FLEX LTD.
Form 10-Q
January 29, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2017

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 0-23354

FLEX LTD.
(Exact name of registrant as specified in its charter)

Singapore	Not Applicable
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2 Changi South Lane, Singapore	486123
(Address of registrant’s principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code
(65) 6876-9899

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See 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 o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
Emerging growth company o			

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

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Class	Outstanding at January 24, 2018
Ordinary Shares, No Par Value	527,665,321

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Flex Ltd.
Singapore

We have reviewed the accompanying condensed consolidated balance sheet of Flex Ltd. and subsidiaries (the "Company") as of December 31, 2017, the related condensed consolidated statements of operations and comprehensive income for the three-month and nine-month periods ended December 31, 2017 and December 31, 2016, and the related condensed consolidated statements of cash flows for the nine-month periods ended December 31, 2017 and December 31, 2016. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Flex Ltd. and subsidiaries as of March 31, 2017, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated May 16, 2017, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of March 31, 2017 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ DELOITTE & TOUCHE LLP
San Jose, California
January 26, 2018

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CONDENSED CONSOLIDATED BALANCE SHEETS

	As of December 31, 2017	As of March 31, 2017
	(In thousands, except share amounts)	
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$1,291,183	$1,830,675
Accounts receivable, net of allowance for doubtful accounts of $60,113 and $57,302 as of December 31, 2017 and March 31, 2017, respectively	3,100,808	2,192,704
Inventories	3,725,643	3,396,462
Other current assets	965,470	967,935
Total current assets	9,083,104	8,387,776
Property and equipment, net	2,443,050	2,317,026
Goodwill	1,104,770	984,867
Other intangible assets, net	438,552	362,181
Other assets	770,834	541,513
Total assets	$13,840,310	$12,593,363
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank borrowings and current portion of long-term debt	$42,954	$61,534
Accounts payable	5,406,512	4,484,908
Accrued payroll	385,985	344,245
Other current liabilities	1,580,618	1,613,940
Total current liabilities	7,416,069	6,504,627
Long-term debt, net of current portion	2,901,720	2,890,609
Other liabilities	542,541	519,851
Shareholders' equity		
Flex Ltd. shareholders' equity		
Ordinary shares, no par value; 577,829,371 and 581,534,129 issued, and 527,590,016 and 531,294,774 outstanding as of December 31, 2017 and March 31, 2017, respectively	6,613,812	6,733,539
Treasury stock, at cost; 50,239,355 shares as of December 31, 2017 and March 31, 2017	(388,215)	(388,215)
Accumulated deficit	(3,124,519)	(3,572,648)
Accumulated other comprehensive loss	(121,098)	(128,143)
Total Flex Ltd. shareholders' equity	2,979,980	2,644,533
Noncontrolling interests	—	33,743
Total shareholders' equity	2,979,980	2,678,276
Total liabilities and shareholders' equity	$13,840,310	$12,593,363

The accompanying notes are an integral part of these condensed consolidated financial statements.

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FLEX LTD.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three-Month Periods Ended		Nine-Month Periods Ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	(In thousands, except per share amounts) (Unaudited)			
Net sales	$6,751,552	$6,114,999	$19,030,244	$18,000,337
Cost of sales	6,305,224	5,698,544	17,783,659	16,864,196
Gross profit	446,328	416,455	1,246,585	1,136,141
Selling, general and administrative expenses	247,365	231,551	772,325	715,040
Intangible amortization	19,588	18,734	55,865	62,318
Interest and other, net	31,350	22,838	85,780	71,869
Other charges (income), net	6,865	3,090	(172,467)	15,007
Income before income taxes	141,160	140,242	505,082	271,907
Provision for income taxes	22,827	10,773	56,953	39,217
Net income	$118,333	$129,469	$448,129	$232,690
Earnings per share:				
Basic	$0.22	$0.24	$0.85	$0.43
Diluted	$0.22	$0.24	$0.84	$0.42
Weighted-average shares used in computing per share amounts:				
Basic	528,405	539,638	529,984	542,780
Diluted	534,352	545,022	535,972	548,372

The accompanying notes are an integral part of these condensed consolidated financial statements.

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FLEX LTD.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three-Month Periods Ended		Nine-Month Periods Ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	(In thousands)			
	(Unaudited)			
Net income	$118,333	$129,469	$448,129	$232,690
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of zero tax	7,492	(36,412)	27,806	(22,338)
Unrealized loss on derivative instruments and other, net of zero tax	(4,717)	(201)	(20,761)	(912)
Comprehensive income	$121,108	$92,856	$455,174	$209,440

The accompanying notes are an integral part of these condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine-Month Periods Ended	
	December 31, 2017	December 31, 2016
	(In thousands) (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$448,129	$232,690
Depreciation, amortization and other impairment charges	400,015	466,813
Gain from deconsolidation of a subsidiary entity	(151,574)	—
Changes in working capital and other	(265,552)	313,685
Net cash provided by operating activities	431,018	1,013,188
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(432,897)	(413,596)
Proceeds from the disposition of property and equipment	43,653	28,056
Acquisition of businesses, net of cash acquired	(269,724)	(180,259)
Other investing activities, net	(123,883)	(13,631)
Net cash used in investing activities	(782,851)	(579,430)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from bank borrowings and long-term debt	866,000	205,518
Repayments of bank borrowings and long-term debt	(907,930)	(115,089)
Payments for repurchases of ordinary shares	(180,050)	(259,658)
Net proceeds from issuance of ordinary shares	2,063	11,978
Other financing activities, net	46,482	(47,302)
Net cash used in financing activities	(173,435)	(204,553)
Effect of exchange rates on cash and cash equivalents	(14,224)	20,321
Net increase (decrease) in cash and cash equivalents	(539,492)	249,526
Cash and cash equivalents, beginning of period	1,830,675	1,607,570
Cash and cash equivalents, end of period	$1,291,183	$1,857,096
Non-cash investing activities:		
Unpaid purchases of property and equipment	$87,772	$70,092
Customer-related third party banking institution financing net settlement	$—	$90,576
Non-cash investment in Elementum (Note 5)	$132,679	$—
Non-cash proceeds from sale of Wink (Note 2)	$59,000	$—

