SANMINA CORP
Form 10-Q
February 07, 2019

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 December 29, 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 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 January 31, 2019, there were 68,429,603 shares outstanding of the issuer's common stock, $0.01 par value per share.

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CONDENSED CONSOLIDATED BALANCE SHEETS

	As of December 29, 2018 (Unaudited)	September 29, 2018
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$409,290	$ 419,528
Accounts receivable, net of allowances of $12,915 and $12,211 as of December 29, 2018 and September 29, 2018, respectively	1,344,536	1,177,219
Contract assets	419,484	—
Inventories	1,054,166	1,374,004
Prepaid expenses and other current assets	46,296	43,676
Total current assets	3,273,772	3,014,427
Property, plant and equipment, net	643,518	642,913
Deferred tax assets	323,931	344,124
Other	75,632	83,669
Total assets	$4,316,853	$ 4,085,133
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,531,927	$ 1,547,399
Accrued liabilities	215,215	136,427
Accrued payroll and related benefits	117,631	124,748
Short-term debt, including current portion of long-term debt	708,362	593,321
Total current liabilities	2,573,135	2,401,895
Long-term liabilities:		
Long-term debt	14,361	14,346
Other	196,740	196,048
Total long-term liabilities	211,101	210,394
Contingencies (Note 7)		
Stockholders' equity	1,532,617	1,472,844
Total liabilities and stockholders' equity	$4,316,853	$ 4,085,133

See accompanying notes to condensed consolidated financial statements.

SANMINA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended	
	December 29, 2018	December 30, 2017
	(Unaudited) (In thousands, except per share data)	
Net sales	$2,188,018	$1,744,800
Cost of sales	2,038,681	1,635,334
Gross profit	149,337	109,466
Operating expenses:		
Selling, general and administrative	63,028	63,603
Research and development	6,437	7,615
Restructuring and other expenses	2,329	24,460
Total operating expenses	71,794	95,678
Operating income	77,543	13,788
Interest income	194	285
Interest expense	(8,271)	(6,214)
Other income (expense), net	(5,994)	3,230
Interest and other, net	(14,071)	(2,699)
Income before income taxes	63,472	11,089
Provision for income taxes	25,520	165,999
Net income (loss)	$37,952	$(154,910)
Net income (loss) per share:		
Basic	$0.56	$(2.16)
Diluted	$0.54	$(2.16)
Weighted average shares used in computing per share amounts:		
Basic	68,303	71,605
Diluted	70,901	71,605

See accompanying notes to condensed consolidated financial statements.

SANMINA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended	
	December 29, 2018	December 30, 2017
	(Unaudited)	
	(In thousands)	
Net income (loss)	$37,952	$(154,910)
Other comprehensive income (loss), net of tax:		
Change in foreign currency translation adjustments	(252)	(354)
Derivative financial instruments:		
Change in net unrealized amount	(6,497)	(1,407)
Amount reclassified into net income	2,410	1,525
Defined benefit plans:		
Changes in unrecognized net actuarial losses and unrecognized transition costs	290	(260)
Amortization of actuarial losses and transition costs	198	321
Total other comprehensive loss	(3,851)	(175)
Comprehensive income (loss)	$34,101	$(155,085)

See accompanying notes to condensed consolidated financial statements.

SANMINA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock and Additional Paid-in Capital		Treasury Stock				
	Number of Shares	Amount	Number of Shares	Amount	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
	(Unaudited) (In thousands)						
BALANCE AT SEPTEMBER 29, 2018	103,128	$6,222,988	(35,351)	$(791,366)	$ 73,944	$(4,032,722)	$1,472,844
Issuances under stock plans	1,028	3,568	—	—	—	—	3,568
Stock-based compensation	—	5,816	—	—	—	—	5,816
Repurchases of treasury stock	—	—	(449)	(11,842)	—	—	(11,842)
Other comprehensive loss	—	—	—	—	(3,851)	—	(3,851)
Cumulative effect of new accounting pronouncement (1)	—	—	—	—	—	28,130	28,130
Net income	—	—	—	—	—	37,952	37,952
BALANCE AT DECEMBER 29, 2018	104,156	$6,232,372	(35,800)	$(803,208)	$ 70,093	$(3,966,640)	$1,532,617
BALANCE AT SEPTEMBER 30, 2017	101,672	$6,185,088	(30,008)	$(633,740)	$ 76,794	$(3,980,458)	$1,647,684
Issuances under stock plans	893	2,526					2,526
Stock-based compensation		8,679					8,679
Repurchases of treasury stock			(1,323)	(45,485)			(45,485)
Other comprehensive loss					(175)		(175)
Cumulative effect of new accounting pronouncement (2)						43,269	43,269
Net loss						(154,910)	(154,910)
BALANCE AT DECEMBER 30, 2017	102,565	$6,196,293	(31,331)	$(679,225)	$ 76,619	$(4,092,099)	$1,501,588

(1) Due to the adoption of ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)" using the modified retrospective approach.

(2) Due to the adoption of ASU 2016-09 "Improvements to Employee Share-Based Payment Accounting (Topic 718)".

See accompanying notes to condensed consolidated financial statements.

SANMINA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended	
	December 29, 2018	December 30, 2017
	(Unaudited) (In thousands)	
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net income (loss)	$37,952	$(154,910)
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization	29,792	29,623
Stock-based compensation expense	5,816	8,642
Deferred income taxes	11,583	163,173
Other, net	353	(130)
Changes in operating assets and liabilities:		
Accounts receivable	(160,974)	(11,156)
Contract assets	(43,998)	—
Inventories	(30,708)	(28,293)
Prepaid expenses and other assets	3,033	4,103
Accounts payable	(2,845)	6,304
Accrued liabilities	71,560	(8,916)
Cash provided by (used in) operating activities	(78,436)	8,440
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(37,166)	(48,533)
Proceeds from sales of property, plant and equipment	575	142
Cash used in investing activities	(36,591)	(48,391)
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Proceeds from revolving credit facility borrowings	1,043,825	899,000
Repayments of revolving credit facility borrowings	(928,825)	(818,000)
Debt issuance costs	(2,003)	—
Net proceeds from stock issuances	3,568	2,526
Repurchases of common stock	(11,842)	(45,485)
Cash provided by financing activities	104,723	38,041
Effect of exchange rate changes	66	163
Decrease in cash and cash equivalents	(10,238)	(1,747)
Cash and cash equivalents at beginning of period	419,528	406,661
Cash and cash equivalents at end of period	$409,290	$404,914
Cash paid during the period for:		
Interest, net of capitalized interest	$10,895	$12,352
Income taxes, net of refunds	$4,923	$7,275
Unpaid purchases of property, plant and equipment at the end of period	$41,910	$24,004

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 29, 2018, included in the Company's 2018 Annual Report on Form 10-K.

