been omitted pursuant to a request for confidential treatment and this exhibit has been filed separately with the SEC.

(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/ ROBERT K. EULAU
Robert K. Eulau
Chief Executive Officer (Principal Executive Officer)

Date: August 3, 2018

By: /s/ DAVID R. ANDERSON
David R. Anderson
Executive Vice President and
Chief Financial Officer (Principal Financial Officer)

Date: August 3, 2018