The accompanying notes are an integral part of these condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. ORGANIZATION OF THE COMPANY AND BASIS OF PRESENTATION

Organization of the Company

Flex Ltd. ("Flex" or the "Company") was incorporated in the Republic of Singapore in May 1990. The Company's operations have expanded over the years through a combination of organic growth and acquisitions. The Company is a globally-recognized, provider of Sketch-to-Scale™ services - innovative design, engineering, manufacturing, and supply chain services and solutions - from conceptual sketch to full-scale production. The Company designs, builds, ships and services complete packaged consumer and industrial products, from athletic shoes to electronics, for companies of all sizes in various industries and end-markets, through its activities in the following segments:

- Communications & Enterprise Compute ("CEC"), which includes telecom business of radio access base stations, remote radio heads, and small cells for wireless infrastructure; networking business which includes optical, routing, broadcasting, and switching products for the data and video networks; server and storage platforms for both enterprise and cloud-based deployments; next generation storage and security appliance products; and rack level solutions, converged infrastructure and software-defined product solutions;
- Consumer Technologies Group ("CTG"), which includes consumer-related businesses in connected living, wearables, gaming, augmented and virtual reality, fashion, and mobile devices; and including various supply chain solutions for notebook personal computers ("PC"), tablets, and printers; in addition, CTG is expanding its business relationships to include supply chain optimization for non-electronics products such as footwear and clothing;
- Industrial and Emerging Industries ("IEI"), which is comprised of energy and metering, semiconductor and capital equipment, office solutions, industrial, home and lifestyle, industrial automation and kiosks, and lighting; and
- High Reliability Solutions ("HRS"), which is comprised of medical business, including consumer health, digital health, disposables, precision plastics, drug delivery, diagnostics, life sciences and imaging equipment; automotive business, including vehicle electrification, connectivity, autonomous vehicles, and clean technologies.

The Company's service offerings include a comprehensive range of value-added design and engineering services that are tailored to the various markets and needs of its customers. Other focused service offerings relate to manufacturing (including enclosures, metals, plastic injection molding, precision plastics, machining, and mechanicals), system integration and assembly and test services, materials procurement, inventory management, logistics and after-sales services (including product repair, warranty services, re-manufacturing and maintenance) and supply chain management software solutions and component product offerings (including rigid and flexible printed circuit boards and power adapters and chargers).

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP” or “GAAP”) for interim financial information and in accordance with the requirements of Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements, and should be read in conjunction with the Company’s audited consolidated financial statements as of and for the fiscal year ended March 31, 2017 contained in the Company’s Annual Report on Form 10-K. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and nine-month periods ended December 31, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2018.

The first quarters for fiscal year 2018 and fiscal year 2017 ended on June 30, 2017, which is comprised of 91 days in the period, and July 1, 2016, which is comprised of 92 days in the period, respectively. The second quarters for fiscal year 2018 and fiscal year 2017 ended on September 29, 2017 and September 30, 2016, which are comprised of 91 days in both periods. The Company's third quarters end on December 31 of each year, which are comprised of 93 days and 92 days for fiscal years 2018 and 2017, respectively.

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The accompanying unaudited condensed consolidated financial statements include the accounts of Flex and its majority-owned subsidiaries, after elimination of intercompany accounts and transactions. The Company consolidates its majority-owned subsidiaries and investments in entities in which the Company has a controlling interest. For the consolidated majority-owned subsidiaries in which the Company owns less than 100%, the Company recognizes a noncontrolling interest for the ownership of the noncontrolling owners. Noncontrolling interests are immaterial for all of the periods presented, and are included in interest and other, net in the condensed consolidated statements of operations.

The Company has certain non-majority-owned equity investments in non-publicly traded companies that are accounted for using the equity method of accounting. The equity method of accounting is used when the Company has the ability to significantly influence the operating decisions of the issuer, or if the Company has a voting percentage of a corporation equal to or generally greater than 20% but less than 50%, and for non-majority-owned investments in partnerships when generally greater than 5%. The equity in earnings (losses) of equity method investees are immaterial for all periods presented, and are included in interest and other, net in the condensed consolidated statements of operations.

Recently Adopted Accounting Pronouncement

In July 2015, the FASB issued new guidance to simplify the measurement of inventory, by requiring that inventory be measured at the lower of cost and net realizable value. Prior to the issuance of the new guidance, inventory was measured at the lower of cost or market. The Company adopted the guidance effective April 1, 2017 and it did not have a material impact on its condensed consolidated financial statements.

In October 2016, the FASB issued new guidance intended to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. This guidance is effective for the Company beginning in the first quarter of fiscal year 2019, with early adoption permitted in the first interim period of fiscal year 2018. The Company adopted the guidance effective April 1, 2017 and it did not have a material impact on its condensed consolidated financial statements.

Recently Issued Accounting Pronouncements

In August 2017, the FASB issued new guidance with the objective of improving the financial reporting of hedging relationships and simplifying the application of the hedge accounting guidance in current GAAP. The guidance is effective for the Company beginning in the first quarter of fiscal year 2020 with early adoption permitted. The Company expects the new guidance will have an immaterial impact on its consolidated financial statements, and it intends to adopt the guidance when it becomes effective in the first quarter of fiscal year 2020.