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

Results of operations for the first quarter of 2019 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 2019 and 2018 are each 52-week years. All references to years relate to fiscal years unless otherwise noted.

Recent Accounting Pronouncements Adopted

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 was effective for the Company at the beginning of fiscal 2019 and has been applied retrospectively. A practical expedient permits the use of estimates for applying the retrospective presentation requirements. The impact of adoption in the first quarter of 2019 was insignificant.

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. This new standard was effective for the Company at the beginning of fiscal 2019. There was no impact upon adoption of this new standard in the first quarter of 2019.

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 was effective for the Company at the beginning of fiscal 2019, including interim periods within that annual period. There was no impact upon adoption of this new standard in the first quarter of 2019.

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 was effective for the Company at the beginning of fiscal 2019. There was no impact upon adoption of this new standard in the first quarter of 2019.

In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)" (commonly referred to as ASC 606) which requires an entity to recognize revenue when (or as) goods are transferred or services are provided to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services.

The Company adopted ASC 606 as of the beginning of its first quarter of 2019 using the modified retrospective approach, whereby the cumulative effect of initially applying the guidance was recognized as an adjustment to beginning retained earnings at the date of adoption. This adjustment resulted in an increase to beginning retained earnings of $28 million.

The adoption of ASC 606 resulted in a change to the manner in which the Company recognizes revenue for the majority of its revenue streams, including integrated manufacturing solutions, components, repair services and defense and aerospace programs.

Prior to the adoption of ASC 606, the Company generally recognized revenue from its integrated manufacturing solutions, the Company's largest revenue stream, upon shipment or delivery of a product to a customer. Under ASC 606, because the Company has no alternative use for the end products generated by its vertically integrated manufacturing services and has an enforceable right to payment for work-in-progress upon a customer's cancellation of a contract for convenience, the Company recognizes revenue from the sale of these products on an over time basis as the products are manufactured. Accordingly, the Company will recognize revenue under these contracts earlier than under the previous accounting rules.

Additionally, prior to the adoption of ASC 606, revenue from repair services was generally recognized upon completion of the services. Under ASC 606, revenue for these services will be recognized as the services are performed since the Company's customers simultaneously receive and consume the benefits provided by these services.

Lastly, prior to the adoption of ASC 606, revenue from defense and aerospace programs was recognized on a percentage-of-completion basis by applying the units-of-delivery method. Under ASC 606, revenue for the majority of these programs will be recognized on an over time basis using the cost-to-cost method since the Company has no alternative use for the end products manufactured under these programs and has an enforceable right to payment for work-in-progress upon a customer's cancellation of a contract for convenience. Revenue for certain other programs will be recognized upon shipment or delivery of a product, which is when control of a product transfers to a customer.

The timing of recognition of revenue did not change for some of the Company's revenue streams as a result of the adoption of ASC 606. These revenue streams include logistics services, for which revenue will continue to be recognized as the services are performed, Company proprietary products, for which revenue will continue to be recognized upon shipment or delivery of the product, and design, development and engineering services for which revenue will continue to be recognized as the services are performed.

For revenue streams for which revenue is being recognized on an over time basis under ASC 606, work-in-progress and finished goods inventory were reduced to zero upon the adoption of ASC 606 and an associated contract asset was recorded to reflect amounts that would have been recognized as revenue prior to the adoption of ASC 606. This adjustment resulted in recognition of a contract asset of $376 million and a decrease in inventory of $350 million as of the beginning of the first fiscal quarter of 2019. No other balance sheet line items, with the exception of beginning retained earnings as mentioned previously, were materially impacted upon the adoption of ASC 606.

Refer to Note 3 for additional information and disclosures related to the adoption of ASC 606.

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, although early adoption is permitted. The Company 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, although 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 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 although early adoption is permitted. The Company is currently evaluating the potential impact of this ASU and when to adopt it.

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.

Note 2. Inventories

Components of inventories were as follows:

	As of December 29, 2018	September 29, 2018
	(In thousands)	
Raw materials	$1,046,062	$ 1,139,585
Work-in-process	6,493	132,803
Finished goods	1,611	101,616
Total	$1,054,166	$ 1,374,004

The significant decrease in work-in-process and finished goods was due to the adoption of ASC 606 in the first quarter of 2019, as further discussed in Notes 1 and 3.

Note 3. Revenue Recognition

The Company is a leading global provider of integrated manufacturing solutions, components, products and repair, logistics and after-market services. For purposes of determining when to recognize revenue, and in what amount, the Company applies a 5-step model: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the Company satisfies a performance obligation. Each of these steps involves the use of significant judgments, as discussed below.

Step 1 - Identify the contract with a customer

A contract is defined as an agreement between two parties that creates enforceable rights and obligations. The Company generally enters into a master supply agreement (“MSA”) with its customers that provides the framework under which business will be conducted, and pursuant to which a customer will issue purchase orders to specify the quantity, price and delivery requirements for products or services the customer wishes to purchase. The Company generally considers its contract with a customer to be the combination of an MSA and a purchase order or any other similar binding document.

Step 2 - Identify the performance obligations in the contract

A performance obligation is a promised good or service that is material in the context of the contract and is both capable of being distinct (customer can benefit from the good or service on its own or together with other readily available resources) and distinct within the context of the contract (separately identifiable from other promises). The Company reviews its contracts to identify promised goods or services and then evaluates such items to determine which of those items are performance obligations. The majority of the Company's contracts have a single performance obligation since the promise to transfer an individual good or service is not separately identifiable from other promises in the contract. The Company's performance obligations generally have an expected duration of one year or less.

