FLEXTRONICS INTERNATIONAL LTD.
Form 10-Q
February 02, 2012
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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 31, 2011

or

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

For the transition period from to

Commission file number 0-23354

FLEXTRONICS INTERNATIONAL 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** (Address of registrant s principal executive offices)	**486123** (Zip Code)

Registrant s telephone number, including area code

(65) 6890 7188

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 o

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

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

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

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

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

Class	**Outstanding at January 24, 2012**
Ordinary Shares, No Par Value	687,028,025

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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

Flextronics International Ltd.

Singapore

We have reviewed the accompanying condensed consolidated balance sheet of Flextronics International Ltd. and subsidiaries (the Company) as of December 31, 2011, and the related condensed consolidated statements of operations for the three-month and nine-month periods ended December 31, 2011 and 2010, and of cash flows for the nine-month periods ended December 31, 2011 and 2010. 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 Flextronics International Ltd. and subsidiaries as of March 31, 2011, and the related consolidated statements of operations, shareholders equity, and cash flows for the year then ended (not presented herein); and in our report dated May 23, 2011, 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, 2011 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

February 2, 2012

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FLEXTRONICS INTERNATIONAL LTD.

CONDENSED CONSOLIDATED BALANCE SHEETS

		As of December 31, 2011		As of March 31, 2011
		(In thousands, except share amounts) (Unaudited)		
ASSETS				
Current assets:				
Cash and cash equivalents	$	1,545,765	$	1,748,471
Accounts receivable, net of allowance for doubtful accounts of $16,104 and $13,388 as of December 31, 2011 and March 31, 2011, respectively		2,500,316		2,629,633
Inventories		3,594,339		3,550,286
Other current assets		1,363,132		1,125,809
Total current assets		9,003,552		9,054,199
Property and equipment, net		2,139,726		2,141,063
Goodwill and other intangible assets, net		184,612		213,083
Other assets		200,321		224,807
Total assets	$	11,528,211	$	11,633,152
LIABILITIES AND SHAREHOLDERS EQUITY				
Current liabilities:				
Bank borrowings, current portion of long-term debt and capital lease obligations	$	39,636	$	21,179
Accounts payable		4,954,759		5,081,898
Accrued payroll		359,861		381,188
Other current liabilities		1,534,534		1,344,666
Total current liabilities		6,888,790		6,828,931
Long-term debt and capital lease obligations, net of current portion		2,159,327		2,199,195
Other liabilities		258,980		310,330
Commitments and contingencies (Note 14)				
Shareholders equity				
Ordinary shares, no par value; 745,251,473 and 830,745,010 shares issued, and 695,012,119 and 756,993,938 outstanding as of December 31, 2011 and March 31, 2011, respectively		8,363,883		8,865,556
Treasury stock, at cost; 50,239,354 and 73,751,072 shares as of December 31, 2011 and March 31, 2011, respectively		(388,215)		(523,110)
Accumulated deficit		(5,704,472)		(6,068,504)
Accumulated other comprehensive income (loss)		(50,082)		20,754
Total shareholders equity		2,221,114		2,294,696
Total liabilities and shareholders equity	$	11,528,211	$	11,633,152

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

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FLEXTRONICS INTERNATIONAL LTD.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three-Month Periods Ended		Nine-Month Periods Ended	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
	(In thousands, except per share amounts) (Unaudited)			
Net sales	$ 7,492,723	$ 7,832,856	$ 23,084,816	$ 21,821,074
Cost of sales	7,110,869	7,399,280	21,927,354	20,619,033
Gross profit	381,854	433,576	1,157,462	1,202,041
Selling, general and administrative expenses	243,910	215,070	673,894	609,742
Intangible amortization	13,932	16,571	41,774	56,000
Other charges, net		13,234		6,267
Interest and other expense, net	7,775	10,848	31,418	68,182
Income before income taxes	116,237	177,853	410,376	461,850
Provision for (benefit from) income taxes	14,060	(20,437)	46,344	966
Net income	$ 102,177	$ 198,290	$ 364,032	$ 460,884
Earnings per share:				
Basic	$ 0.14	$ 0.26	$ 0.50	$ 0.59
Diluted	$ 0.14	$ 0.26	$ 0.49	$ 0.58
Weighted-average shares used in computing per share amounts:				
Basic	710,324	762,387	726,432	783,128
Diluted	720,894	776,595	737,255	794,961

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

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FLEXTRONICS INTERNATIONAL LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine-Month Periods Ended December 31, 2011	Nine-Month Periods Ended December 31, 2010
	(In thousands) (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 364,032	$ 460,884
Depreciation, amortization and other impairment charges	379,980	352,063
Changes in working capital and other, net of acquisitions	(78,428)	(230,117)
Net cash provided by operating activities	665,584	582,830
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(375,677)	(400,922)
Proceeds from the disposition of property and equipment	45,919	73,554
Acquisition of businesses, net of cash acquired	(93,679)	(9,108)
Other investments and notes receivable, net	468	13,330
Net cash used in investing activities	(422,969)	(323,146)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from bank borrowings and long-term debt	3,567,200	2,763,353
Repayments of bank borrowings, long-term debt and capital lease obligations	(3,110,641)	(2,700,913)
Payments for early repurchase of long-term debt	(480,000)	(315,495)
Payments for repurchase of ordinary shares	(395,604)	(367,969)
Net proceeds from issuance of ordinary shares	10,523	14,804
Net cash used in financing activities	(408,522)	(606,220)
Effect of exchange rates on cash and cash equivalents	(36,799)	17,038
Net decrease in cash and cash equivalents	(202,706)	(329,498)
Cash and cash equivalents, beginning of period	1,748,471	1,927,556
Cash and cash equivalents, end of period	$ 1,545,765	$ 1,598,058