In August 2016, the FASB issued Accounting Standard Update (ASU) No. 2016-15, "Statement of Cash Flows (Topic 2030): Classification of Certain Cash Receipts and Cash Payments." The standard is intended to address specific cash flow issues with the objective of reducing the existing diversity in practice and provide guidance on how certain cash receipts and payments are presented and classified in the statement of cash flows. The majority of the guidance in ASU 2016-15 is consistent with our current cash flow classification. However, cash receipts on the deferred purchase price as described in Note 10 will be classified as cash flow from investing activities instead of the Company's current presentation as cash flows from operations. The Company intends to adopt the guidance when it becomes effective in the first quarter of fiscal year 2019 and retrospectively report cash flows from operating and investing activities for all periods presented. While the Company is still quantifying the impact of adoption of this standard, it does expect the standard to result in a material increase in cash flows from investing activities and corresponding reduction in cash flows from operating activities for all periods presented.

In February 2016, the FASB issued new guidance intended to improve financial reporting on leasing transactions. The new lease guidance will require entities that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with lease terms of more than 12 months. The guidance will also enhance existing disclosure requirements relating to those leases. The Company intends to adopt the new lease guidance when it becomes effective in the first quarter of fiscal year 2020 using a modified retrospective approach. Upon initial evaluation, the Company believes the new guidance will have a material impact on its consolidated balance sheets when adopted.

In May 2014, the FASB issued new guidance which requires an entity to recognize revenue relating to contracts with customers that depicts the transfer of promised goods or services to customers in an amount reflecting the consideration to which the entity expects to be entitled in exchange for such goods or services. In order to meet this requirement, the entity must apply the following steps: (i) identify the contracts with the customers; (ii) identify performance obligations in the contracts; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations per the contracts; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. Additionally, disclosures required for revenue recognition will include qualitative and quantitative information about contracts with customers, significant judgments and

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changes in judgments, and assets recognized from costs to obtain or fulfill a contract. The guidance is effective for the Company beginning in the first quarter of fiscal year 2019.

The Company is in the process of implementation activities in accordance with the planned effective date. These activities are focused on the review of significant customer contracts, identification and development of additional systems capabilities to enable the Company to make reasonable estimates of revenue as products are manufactured, and the design and implementation of relevant internal controls. The Company has determined that the new standard will change the timing of revenue recognition for a significant portion of its business. Under the new standard, revenue for a significant majority of the manufacturing services customer contracts will be recognized earlier than under the current accounting rules (where Flex recognizes revenue based on shipping and delivery). This change will also have material impacts to the Company's balance sheet, primarily related to a reduction in finished goods and work-in-process inventories and an increase in unbilled receivables.

The new guidance allows for two transition methods in application - (i) retrospective to each prior reporting period presented, or (ii) prospective with the cumulative effect of adoption recognized on April 1, 2018, the first day of the Company's fiscal year 2019 (also known as the modified retrospective approach). The Company will adopt the standard using the modified retrospective approach, which will result in an adjustment to accumulated deficit for the cumulative effect of applying this guidance to contracts in process as of the adoption date. Under this approach, prior financial statements presented will not be restated. This guidance requires additional disclosures of the amount by which each financial statement line item affected in the current reporting period during fiscal year 2019 as compared to the guidance that was in effect before the change, and an explanation of the reasons for the significant changes.

2. BALANCE SHEET ITEMS

Inventories

The components of inventories, net of applicable lower of cost and net realizable value write-downs, were as follows:

	As of December 31, 2017	As of March 31, 2017
	(In thousands)	
Raw materials	$2,590,065	$2,537,623
Work-in-progress	446,469	279,493
Finished goods	689,109	579,346
	$3,725,643	$3,396,462

Goodwill and Other Intangible Assets

The following table summarizes the activity in the Company's goodwill account for each of its four segments during the nine-month period ended December 31, 2017:

	HRS	CTG	IEI	CEC	Amount
	(In thousands)				
Balance, beginning of the year	$420,935	$111,223	$337,707	$115,002	$984,867
Additions (1)	75,280	—	—	9,174	84,454
Divestitures (2)	—	(3,475)	—	—	(3,475)
Purchase accounting adjustments	—	—	—	(14)	(14)

Foreign currency translation adjustments (3)	38,938	—	—	—	38,938
Balance, end of the period	$535,153	$107,748	$337,707	$124,162	$1,104,770

(1) The goodwill generated from the Company's acquisition of AGM Automotive ("AGM") in the HRS segment and the Company's acquisition of a Power Modules business in the CEC segment, completed during the nine-month period ended December 31, 2017, are primarily related to value placed on the acquired employee workforces, service offerings and capabilities of the acquired businesses. The goodwill is not deductible for income tax purposes. See note 12 for additional information.

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(2) During the nine-month period ended December 31, 2017, the Company disposed of Wink Labs Inc. ("Wink"), a business within the CTG segment, and recorded an aggregate reduction of goodwill of $3.5 million accordingly, which is included as an offset to the gain on sale recorded in other charges (income), net on the condensed consolidated statement of operations.

(3) During the nine-month period ended December 31, 2017, the Company recorded $38.9 million of foreign currency translation adjustments primarily related to the goodwill associated with the acquisition of Mirror Controls International ("MCi") and AGM, as the U.S. Dollar fluctuated against foreign currencies.