Step 3 - Determine the transaction price

The Company's contracts with its customers may include certain forms of variable consideration such as early payment discounts, volume discounts and shared cost savings. The Company includes an estimate of variable consideration when determining the transaction price and the appropriate amount of revenue to be recognized. This estimate is limited to an amount which will not result in a significant reversal of revenue in a future period. Factors considered in the Company's estimate of variable consideration are the potential amount subject to these contract provisions, historical experience and other relevant facts and circumstances.

Step 4 - Allocate the transaction price to the performance obligations in the contract

A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. In the event that more than one performance obligation is identified in a contract, the Company is required to allocate a portion of the transaction price to each performance obligation. This allocation would generally be based on the relative standalone price of each performance obligation, which most often would represent the price at which the Company would sell similar goods or services separately.

Step 5 - Recognize revenue when (or as) a performance obligation is satisfied

The Company is required to assess whether control of a product or services promised under a contract is transferred to the customer at a point-in-time or over time as the product is being manufactured or the services are being provided. If the criteria in ASC 606 for recognizing revenue on an over time basis are not met, revenue must be recognized at the point-in-time determined by the Company at which its customer obtains control of a product or service.

The Company has determined that revenue for the majority of its contracts is required to be recognized on an over time basis. This determination is based on the fact that 1) the Company does not have an alternative use for the end products it manufactures for its customers and has an enforceable right to payment, including a reasonable profit, for work-in-progress upon a customer's cancelation of a contract for convenience or 2) the Company's customer simultaneously receives and consumes the benefits provided by the Company's services. For these contracts, revenue is recognized on an over time basis using the cost-to-cost method (ratio of costs incurred to date to total estimated costs at completion) which the Company believes best depicts the transfer of control to the customer. For contracts for which revenue is required to be recognized at a point-in-time, the Company recognizes revenue when it has transferred control of the related goods, which generally occurs upon shipment or delivery of the goods to the customer.

Contract Assets

A contract asset is recognized when the Company has recognized revenue, but has not issued an invoice for payment. Contract assets are classified separately on the condensed consolidated balance sheets and transferred to accounts receivable when rights to payment become unconditional. Because of the Company's short manufacturing cycle times, the transfer from contract assets to accounts receivable generally occurs within the next fiscal quarter.

Other

Other than the impact upon adoption of ASC 606 at the beginning of the first quarter of 2019 (as discussed in Note 1), the application of ASC 606 during the first quarter of 2019 did not materially impact any financial statement line item, with the exceptions of contract assets (increased by $44 million post-adoption) and inventory (decreased by $39 million post-adoption).

The Company has elected to apply the following practical expedients or policy elections under ASC 606:

•

Upon adoption, the Company elected to apply the requirements of ASC 606 only to open contracts as of the adoption date and to not perform an assessment of the impact of contract modifications prior to the period of adoption.

- The promised amount of consideration under a contract will not be adjusted for the effects of a significant financing component because, at inception of a contract, the Company expects the period between when a good or service is transferred to a customer and when the customer pays for that good or service will generally be one year or less.

- The Company has elected to not disclose information about remaining performance obligations that have original expected durations of one year or less, which is substantially all of the Company's performance obligations.

- Incremental costs of obtaining a contract will not be capitalized if the period over which such costs would be amortized to expense is less than one year.

Taxes assessed by governmental authorities that are both imposed on and concurrent with a specific revenue-producing transaction, and are collected by the Company from a customer, are excluded from revenue. Shipping and handling costs associated with outbound freight after control of a product has transferred to a customer are accounted for as fulfillment costs and are included in cost of sales.

Disaggregation of revenue

In the following table, revenue is disaggregated by market sector and geography. The table also includes a reconciliation of the disaggregated revenue with the Company's reportable segments.

	Three Months Ended	
	December 29, 2018	December 30, 2017
	(In thousands)	
Segments:		
IMS	$1,780,884	$ 1,422,043
CPS	407,134	322,757
Total	$2,188,018	$ 1,744,800
End Markets:		
Communications Networks	$779,721	$ 678,846
Industrial, Medical, Automotive and Defense	1,182,484	885,695
Cloud Solutions	225,813	180,259
Total	$2,188,018	$ 1,744,800
Geography:		
United States	$454,771	$ 314,808
Mexico	662,148	489,234
China	433,422	315,092
Malaysia	122,905	185,712
Other international	514,772	439,954
Total	$2,188,018	$ 1,744,800
Timing of Revenue Recognition:		
Goods/services transferred at a point in time	$88,018	$ 1,723,000
Goods/services transferred over time	2,100,000	21,800
Total	$2,188,018	$ 1,744,800

Note 4. 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 December 29, 2018, the fair value of the Company's long-term debt, as estimated based primarily on quoted prices (Level 2 input), approximate 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, interest rate swaps and contingent consideration, none of which were material as of December 29, 2018 or September 29, 2018.

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 December 29, 2018 or September 29, 2018.

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

Foreign Exchange Rate Risk

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

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

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

As of

	December 29, 2018	September 29, 2018
Derivatives Designated as Accounting Hedges:		
Notional amount (in thousands)	$103,619	$ 116,992
Number of contracts	51	54
Derivatives Not Designated as Accounting Hedges:		
Notional amount (in thousands)	$319,139	$ 356,076
Number of contracts	40	56

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 (expense), 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.

Interest Rate Risk

The Company enters into forward interest rate swap agreements with independent counterparties to partially hedge the variability in cash flows due to changes in the benchmark interest rate (LIBOR) associated with anticipated variable rate borrowings. These interest rate swaps have a maturity date of December 1, 2023 and effectively convert the Company's variable interest rate obligations to fixed interest rate obligations. These swaps are accounted for as cash flow hedges under ASC Topic 815, Derivatives and Hedging. As of December 29, 2018 and September 29, 2018, interest rate swaps with an aggregate notional amount of $200 million and $50 million, respectively, were outstanding. The effective interest rate as of December 29, 2018 was approximately 4.5%.