The components of acquired intangible assets are as follows:

	As of December 31, 2017			As of March 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In thousands)					
Intangible assets:						
Customer-related intangibles	$369,356	$(135,411)	$233,945	$260,704	$(105,912)	$154,792
Licenses and other intangibles	302,522	(97,915)	204,607	283,897	(76,508)	207,389
Total	$671,878	$(233,326)	$438,552	$544,601	$(182,420)	$362,181

The gross carrying amounts of intangible assets are removed when fully amortized. During the nine-month period ended December 31, 2017, the total value of intangible assets increased primarily as a result of the Company's estimated value of $82.0 million for customer related intangibles acquired with the AGM acquisition in the HRS segment, which will amortize over a weighted-average estimated useful life of 10 years, and $34.5 million for customer-related and licenses and other intangibles acquired with the power modules acquisition in the CEC segment, which will amortize over a weighted-average estimated useful life of 9 years. The increase was partially offset by $7.5 million for the divestiture of Wink in the CTG segment. The assigned value is subject to change as the Company completes the valuation. The estimated future annual amortization expense for intangible assets is as follows:

Fiscal Year Ending March 31,	Amount
	(In thousands)
2018 (1)	$ 19,933
2019	74,510
2020	68,272
2021	63,839
2022	54,754
Thereafter	157,244
Total amortization expense	$ 438,552

(1) Represents estimated amortization for the remaining three-month period ending March 31, 2018.

Other Current Assets

Other current assets include approximately $420.6 million and $506.5 million as of December 31, 2017 and March 31, 2017, respectively, for the deferred purchase price receivable from the Company's Global and North American Asset-Backed Securitization programs. See note 10 for additional information.

Other Assets

During the first quarter of fiscal year 2018, the Company sold Wink to an unrelated third-party venture backed company in exchange for contingent consideration fair valued at $59.0 million. This estimated consideration was based on the value of the acquirer as of the most recent third-party funding of which the Company participated. The Company recognized a non-cash

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gain on sale of $38.7 million, which is recorded in other charges (income), net on the condensed consolidated statement of operations in the nine-month period ended December 31, 2017. The contingent consideration is expected to be settled in the fourth quarter of fiscal year 2018, based on a remeasured fair value on the settlement date. As of December 31, 2017, the total investment, including working capital advances, of $76.5 million is accounted for as a cost method investment, and is included in other assets on the condensed consolidated balance sheet.

During the second quarter of fiscal year 2018, the Company deconsolidated one of its majority owned subsidiaries, following the amendments of certain agreements that resulted in joint control of the board of directors between the Company and other non-controlling interest holders. As of December 31, 2017, this subsidiary is accounted for as a cost method investment of approximately $129.7 million and is included in other assets on the condensed consolidated balance sheet. See note 5 for additional information on the deconsolidation.

Other Current Liabilities

Other current liabilities include customer working capital advances of $171.3 million and $231.3 million, customer-related accruals of $441.0 million and $501.9 million, and deferred revenue of $344.0 million and $280.7 million as of December 31, 2017 and March 31, 2017, respectively. The customer working capital advances are not interest-bearing, do not have fixed repayment dates and are generally reduced as the underlying working capital is consumed in production.

3. SHARE-BASED COMPENSATION

Historically, the Company's primary plan used for granting equity compensation awards was the 2010 Equity Incentive Plan (the "2010 Plan"). Effective August 15, 2017, awards are granted under the Company's 2017 Equity Incentive Plan (the "2017 Plan"), which was approved by the Company's shareholders at the 2017 Annual General Meeting of Shareholders. For further discussion on this 2017 Plan, refer to the Company's Proxy Statement, which was filed with the Securities and Exchange Commission on July 5, 2017.

The following table summarizes the Company’s share-based compensation expense:

	Three-Month Periods Ended		Nine-Month Periods Ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	(In thousands)			
Cost of sales	$5,358	$ 2,437	$13,662	$ 7,506
Selling, general and administrative expenses	15,400	18,344	49,356	59,805
Total share-based compensation expense	$20,758	$ 20,781	$63,018	$ 67,311

Total unrecognized compensation expense related to share options under all plans was $8.9 million, and will be recognized over a weighted-average remaining vesting period of 2.2 years. As of December 31, 2017, the number of options outstanding and exercisable under all plans was 1.4 million and 0.5 million, respectively, at a weighted-average exercise price of $3.39 per share and $4.71 per share, respectively.

During the nine-month period ended December 31, 2017, the Company granted 6.0 million unvested share bonus awards. Of this amount, approximately 4.3 million unvested share bonus awards have an average grant date price of $16.45 per share and vest over four years. Further, approximately 0.6 million of these unvested shares represents the target amount of grants made to certain key employees whereby vesting is contingent on certain market conditions.

The average grant date fair value of these awards contingent on certain market conditions was estimated to be $20.25 per award and was calculated using a Monte Carlo simulation. The number of shares contingent on market conditions that ultimately will vest will range from zero up to a maximum of 1.2 million based on a measurement of the percentile rank of the Company's total shareholder return over a certain specified period against the Standard and Poor's ("S&P") 500 Composite Index and will cliff vest after a period of three years, if such market conditions have been met. Also, an immaterial amount of options and share bonus awards were granted by the Company during the nine-month period ended December 31, 2017 under an immaterial plan.

As of December 31, 2017, approximately 15.5 million unvested share bonus awards under all plans were outstanding, of which vesting for a targeted amount of 2.0 million is contingent primarily on meeting certain market conditions. The number of shares that will ultimately be issued can range from zero to 4.0 million based on the achievement levels of the respective conditions. During the nine-month period ended December 31, 2017, 1.4 million shares vested in connection with the share bonus awards with market conditions granted in fiscal year 2015.

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As of December 31, 2017, total unrecognized compensation expense related to unvested share bonus awards under all plans was approximately $162.8 million, and will be recognized over a weighted-average remaining vesting period of 2.6 years.

4. EARNINGS PER SHARE

The following table reflects basic weighted-average ordinary shares outstanding and diluted weighted-average ordinary share equivalents used to calculate basic and diluted earnings per share attributable to the shareholders of Flex Ltd.:

	Three-Month Periods Ended		Nine-Month Periods Ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	(In thousands, except per share amounts)			
Net income	$118,333	$129,469	$448,129	$232,690
Shares used in computation:				
Weighted-average ordinary shares outstanding	528,405	539,638	529,984	542,780
Basic earnings per share	$0.22	$0.24	$0.85	$0.43
Diluted earnings per share:				
Net income	$118,333	$129,469	$448,129	$232,690
Shares used in computation:				
Weighted-average ordinary shares outstanding	528,405	539,638	529,984	542,780
Weighted-average ordinary share equivalents from stock options and awards (1) (2)	5,947	5,384	5,988	5,592
Weighted-average ordinary shares and ordinary share equivalents outstanding	534,352	545,022	535,972	548,372
Diluted earnings per share	$0.22	$0.24	$0.84	$0.42

(1) An immaterial amount of options and share bonus awards was excluded from the computation of diluted earnings per share during the three-month period ended December 31, 2017, due to their anti-dilutive impact on the weighted-average ordinary share equivalents. Options to purchase ordinary shares of 0.5 million and an immaterial amount of anti-dilutive share bonus awards was excluded for the three-month period ended December 31, 2016.

(2) An immaterial amount of options and share bonus awards was excluded from the computation of diluted earnings per share during the nine-month period ended December 31, 2017, due to their anti-dilutive impact on the weighted-average ordinary share equivalents. Options to purchase ordinary shares of 0.7 million and an immaterial amount of anti-dilutive share bonus awards was excluded for the nine-month period ended December 31, 2016.

5. DECONSOLIDATION OF SUBSIDIARY ENTITY

The Company has a majority owned subsidiary, Elementum SCM (Cayman) Ltd ("Elementum"), which qualifies as a variable interest entity for accounting purposes. The Company owns a majority of Elementum's outstanding equity (consisting primarily of preferred stock) and as of March 31, 2017, controlled its board of directors, which gave the Company the power to direct the activities of Elementum that most significantly impact its economic performance. Accordingly, the Company recognized the carrying value of the noncontrolling interest as a component of total shareholders' equity, and the consolidated financial statements include the financial position and results of operations of Elementum as of and for the period ended March 31, 2017.

During the second quarter of fiscal year 2018, the Company and other minority shareholders of Elementum amended certain agreements resulting in joint control of the board of directors between the Company and other non-controlling interest holders. As a result, the Company concluded it is no longer the primary beneficiary of Elementum and accordingly, deconsolidated the entity. The Company no longer recognizes the carrying value of the noncontrolling interest as a component of total shareholder's equity resulting in a reduction of $90.6 million of noncontrolling interest from its condensed consolidated balance sheet upon deconsolidation, which was treated as a non-cash financing activity in the condensed consolidated statement of cash flows for the nine-month period ended December 31, 2017. Further, the Company derecognized approximately $72.6

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million of cash of Elementum as of the date of deconsolidation which is reflected as an outflow from investing activities within other investing activities, net in the condensed consolidated statement of cash flows for the nine-month period ended December 31, 2017. There were no other material impacts to the condensed consolidated balance sheet or condensed consolidated cash flows resulting from deconsolidation of the entity. The noncontrolling interest in the operating losses of Elementum prior to deconsolidation is immaterial for all periods presented and is classified as a component of interest and other, net, in the Company's condensed consolidated statements of operations.

The carrying amount of the Company’s variable interest in Elementum was approximately $129.7 million as of December 31, 2017, is accounted for as a cost method investment, and is included in other assets on the condensed consolidated balance sheet. The value of the Company’s variable interest on the date of deconsolidation was based on management’s estimate of the fair value of Elementum at that time. The Company concluded that the market approach was the most appropriate method to determine the fair value of the entity on the date of deconsolidation, given that Elementum raised equity funding from third-party investors around the same period. The Company recognized a gain on deconsolidation of approximately $151.6 million with no related tax impact, which is included in other charges (income), net on the condensed consolidated statement of operations. As the Company is not obligated to fund future losses of Elementum, the carrying amount is the Company’s maximum risk of loss. Pro-forma financials have not been presented because the effects were not material to the Company’s condensed consolidated financial position and results of operation for all periods presented. Elementum remains a related party to the Company after deconsolidation and transactions between the Company and Elementum during the three-month period ended December 31, 2017 are immaterial.

6. BANK BORROWINGS AND LONG TERM DEBT

Bank borrowings and long-term debt are as follows:

	As of December 31, 2017 (In thousands)	As of March 31, 2017
4.625% Notes due February 2020	$ 500,000	$ 500,000
Term Loan, including current portion, due in installments through November 2021	691,875	700,000
Term Loan, including current portion, due in installments through June 2022	489,938	502,500
5.000% Notes due February 2023	500,000	500,000
4.75% Notes due June 2025	596,282	595,979
Other	181,175	169,671
Debt issuance costs	(14,596)	(16,007)
Total	$ 2,944,674	$ 2,952,143

The weighted-average interest rates for the Company’s long-term debt were 3.7% and 3.5% as of December 31, 2017 and March 31, 2017, respectively.

On June 30, 2017, the Company entered into a five-year credit facility consisting of a $1.75 billion revolving credit facility and a $502.5 million term loan, which is due to mature on June 30, 2022 (the "2022 Credit Facility"). This 2022 Credit Facility replaced the Company's $2.1 billion credit facility, which was due to mature in March 2019. The outstanding principal of the term loan portion of the 2022 Credit Facility is repayable in quarterly installments of approximately $6.3 million from September 30, 2017 through June 30, 2020 and approximately $12.6 million from September 30, 2020 through March 31, 2022 with the remainder due upon maturity. The Company determined that effectively extending the maturity date of the revolving credit and repaying the term loan due March 2019 qualified as a debt modification and consequently all unamortized debt issuance costs related to the $2.1 billion credit facility are capitalized and will be amortized over the term of the 2022 Credit Facility.