Note 5. Debt

Long-term debt consisted of the following:

	As of December 29, 2018	September 29, 2018
	(In thousands)	
Senior secured notes due 2019	$375,000	$ 375,000
Non-interest bearing promissory notes	17,723	17,667

Total long-term debt	392,723	392,667
Less: Current portion of non-interest bearing promissory notes	3,362	3,321
Current portion of long-term debt	375,000	375,000
Long-term debt	$ 14,361	$ 14,346

Short-term debt

On November 30, 2018, the Company entered into a Fourth Amended and Restated Credit Agreement (the "Amended Cash Flow Revolver") that provides for a committed $375 million secured delayed draw term loan. The delayed draw term loan is available to be drawn through June 30, 2019. Proceeds from the delayed drawn term loan can only be used to repay the Company's senior secured notes due June 2019.

The amount available under the Amended Cash Flow Revolver for revolving loans is $500 million. Subject to satisfaction of certain conditions, including obtaining additional commitments for existing and/or new lenders and potentially seeking a waiver under the indenture for our Secured Notes due 2019, the Company may increase the revolver commitments under the Amended Cash Flow Revolver up to an additional $200 million. The revolving commitments under the Amended Cash Flow Revolver expire on November 30, 2023.

Loans under the Amended Cash Flow Revolver bear interest, at the Company's option, at either the LIBOR or a base rate, in each case plus a spread determined based on the Company's credit rating. Interest on the loans is payable quarterly in arrears with respect to base rate loans and at the end of an interest period in the case of LIBOR loans. Once borrowed, a portion of the principal amount of the delayed draw term loan is required to be repaid in quarterly installments. The outstanding principal amount of all loans under the Amended Cash Flow Revolver, including, if drawn, the delay draw term loan, together with accrued and unpaid interest, is due on the maturity date.

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 December 29, 2018, there were $330 million of borrowings and $8 million of letters of credit outstanding under the Amended Cash Flow Revolver.

As of December 29, 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 December 29, 2018.

Note 6. Accounts Receivable Sale Program

During 2018, the Company entered into a Receivable Purchase Agreement (the "RPA") with certain third-party banking institutions for the sale of trade receivables generated from sales to certain customers. A maximum of $540 million of sold receivables can be outstanding at any point in time under this program, subject to limitations under the Company's Amended Cash Flow Revolver. 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. During the first quarter of 2019 and first quarter of 2018, the Company sold $561 million and $156 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 statements of cash flows. Discounts on sold receivables were not material for any period presented. As of December 29, 2018 and September 29, 2018, $222 million and $189 million, respectively, of accounts receivable sold under the RPA and subject to servicing by the Company remained outstanding and had not yet been collected. Additionally, the Company is required to remit amounts collected as servicer on a weekly basis to the financial institution that purchased the receivable. As of December 29, 2018 and September 29, 2018, $95 million and $23 million, respectively, had been collected but not yet remitted. This amount is classified in accrued liabilities on the condensed consolidated balance sheets.

Note 7. Contingencies

From time to time, the Company is a party to litigation, claims and other contingencies, including environmental and employee matters and examinations and investigations by governmental agencies, which arise in the ordinary course of business. The Company records a contingent liability when it is probable that a loss has been incurred and the amount of loss is reasonably estimable in accordance with ASC Topic 450, Contingencies, or other applicable accounting standards. As of December 29, 2018 and September 29, 2018, the Company had reserves of $36 million and $35 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 its exemption from goods and services tax on imported goods. The Company provided its good faith arguments in defense of its actions to the government agency in writing, most recently in April 2018. In January 2019, the Company received written notice from the foreign government agency indicating that it would not further pursue this matter based upon the Company’s submissions.

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 December 29, 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 December 29, 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 December 29, 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 been set for September 2020. 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.

In October 2018, an individual who was employed by the Company from November 2015 to March 2016 filed a lawsuit against the Company in the Santa Clara County Superior Court on behalf of himself and all other similarly situated Company employees in California, alleging violations of California labor code provisions governing overtime, meal and rest periods, wages, wage statements and reimbursement of business expenses. The complaint seeks certification of a class of all non-exempt employees employed from four years before filing of the complaint to time of trial, whether employed directly by the Company or through a temporary staffing agency. Although the Company is investigating the allegations and cannot, at the current time, determine the outcome of this matter and has not provided a reserve for this matter as of December 29, 2018, the Company intends to defend against this matter vigorously.

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 8. Restructuring

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. In addition, the Company is still in the process of completing restructuring actions under other plans.

The following table is a summary of restructuring costs associated with these plans:

	Estimated Costs to Implement	Restructuring Expense Three Months Ended December 29, 2018	December 30, 2017
	(In thousands)		
Severance costs (approximately 2,900 employees)	$27,700	$393	$ 23,301
Other exit costs (will be recognized as incurred)	7,300	1,704	—
Total	35,000	2,097	23,301
Severance reimbursement	(10,000)	—	—
Total - Q1 FY18 plan	$25,000	2,097	23,301
Costs incurred for other plans		42	241
Total - all plans		$2,139	$ 23,542

Q1 FY18 Plan

Actions under the Q1 FY18 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. In connection with this plan, the Company entered into a contractual agreement with a third party pursuant to which up to $10 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 and, as of December 29, 2018, $7 million was included in accounts receivable on the condensed consolidated balance sheets. Costs incurred for other exit costs consist primarily of costs to maintain vacant facilities that are owned and contract termination costs.

All Plans

The Company’s IMS segment incurred a benefit under all restructuring plans of $4 million in the first quarter of 2019, primarily as a result of recovery from a third party of certain environmental remediation costs. This compares to cost incurred of $19 million for the first quarter of 2018. The Company’s CPS segment incurred cost under all restructuring plans of $6 million and $4 million for the first quarter of 2019 and 2018, respectively. As of December 29, 2018 and September 29, 2018, the Company had accrued liabilities of $25 million and $24 million, respectively, for restructuring costs (exclusive of environmental remediation liabilities).

In addition to costs expected to be incurred under the Q1 FY18 plan, the Company expects to incur restructuring costs in future periods primarily for vacant facilities and former sites for which the Company is or may be responsible for environmental remediation.

Note 9. Income Tax

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

The U.S. Tax Cuts and Jobs Act (“the Tax Act”) provision for Global Intangible Low-Taxed Income (“GILTI”), imposes taxes on foreign income in excess of a deemed return on tangible assets of foreign corporations and is effective for the Company in fiscal year 2019. This income will be offset by federal net operating losses and, as a result, the Company will not pay cash taxes due to GILTI. The Company has determined that the GILTI provision will be accounted for under U.S. generally accepted accounting principles as a component of income tax expense in the period in which the Company is subject to the rules (the “period cost method”).

The Tax Act also imposes an additional minimum tax “base erosion and anti-abuse tax” (“BEAT”) on certain deductible payments made to a foreign subsidiary applicable to tax years beginning in 2018. The BEAT applies to the extent that a tentative BEAT on modified taxable income exceeds the regular tax liability. The Company does not expect there to be a material impact to the Company’s income taxes.

The Company's provision for income taxes for the first quarter of 2019 and 2018 was $26 million (40% of income before taxes) and $166 million (1,497% of income before taxes), respectively. The income tax expense for the first quarter of 2019 included the imposition of GILTI (as discussed above). The income tax expense for the first quarter of 2018 was almost entirely attributable to the estimated impact of the Tax Act, resulting in a net increase to income tax expense of approximately $162 million.

Note 10. Stockholder's Equity

Accumulated Other Comprehensive Income

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

	As of December 29, 2018			September 29, 2018		
	(In thousands)					
Foreign currency translation adjustments	$	87,637		$	87,889	
Unrealized holding losses on derivative financial instruments	(4,422		)	(335		)
Unrecognized net actuarial losses and transition costs for	(13,122		)	(13,610		)

benefit plans				
Total	$	70,093	$	73,944

Stock Repurchase Program

During the first quarter of 2019 and 2018, the Company repurchased 0.3 million and 1.0 million shares of its common stock for $7 million and $34 million, respectively. As of December 29, 2018, subject to limitations on stock repurchases contained in certain of the Company's credit and debt agreements, an aggregate of $101 million remains available under repurchase programs authorized by the Board of Directors.

In addition to the repurchases discussed above, the Company repurchased 176,000 and 304,000 shares of its common stock during the first quarter of 2019 and 2018, respectively, in settlement of employee tax withholding obligations due upon the vesting of restricted stock units. The Company paid $5 million and $11 million, respectively, in conjunction with these repurchases.

Note 11. Business Segment, Geographic and Customer Information

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

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

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

	Three Months Ended	
	December 29, 2018	December 30, 2017
	(In thousands)	
Gross sales:		
IMS	$1,793,182	$1,428,847
CPS	455,803	356,729
Intersegment revenue	(60,967)	(40,776)
Net sales	$2,188,018	$1,744,800
Gross profit:		
IMS	$110,656	$82,617
CPS	40,519	29,866
Total	151,175	112,483
Unallocated items (1)	(1,838)	(3,017)
Total	$149,337	$109,466

(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 and charges or credits resulting from distressed customers.

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

	Three Months Ended	
	December 29, 2018	December 30, 2017
	(In thousands)	
Net sales		
United States	$454,771	$314,808
Mexico	662,148	489,234
China	433,422	315,092
Malaysia	122,905	185,712
Other international	514,772	439,954

Total	$2,188,018	$ 1,744,800
Percentage of net sales represented by ten largest customers	54%	54%
Number of customers representing 10% or more of net sales	2	2

Note 12. Earnings Per Share

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

	Three Months Ended	
	December 29, 2018	December 30, 2017
	(In thousands, except per share data)	
Numerator:		
Net income (loss)	$37,952	$ (154,910)
Denominator:		
Weighted average common shares outstanding	68,303	71,605
Effect of dilutive stock options and restricted stock units	2,598	—
Denominator for diluted earnings per share	70,901	71,605
Net income (loss) per share:		
Basic	$0.56	$ (2.16)
Diluted	$0.54	$ (2.16)

Had the Company reported net income in the first quarter of 2018 instead of a net loss, 4 million of potentially dilutive securities would have been included in the calculation of diluted earnings per share.

Note 13. Stock-Based Compensation

Stock-based compensation expense was attributable to:

	Three Months Ended	
	December 29, 2018	December 30, 2017
	(In thousands)	
Stock options	$93	$ 1,177
Restricted stock units, including performance based awards	5,723	7,465
Total	$5,816	$ 8,642

Stock-based compensation expense was recognized as follows:

	Three Months Ended	
	December 29, 2018	December 30, 2017
	(In thousands)	
Cost of sales	$1,735	$ 2,448
Selling, general and administrative	3,990	6,164
Research and development	91	30
Total	$5,816	$ 8,642

As of December 29, 2018, an aggregate of 8.7 million shares were authorized for future issuance under the Company's stock plans, of which 6.7 million of such shares were issuable upon exercise of outstanding options and delivery of shares upon vesting of restricted stock units and 2.0 million shares of common stock were available for future grant.

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 29, 2018	3,303	30.33	1.21	97,913
Granted	1,627	24.40		
Vested/Forfeited/Cancelled	(1,198)	29.76		
Outstanding as of December 29, 2018	3,732	27.93	1.83	88,781
Expected to vest as of December 29, 2018	2,699	27.80	1.63	64,205

As of December 29, 2018, unrecognized compensation expense of $54 million is expected to be recognized over a weighted average period of 1.6 years. Additionally, as of December 29, 2018, unrecognized compensation expense related to performance-based restricted stock units for which achievement of the performance criteria is not currently considered probable was $19 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, operating margin, expenses, earnings or losses from operations, cash flow, synergies or other financial items; any statements of the plans, strategies and objectives of management for future operations and the anticipated benefits of such plans, strategies and objectives; any statements regarding future economic conditions or performance; any statements regarding pending investigations, claims or disputes; any statements regarding the financial impact of customer bankruptcies; any statements regarding the timing of closing of, future cash outlays for, and benefits of completed, pending or anticipated acquisitions; any statements regarding expected restructuring costs; any statements concerning the adequacy of our current liquidity and the availability of additional sources of liquidity; any statements regarding the amount of future potential tariffs we may become subject to; our expectations for and timing of remediation of the material weakness identified in the fourth quarter of fiscal 2018; 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 “continue” and similar expressions identify forward-looking statements. Our forward-looking statements are based on current expectations, forecasts and assumptions and are subject to risks and uncertainties, including those contained in Part 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) that serve the industrial, medical, defense and aerospace, automotive, communications networks and cloud solutions industries.