Borrowings under the 2022 Credit Facility bear interest, at the Company’s option, either at (i) the Base Rate, which is defined as the greatest of (a) the Administrative Agent’s prime rate, (b) the federal funds effective rate, plus 0.50% and (c) the LIBOR (the London Interbank Offered Rate) rate that would be calculated as of each day in respect of a proposed LIBOR loan with a one-month interest period, plus 1.0%; plus, in the case of each of clauses (a) through (c), an applicable margin ranging from 0.125% to 0.875% per annum, based on the Company’s credit ratings (as determined by Standard & Poor’s Financial Services LLC, Moody’s Investors Service, Inc. and Fitch Ratings Inc.) or (ii) LIBOR plus the applicable margin for LIBOR loans ranging between 1.125% and 1.875% per annum, based on the Company’s credit ratings.

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The 2022 Credit Facility is unsecured, and contains customary restrictions on the ability of the Company and its subsidiaries to (i) incur certain debt, (ii) make certain investments, (iii) make certain acquisitions of other entities, (iv) incur liens, (v) dispose of assets, (vi) make non-cash distributions to shareholders, and (vii) engage in transactions with affiliates. These covenants are subject to a number of significant exceptions and limitations. The 2022 Credit Facility also requires that the Company maintain a maximum ratio of total indebtedness to EBITDA (earnings before interest expense, taxes, depreciation and amortization), and a minimum interest coverage ratio during the term of the 2022 Credit Facility. As of December 31, 2017, the Company was in compliance with the covenants under the 2022 Credit Facility agreement.

The Company has three tranches of Notes, the 4.625% Notes due 2020, the 5.000% Notes due 2023 and the 4.75% Notes due 2025. These Notes are senior unsecured obligations, and prior to June 30, 2017, were guaranteed, fully and unconditionally, jointly and severally, on an unsecured basis, by certain of the Company's 100% owned subsidiaries (the "guarantor subsidiaries"). Upon the termination of the $2.1 billion credit facility, all guarantor subsidiaries were released from their guarantees under each indenture for each Note. As a result, the Company will no longer be providing supplemental guarantor and non-guarantor condensed consolidating financial statements.

Repayment of the Company’s long term debt outstanding as of December 31, 2017 is as follows:

Fiscal Year Ending March 31,	Amount
	(In thousands)
2018 (1)	$ 10,739
2019	42,934
2020	542,872
2021	115,247
2022	809,103
Thereafter	1,438,375
Total	$ 2,959,270

(1) Represents scheduled repayment for the remaining three-month period ending March 31, 2018.

7. INTEREST AND OTHER, NET

During the three-month and nine-month periods ended December 31, 2017, the Company recognized interest expense of $32.1 million and $90.7 million, respectively, on its debt obligations outstanding during the periods. During the three-month and nine-month periods ended December 31, 2016, the Company recognized interest expense of $26.6 million and $79.9 million, respectively.

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8. FINANCIAL INSTRUMENTS

Foreign Currency Contracts

The Company enters into forward contracts and foreign currency swap contracts primarily to manage the foreign currency risk associated with monetary accounts and anticipated foreign currency denominated transactions. The Company hedges committed exposures and does not engage in speculative transactions. As of December 31, 2017, the aggregate notional amount of the Company's outstanding foreign currency contracts was $8.2 billion as summarized below:

Currency	Foreign Currency Amount		Notional Contract Value in USD	
	Buy	Sell	Buy	Sell
	(In thousands)			
Cash Flow Hedges				
CNY	1,724,000	—	$ 262,937	$ —
EUR	53,756	109,351	63,973	128,767
HUF	19,654,800	—	75,314	—
ILS	73,700	—	21,233	—
INR	1,392,540	—	21,200	—
MXN	3,072,680	—	154,955	—
MYR	173,000	39,500	42,318	9,662
PLN	87,890	—	24,963	—
RON	117,780	—	30,124	—
SGD	29,900	—	22,335	—
Other	N/A	N/A	12,567	5,017
			731,919	143,446
Other Foreign Currency Contracts				
BRL	—	871,000	—	263,229
CAD	267,328	289,019	211,126	228,257
CHF	16,327	28,889	16,527	29,245
CNY	2,832,338	—	427,268	—
EUR	1,958,706	2,306,257	2,329,926	2,744,141
GBP	35,355	63,776	47,390	85,505
HUF	18,783,285	22,480,502	71,975	86,142
INR	6,222,378	1,252,331	96,829	19,200
MXN	2,254,587	1,374,623	113,699	69,322
MYR	456,260	247,030	111,607	60,427
RON	88,521	81,054	22,641	20,731
SGD	78,855	48,690	58,904	36,371
Other	N/A	N/A	114,386	81,631
			3,622,278	3,724,201
Total Notional Contract Value in USD			$ 4,354,197	$ 3,867,647

As of December 31, 2017, the fair value of the Company's short-term foreign currency contracts was included in other current assets or other current liabilities, as applicable, in the condensed consolidated balance sheets. Certain of these contracts are designed to economically hedge the Company's exposure to monetary assets and liabilities denominated in a non-functional currency and are not accounted for as hedges under the accounting standards. Accordingly, changes in the fair value of these instruments are recognized in earnings during the period of change as a component of interest and other, net in the condensed consolidated statements of operations. As of December 31, 2017 and March 31, 2017, the Company also has included net deferred gains and losses in accumulated other comprehensive loss, a component of shareholders' equity in the condensed

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consolidated balance sheets, relating to changes in fair value of its foreign currency contracts that are accounted for as cash flow hedges. These deferred losses were $7.2 million as of December 31, 2017, and are expected to be recognized primarily as a component of cost of sales in the condensed consolidated statements of operations primarily over the next twelve-month period. The gains and losses recognized in earnings due to hedge ineffectiveness were not material for all fiscal periods presented and are included as a component of interest and other, net in the condensed consolidated statements of operations.