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 microelectronic and enterprise, computing and data storage solutions from our Viking Technology division, defense and aerospace products from SCI Technology 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 quarter of 2019 and first quarter of 2018. 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 2019 and 2018 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, gross margins of 6.2% and 8.9% for our IMS and CPS businesses, respectively, are below our expectations at current revenue levels due to inefficiencies and other factors. We continue to address these challenges on both a short-term and long-term basis.

A small number of customers have historically generated a significant portion of our net sales. Sales to our ten largest customers have typically represented approximately 50% of our net sales. Two customers represented 10% or more of our net sales for the three months ended December 29, 2018 and December 30, 2017, respectively.

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 2018 Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 15, 2018.

Results of Operations

Key Operating Results

	Three Months Ended	
	December 29, 2018	December 30, 2017
	(In thousands)	
Net sales	$2,188,018	$1,744,800
Gross profit	$149,337	$109,466
Operating income	$77,543	$13,788
Net income (loss) (1)	$37,952	$(154,910)

(1) Results of operations for the first quarter of 2018 include a $162 million non-cash tax charge due to the enactment of the U.S. Tax Cuts and Jobs Act.

Net Sales

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

	Three Months Ended			
	December 29, 2018	December 30, 2017	Increase/(Decrease)	
Communications Networks	$779,721	$ 678,846	$ 100,875	14.9 %
Industrial, Medical, Defense and Automotive	1,182,484	885,695	296,789	33.5 %
Cloud Solutions	225,813	180,259	45,554	25.3 %
Total	$2,188,018	$ 1,744,800	$ 443,218	25.4 %

Net sales increased from $1.74 billion in the first quarter of 2018 to $2.19 billion in the first quarter of 2019, an increase of 25.4%. This increase was driven primarily by stronger demand in each of our end markets and our ability to obtain more supply-constrained parts in the first quarter of 2019 that allowed us to address some pent-up demand. Sales to customers in our industrial, medical, defense and automotive market increased 33.5% across all four end markets primarily as a result of a ramp in certain medical, automotive and defense programs. Sales to customers in our communications networks end market increased 14.9% primarily as a result of increased demand and new program wins for routing and optical products. Sales to customers in our cloud solutions market increased 25.3% primarily due to the continued ramp of a new program with a Tier One cloud service provider.

Gross Margin

Gross margin increased to 6.8% for the first quarter of 2019 from 6.3% for the first quarter of 2018. IMS gross margin increased to 6.2% for the first quarter of 2019, from 5.8% for the first quarter of 2018 due primarily to increased revenue. CPS gross margin increased to 8.9% for the first quarter of 2019, from 8.4% for the first quarter of 2018 primarily due to improved operational efficiency in our Components group as a result of the recent closure of one of our U.S. plants.

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 decreased $0.6 million, from $63.6 million, or 3.6% of net sales, in the first quarter of 2018 to $63.0 million, or 2.9% of net sales, in the first quarter of 2019.

Research and Development

Research and Development expenses decreased $1.2 million, from $7.6 million, or 0.4% of net sales, in the first quarter of 2018 to $6.4 million, or 0.3% of net sales, in the first quarter of 2019. This decrease resulted primarily from an increase in billable customer engineering projects that required our engineering resources.

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. In addition, we are still in the process of completing restructuring actions under other plans.

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

	Estimated Costs to Implement	Restructuring Expense Three Months Ended December 29, 2018	December 30, 2017
	(In thousands)		
Severance costs (approximately 2,900 employees)	$27,700	$393	$ 23,301
Other exit costs (will be recognized as incurred)	7,300	1,704	—
Total	35,000	2,097	23,301
Severance reimbursement	(10,000)	—	—
Total - Q1 FY18 plan	$25,000	2,097	23,301
Costs incurred for other plans		42	241
Total - all plans		$2,139	$ 23,542

Q1 FY18 Plan

Actions under the Q1 FY18 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. 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 and, as of December 29, 2018, $7 million was included in accounts receivable on the condensed consolidated balance sheets. Costs incurred for other exit costs consist primarily of costs to maintain vacant facilities that are owned and contract termination costs.

All Plans

Our IMS segment incurred a benefit under all restructuring plans of $4 million in the first quarter of 2019, primarily as a result of recovery from a third party of certain environmental remediation costs. This compares to cost incurred of $19 million for the first quarter of 2018. Our CPS segment incurred cost under all restructuring plans of $6 million and $4 million for the first quarter of 2019 and 2018, respectively. As of December 29, 2018 and September 29, 2018, we had accrued liabilities of $25 million and $24 million, respectively, for restructuring costs (exclusive of environmental remediation liabilities).

In addition to costs expected to be incurred under the Q1 FY18 plan, we expect to incur restructuring costs in future periods primarily for vacant facilities and former sites for which we are or may be responsible for environmental remediation.

Provision for Income Taxes

The U.S. Tax Cuts and Jobs Act (“the Tax Act”) provision for Global Intangible Low-Taxed Income (“GILTI”), imposes taxes on foreign income in excess of a deemed return on tangible assets of foreign corporations and is effective for us in fiscal year 2019. This income will be offset by federal net operating losses and, as a result, we will not pay cash taxes due to GILTI. We have determined that the GILTI provision will be accounted for under U.S. generally accepted accounting principles as a component of income tax expense in the period in which we are subject to the rules (the "period cost method").

The Tax Act also imposes an additional minimum tax "base erosion and anti-abuse tax" ("BEAT") on certain deductible payments made to a foreign subsidiary applicable to tax years beginning in 2018. The BEAT applies to the extent that a tentative BEAT on modified taxable income exceeds the regular tax liability. We do not expect there to be a material impact to our income taxes.

Our provision for income taxes for the first quarter of 2019 and 2018 was $26 million (40% of income before taxes) and $166 million (1,497% of income before taxes), respectively. The income tax expense for the first quarter of 2019 included the imposition of GILTI (as discussed above). Income tax expense for the first quarter of 2018 was almost entirely attributable to the estimated impact of the Tax Act, resulting in a net increase to income tax expense of approximately $162 million.

Liquidity and Capital Resources

	Three Months Ended	
	December 29, 2018	December 30, 2017
	(In thousands)	
Net cash provided by (used in):		
Operating activities	$(78,436)	$ 8,440
Investing activities	(36,591)	(48,391)
Financing activities	104,723	38,041
Effect of exchange rate changes on cash and cash equivalents	66	163
Increase (decrease) in cash and cash equivalents	$(10,238)	$ (1,747)

Key Working Capital Management Measures

	As of	
	December 29, 2018	September 29, 2018
Days sales outstanding (1)	52	56
Contract asset days (2)	8.6	—
Inventory turns (3)	6.7	5.5
Days inventory on hand (4)	54	67
Accounts payable days (5)	69	75
Cash cycle days (6)	46	48

(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) Contract asset days are calculated as the ratio of average contract assets to average daily net sales for the quarter. This is a new measure in the first quarter of 2019 due to our adoption of the new revenue accounting standard.

(3) Inventory turns (annualized) are calculated as the ratio of four times our cost of sales for the quarter to average inventory. This measure was impacted as a result of our adoption of the new revenue standard in the first quarter of 2019, for which prior periods have not been restated and therefore may not be comparable.

(4) Days inventory on hand is calculated as the ratio of average inventory for the quarter to average daily cost of sales for the quarter. This measure was impacted as a result of our adoption of the new revenue standard in the first quarter of 2019, for which prior periods have not been restated and therefore may not be comparable.

(5) 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.

(6) Cash cycle days is calculated as days inventory on hand plus days sales outstanding and contract assets day minus accounts payable days.

Cash and cash equivalents were $409 million at December 29, 2018 and $420 million at September 29, 2018. Our cash levels vary during any given quarter depending on the timing of collections from customers and payments to suppliers, borrowings under credit facilities, sales of accounts receivable under numerous programs we utilize, repurchases of capital stock and other factors. Our working capital was $0.7 billion and $0.6 billion as of

December 29, 2018 and September 29, 2018, respectively.

Net cash provided by (used in) operating activities was $(78) million and $8 million for the first quarter of 2019 and 2018, 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, contract assets, 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 first quarter of 2019, we generated $85 million of cash primarily from earnings, excluding non-cash items, and consumed $164 million of cash due to an increase in our net operating assets caused primarily by a net increase in inventory, accounts receivable, contract assets and accrued liabilities. 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 and new product ramps. Accrued liabilities increased primarily due to a higher level of accounts receivable sales for which we, as a servicer, collected on behalf of the financial institution to which the receivables were sold, but had not yet remitted the collected funds to such financial institution. DSO decreased from 56 days of September 29, 2018 to 52 days as of December 29, 2018 primarily due to a significant increase in sales of our accounts receivable. DPO decreased from 75 days as of September 29, 2018 to 69 days as of December 29, 2018 primarily due to unfavorable supplier payment terms mix.

Net cash used in investing activities was $37 million and $48 million for the first quarter of 2019 and 2018, respectively. During the first quarter of 2019, we used $37 million of cash for capital expenditures. During the first quarter of 2018, we used $49 million of cash for capital expenditures.

Net cash provided by financing activities was $105 million and $38 million for first quarter of 2019 and 2018, respectively. During the first quarter of 2019, we used $12 million of cash to repurchase common stock (including $5 million related to employee tax withholdings on vested restricted stock units), borrowed $115 million of cash under the Amended Cash Flow Revolver (as defined below), received $4 million of net proceeds from issuances of common stock pursuant to stock option exercises and incurred $2 million of debt issuance costs in connection with our revolving credit amendment. During the first quarter of 2018, we used $45 million of cash to repurchase common stock (including $11 million related to employee tax withholdings on vested restricted stock units), borrowed $81 million of cash under the Amended Cash Flow Revolver and received $3 million of net proceeds from issuances of common stock pursuant to stock option exercises.

Other Liquidity Matters

Our Board of Directors has authorized us to repurchase shares of our common stock, subject to a dollar limitation. The timing of repurchases will depend upon capital needs to support the growth of our business, market conditions and other factors. Although stock repurchases are intended to increase stockholder value, purchases of shares will reduce our liquidity. We repurchased 0.3 million and 1.0 million shares of our common stock for $7 million and $34 million during the first quarter of 2019 and 2018, respectively. As of December 29, 2018, subject to limitations on stock repurchases contained in our debt agreements, an aggregate of $101 million remained available under our stock repurchase programs authorized by the Board of Directors, none of which is subject to an expiration date.

We have a $500 million secured revolving facility (the “Amended Cash Flow Revolver”), including an additional committed $375 million secured delayed draw term loan with an expiration date of November 30, 2023. Subject to satisfaction of certain conditions, including obtaining additional commitments from existing and/or new lenders and potentially seeking a waiver under the indenture for our Secured Notes due 2019, we may increase the revolver commitments under the Amended Cash Flow Revolver by up to an additional $200 million. The delayed draw term loan is available to be drawn through June 30, 2019. Proceeds from the delayed draw term loan can only be used to repay our Senior secured notes due 2019.

We enter into forward interest rate swap agreements with independent counterparties to partially hedge the variability in cash flows due to changes in the benchmark interest rate (LIBOR) associated with anticipated variable rate borrowings. These interest rate swaps have a maturity date of December 1, 2023, and effectively converts our variable interest rate obligations to fixed interest rate obligations. These swaps are accounted for as cash flow hedges under ASC Topic 815, Derivatives and Hedging. As of December 29, 2018 and September 29, 2018, interest rate swaps with an aggregate notional amount of $200 million and $50 million, respectively, were outstanding. The effective interest rate as of December 29, 2018 was approximately 4.5%.