The following table presents the fair value of the Company's derivative instruments utilized for foreign currency risk management purposes:

	Fair Values of Derivative Instruments					
	Asset Derivatives			Liability Derivatives		
		Fair Value			Fair Value	
	Balance Sheet Location	December 31, 2017	March 31, 2017	Balance Sheet Location	December 31, 2017	March 31, 2017
	(In thousands)					
Derivatives designated as hedging instruments						
Foreign currency contracts	Other current assets	$6,627	$ 11,936	Other current liabilities	$15,057	$ 1,814
Derivatives not designated as hedging instruments						
Foreign currency contracts	Other current assets	$14,376	$ 10,086	Other current liabilities	$10,273	$ 9,928

The Company has financial instruments subject to master netting arrangements, which provides for the net settlement of all contracts with a single counterparty. The Company does not offset fair value amounts for assets and liabilities recognized for derivative instruments under these arrangements, and as such, the asset and liability balances presented in the table above reflect the gross amounts of derivatives in the condensed consolidated balance sheets. The impact of netting derivative assets and liabilities is not material to the Company's financial position for any of the periods presented.

9. ACCUMULATED OTHER COMPREHENSIVE LOSS

The changes in accumulated other comprehensive loss by component, net of tax, are as follows:

	Three-Month Periods Ended					
	December 31, 2017			December 31, 2016		
	Unrealized loss on derivative instruments and other	Foreign currency translation adjustments	Total	Unrealized loss on derivative instruments and other	Foreign currency translation adjustments	Total
	(In thousands)					
Beginning balance	$(48,470)	$ (75,403)	$(123,873)	$(42,233)	$ (80,319)	$(122,552)
Other comprehensive gain (loss) before reclassifications	(4,643)	7,248	2,605	(1,354)	(33,770)	(35,124)
Net (gains) losses reclassified from accumulated other comprehensive loss	(74)	244	170	1,153	(2,642)	(1,489)

Net current-period other comprehensive gain (loss)	(4,717)	7,492	2,775	(201)	(36,412)	(36,613)
Ending balance	$(53,187)	$ (67,911)	$(121,098)	$(42,434)	$ (116,731)	$(159,165)

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	Nine-Month Periods Ended					
	December 31, 2017			December 31, 2016		
	Unrealized loss on derivative instruments and other	Foreign currency translation adjustments	Total	Unrealized loss on derivative instruments and other	Foreign currency translation adjustments	Total
	(In thousands)					
Beginning balance	$(32,426)	$ (95,717)	$(128,143)	$(41,522)	$ (94,393)	$(135,915)
Other comprehensive gain (loss) before reclassifications	(5,488)	27,562	22,074	(1,031)	(19,471)	(20,502)
Net (gains) losses reclassified from accumulated other comprehensive loss	(15,273)	244	(15,029)	119	(2,867)	(2,748)
Net current-period other comprehensive gain (loss)	(20,761)	27,806	7,045	(912)	(22,338)	(23,250)
Ending balance	$(53,187)	$ (67,911)	$(121,098)	$(42,434)	$ (116,731)	$(159,165)

Substantially all unrealized gains relating to derivative instruments and other, reclassified from accumulated other comprehensive loss for the three-month and nine-month periods ended December 31, 2017 were recognized as a component of cost of sales in the condensed consolidated statement of operations, which primarily relate to the Company's foreign currency contracts accounted for as cash flow hedges.

10. TRADE RECEIVABLES SECURITIZATION

The Company sells trade receivables under two asset-backed securitization programs and under an accounts receivable factoring program.

Asset-Backed Securitization Programs

The Company continuously sells designated pools of trade receivables under its Global Asset-Backed Securitization Agreement (the "Global Program") and its North American Asset-Backed Securitization Agreement (the "North American Program," collectively, the "ABS Programs") to affiliated special purpose entities, each of which in turn sells 100% of the receivables to unaffiliated financial institutions. These programs allow the operating subsidiaries to receive a cash payment and a deferred purchase price receivable for sold receivables. Following the transfer of the receivables to the special purpose entities, the transferred receivables are isolated from the Company and its affiliates, and upon the sale of the receivables from the special purpose entities to the unaffiliated financial institutions, effective control of the transferred receivables is passed to the unaffiliated financial institutions, which has the right to pledge or sell the receivables. Although the special purpose entities are consolidated by the Company, they are separate corporate entities and their assets are available first to satisfy the claims of their creditors. The investment limits set by the financial institutions are $950.0 million for the Global Program, of which $775.0 million is committed and $175.0 million is uncommitted, and $250.0 million for the North American Program, of which $210.0 million is committed and $40.0 million is uncommitted. Both programs require a minimum level of deferred purchase price receivable to be retained by the Company in connection with the sales.

The Company services, administers and collects the receivables on behalf of the special purpose entities and receives a servicing fee of 0.1% to 0.5% of serviced receivables per annum. Servicing fees recognized during the three-month and nine-month periods ended December 31, 2017 and December 31, 2016 were not material and are included in interest and other, net within the condensed consolidated statements of operations. As the Company estimates the fee it receives in return for its obligation to service these receivables is at fair value, no servicing assets and liabilities are recognized.

As of December 31, 2017, approximately $1.5 billion of accounts receivable had been sold to the special purpose entities under the ABS Programs for which the Company had received net cash proceeds of approximately $1.1 billion and deferred purchase price receivables of approximately $420.6 million. As of March 31, 2017, approximately $1.5 billion of accounts receivable had been sold to the special purpose entities for which the Company had received net cash proceeds of $1.0 billion and deferred purchase price receivables of approximately $506.5 million. The portion of the purchase price for the receivables which is not paid by the unaffiliated financial institutions in cash is a deferred purchase price receivable, which is paid to the special purpose entity as payments on the receivables are collected from account debtors. The deferred purchase price receivable represents a beneficial interest in the transferred financial assets and is recognized at fair value as part of the sale transaction. The deferred purchase price receivables are included in other current assets as of December 31, 2017 and March 31, 2017, and were carried at the expected recovery amount of the related receivables. The difference between the carrying amount of the receivables sold under these programs and the sum of the cash and fair value of the deferred purchase price receivables received at time of transfer is recognized as a loss on sale of the related receivables and recorded in interest and other, net in the condensed consolidated statements of operations and were immaterial for all periods presented.

The Company's deferred purchase price receivables relating to its asset-backed securitization program are recorded initially at fair value based on a discounted cash flow analysis using unobservable inputs (i.e., level 3 inputs), which are primarily risk free interest rates adjusted for the credit quality of the underlying creditor. Due to its high credit quality and short term maturity, the fair value approximates carrying value. Significant increases in either of the major unobservable inputs (credit spread, risk free interest rate) in isolation would result in lower fair value estimates, however the impact is not material. The interrelationship between these inputs is also insignificant.

As of December 31, 2017 and March 31, 2017, the accounts receivable balances that were sold under the ABS Programs were removed from the condensed consolidated balance sheets and the net cash proceeds received by the Company were included as cash provided by operating activities in the condensed consolidated statements of cash flows.

For the nine-month periods ended December 31, 2017 and December 31, 2016, cash flows from sales of receivables under the ABS Programs consisted of approximately $4.6 billion and $4.2 billion, for transfers of receivables, respectively (of which approximately $290.4 million and $315.1 million, respectively, represented new transfers and the remainder proceeds from collections reinvested in revolving-period transfers).

Trade Accounts Receivable Sale Programs

The Company also sold accounts receivables to certain third-party banking institutions. The outstanding balance of receivables sold and not yet collected on accounts where the Company has continuing involvement was approximately $233.3 million and $225.2 million as of December 31, 2017 and March 31, 2017, respectively. For the nine-month periods ended December 31, 2017 and December 31, 2016, total accounts receivable sold to certain third party banking institutions was approximately $1.0 billion, respectively. The receivables that were sold were removed from the condensed consolidated balance sheets and the cash received is reflected as cash provided by operating activities in the condensed consolidated statements of cash flows.

11. FAIR VALUE MEASUREMENT OF ASSETS AND LIABILITIES

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact, and it considers assumptions that market participants would use when pricing the asset or liability. The accounting guidance for fair value establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is as follows:

Level 1 - Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

The Company has deferred compensation plans for its officers and certain other employees. Amounts deferred under the plans are invested in hypothetical investments selected by the participant or the participant's investment manager. The Company's deferred compensation plan assets are for the most part included in other noncurrent assets on the condensed consolidated balance sheets and primarily include investments in equity securities that are valued using active market prices.

Level 2 - Applies to assets or liabilities for which there are inputs other than quoted prices included within level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets) such as cash and cash equivalents and money market funds; or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

The Company values foreign exchange forward contracts using level 2 observable inputs which primarily consist of an income approach based on the present value of the forward rate less the contract rate multiplied by the notional amount.

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The Company’s cash equivalents are comprised of bank deposits and money market funds, which are valued using level 2 inputs, such as interest rates and maturity periods. Due to their short-term nature, their carrying amount approximates fair value.

The Company’s deferred compensation plan assets also include money market funds, mutual funds, corporate and government bonds and certain convertible securities that are valued using prices obtained from various pricing sources. These sources price these investments using certain market indices and the performance of these investments in relation to these indices. As a result, the Company has classified these investments as level 2 in the fair value hierarchy.

Level 3 - Applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The Company has accrued for contingent consideration in connection with its business acquisitions as applicable, which is measured at fair value based on certain internal models and unobservable inputs.

The significant inputs in the fair value measurement not supported by market activity included the Company's probability assessments of expected future revenue during the earn-out period and associated volatility, appropriately discounted considering the uncertainties associated with the obligation, and calculated in accordance with the terms of the merger agreement. Significant decreases in expected revenue during the earn-out period, or significant increases in the discount rate or volatility in isolation would result in lower fair value estimates. The interrelationship between these inputs is not considered significant.

The following table summarizes the activities related to contingent consideration payable for historic acquisitions:

	Three-Month Periods Ended		Nine-Month Periods Ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	(In thousands)			
Beginning balance	$17,342	$ 75,614	$22,426	$ 73,423
Payments	(17,109)	(40,555)	(17,109)	(42,776)
Fair value adjustments	767	(6,997)	(4,317)	(2,585)
Ending balance	$1,000	$ 28,062	$1,000	$ 28,062

In connection with the acquisition of NEXTracker, Inc. in fiscal year 2016, the Company had an obligation to pay additional cash consideration to the former shareholders contingent upon NEXTracker, Inc.'s achievement of revenue targets during the two years after acquisition (ending on September 30, 2017). During the nine-month period ended December 31, 2017, the Company paid $17.1 million of the total contingent consideration following the second year's targets achievement in accordance with the terms of the merger agreement. The payment of the contingent consideration is included in other financing activities, net, in the condensed consolidated statements of cash flows.

There were no transfers between levels in the fair value hierarchy during the nine-month periods ended December 31, 2017 and December 31, 2016