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 December 29, 2018, we were in compliance with these covenants.

During 2018, we entered into a Receivable Purchase Agreement (the “RPA”) with certain third-party banking institutions for the sale of trade receivables generated from sales to certain customers. A maximum of $540 million of sold receivables can be outstanding at any point in time under this program, subject to limitations under our Amended Cash Flow Revolver. Additionally, the amount available under the RPA is uncommitted and, as such, is available at the discretion of our third-party banking institutions. Trade receivables sold pursuant to the RPA are serviced by us.

On January 16, 2019, we entered into an amendment of our Amended Cash Flow Revolver which increased the percentage of our total accounts receivable that can be sold and outstanding at any time from 30% to 40%.

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.

The sale of receivables under all of these programs is subject to the approval of the banks or customers involved and there can be no assurance that we will be able to sell the maximum amount of receivables permitted by these programs when desired.

Under each of the programs noted above, we sell our entire interest in a trade receivable for 100% of face value, less a discount. During the first quarter of 2019 and 2018, we sold accounts receivable of $561 million and $156 million, respectively, 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 statements of cash flows. Discounts on sold receivables were not material for any period presented. As of December 29, 2018 and September 29, 2018, $222 million and $189 million, respectively, of accounts receivable sold under the RPA and subject to servicing by us remained outstanding and had not yet been collected. Additionally, we are required to remit amounts collected as servicer on a weekly basis to the financial institution that purchased the receivable. As of December 29, 2018 and September 29, 2018, $95 million and $23 million, respectively, had been collected but not yet remitted. This amount is classified in accrued liabilities on the condensed consolidated balance sheets.

In the ordinary course of business, we are or may become party to legal proceedings, claims and other contingencies, including environmental, warranty and employee matters and examinations by government agencies. As of December 29, 2018, we had reserves of $36 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.

As of December 29, 2018, we had a liability of $98 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 $409 million as of December 29, 2018; (2) our Amended Cash Flow Revolver, under which $162 million, net of outstanding borrowings and letters of credit, was available as of December 29, 2018; (3) foreign short-term borrowing facilities of $69 million, all of which was available as of December 29, 2018 ($25 million of such facilities expire during the second quarter of 2019), (4) proceeds from the sale of accounts receivable under our receivables sales programs 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 December 29, 2018, 56% 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 December 29, 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 December 29, 2018, we had outstanding foreign currency forward contracts to exchange various foreign currencies for U.S. dollars in the aggregate notional amount of $319 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 $104 million as of December 29, 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 Securities Exchange Act of 1934, as amended, or the Exchange Act) that occurred during the quarter ended December 29, 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 will prevent all errors and all fraud. Disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that their objectives are met. Further, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and the benefits of disclosure controls and procedures must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of disclosure controls and procedures can provide absolute assurance that all disclosure control issues and instances of fraud, if any, have been detected.

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the first quarter of 2019 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, 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 December 29, 2018 due to the material weakness described in Part II, “Item 9A, Controls and Procedures”, in our Annual Report on Form 10-K for the year ended September 29, 2018.

Remediation Efforts to Address Material Weakness

Management intends to remediate this material weakness by reducing the complexity of the process for preparing and developing the underlying estimates used to account for certain long-term contracts, requiring additional data to be presented during management’s review of estimates, and ensuring sufficient time is allowed for an effective review to occur.

We believe these measures, and others that may be implemented, will remediate the material weakness in internal control over financial reporting described in Part II, Item 9A, "Controls and Procedures", in our Annual Report on Form 10-K for the year ended September 29, 2018. The material weakness will not be considered formally remediated until the control has operated effectively for a sufficient period of time and management has concluded, through testing, that the control is operating effectively. We expect this to occur by the end of fiscal 2019.

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 29, 2018.

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 been set for September 2020. The Company intends to contest the plaintiff’s claims vigorously.

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 7 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 industrial, medical, defense and aerospace, automotive, communications networks and cloud solutions industries. Adverse changes in any of these end 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, which decrease orders from affected customers, such as 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 and customer disengagements with new business wins;
- conditions in the economy as a whole and in the industries we serve;
- fluctuations in component prices, component shortages and extended component lead times caused by high demand, natural disaster or otherwise;
- timing of new product development and ramps 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;
- 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:

- 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;
- 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;
- fluctuations in currency exchange rates, which may either increase or decrease our operating costs and for which we have significant exposure;
- the imposition of currency controls;
- exposure to heightened corruption risks;
- aggressive, selective or lax enforcement of laws and regulations by national governmental authorities; and
- potentially increased risk of 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 electronic 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 resulted 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 over time. A sustained increase in energy prices for any reason could increase our raw material, components, operations and transportation costs. In addition, 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. 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.

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. These tariffs will apply to both components imported into the U.S. for use in the manufacture of products at our U.S. plants and to certain of our customers' products that we manufacture offshore and that are imported into the U.S. Any decision by a large number of our customers to cease using either our domestic or our offshore manufacturing services due to these tariffs would materially reduce our revenue and net income, an effect that would be compounded if the amount of these tariffs increase or should they be applied to additional categories of components. In addition, our gross margins would be reduced in the event we are for any reason unable to pass on any tariffs that we incur to our customers. Although our customers are generally liable for tariffs we pay on their behalf on importation of components used in the manufacture of their products, our gross margins would be reduced in the event we are for any reason unable to recover such tariffs from our customers. Further, although we are required to pay tariffs upon importation of the components, we may not recover these amounts from customers until some time later, which adversely impacts our operating cash flow in a given period.

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, any of which could result in an increase to income tax expense and therefore a decrease in 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. The impact of the Tax Act was approximately $161 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, although we do not anticipate any impact for the mandatory deemed repatriation tax. Another provision of the Tax Act, the Global Intangible Low-Taxed Income (GILTI) provisions, is expected to significantly increase our GAAP tax rate and to potentially accelerate our use of our net operating losses.

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 data 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 would 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.