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

Flextronics International Ltd. (Flextronics 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 leading provider of advanced design and electronics manufacturing services (EMS) to original equipment manufacturers (OEMs) of a broad range of products in the following businesses: data networking, telecom; mobile communication devices; EMS computing; consumer electronics; industrial, semiconductor capital equipment, clean technology, aerospace and defense, white goods; automotive, and medical devices. The Company s strategy is to provide customers with a full range of cost competitive, vertically-integrated global supply chain services through which the Company designs, builds, ships and services a complete packaged product for its OEM customers. OEM customers leverage the Company s services to meet their product requirements throughout the entire product life cycle.

The Company s service offerings include rigid and flexible printed circuit board fabrication, systems assembly and manufacturing (including enclosures, testing services, materials procurement and inventory management), logistics, after-sales services (including product repair, warranty services, re-manufacturing and maintenance) and multiple component product offerings. Additionally, the Company provides market-specific design and engineering services ranging from contract design manufacturing (CDM), where the customer purchases services on a time and materials basis, to original product design and manufacturing services, where the customer purchases a product that was designed, developed and manufactured by the Company (commonly referred to as original design manufacturing, or ODM). ODM products are then sold by the Company s OEM customers under the OEMs brand names. The Company s CDM and ODM services include user interface and industrial design, mechanical engineering and tooling design, electronic system design and printed circuit board design.

2. SUMMARY OF ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

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, 2011 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-month and nine-month periods ended December 31, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2012.

The first quarter for fiscal 2012 and fiscal 2011 ended on July 1, 2011 and July 2, 2010, respectively. The second fiscal quarter for the current year ended on September 30, 2011 and the second fiscal quarter of the prior year ended on October 1, 2010. The Company s third fiscal quarter

ends on December 31, and the fourth fiscal quarter and year ends on March 31 of each year.

Cash and Cash Equivalents

Cash and cash equivalents consisted of the following:

	As of December 31, 2011	As of March 31, 2011
	(In thousands)	
Cash and bank balances	$ 1,161,894	$ 1,372,711
Money market funds and time deposits	383,871	375,760
	$ 1,545,765	$ 1,748,471

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Inventories

The components of inventories, net of applicable lower of cost or market write-downs, were as follows:

		As of December 31, 2011		As of March 31, 2011
		(In thousands)		
Raw materials	$	2,163,079	$	2,271,944
Work-in-progress		626,132		579,047
Finished goods		805,128		699,295
	$	3,594,339	$	3,550,286

Other Current Assets

Other current assets includes approximately $750.3 million and $460.0 million as of December 31, 2011 and March 31, 2011, respectively, for the deferred purchase price receivable from our Global and North American Asset-Backed Securitization programs (see Note 10).

Property and Equipment

Depreciation expense associated with property and equipment was approximately $106.2 million and $314.0 million for the three-month and nine-month periods ended December 31, 2011, respectively and $104.8 million and $296.1 million for the three-month and nine-month periods ended December 31, 2010, respectively.

Goodwill and Other Intangibles

The following table summarizes the activity in the Company s goodwill account during the nine-month period ended December 31, 2011:

		Amount (In thousands)
Balance, beginning of the year	$	93,207
Acquisitions (1)		8,607
Purchase accounting adjustments (2)		592
Foreign currency translation adjustments		(1,113)
Balance, end of the quarter	$	101,293

(1) The amount is attributable to certain acquisitions that were not individually, nor in the aggregate, significant to the Company. The aggregate consideration paid for these acquisitions was approximately $93.7 million, net of cash acquired.

(2) The amount is attributable to purchase accounting adjustments for historical acquisitions that were not significant to the Company individually or in the aggregate. The adjustments are based on management s estimates from review of the valuation of assets and liabilities completed in a period subsequent to the respective acquisition. The effects of the adjustments, had they been made at time of acquisition, would not have had a significant impact on the balance sheet, statement of operations, or statement of cash flows for the periods subsequent to that date.

The components of acquired intangible assets are as follows:

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	As of December 31, 2011			As of March 31, 2011		
	Gross Carrying Amount	Accumulated Amortization (In thousands)	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization (In thousands)	Net Carrying Amount
Intangible assets:						
Customer-related intangibles	$ 305,103	$ (242,111)	$ 62,992	$ 378,412	$ (283,732)	$ 94,680
Licenses and other intangibles	32,697	(12,370)	20,327	44,915	(19,719)	25,196
Total	$ 337,800	$ (254,481)	$ 83,319	$ 423,327	$ (303,451)	$ 119,876

The gross carrying amounts of intangible assets are removed when the recorded amounts have been fully amortized, which is the primary reason for the periodic decrease in the gross carrying amount of intangibles and accumulated amortization. Total intangible amortization expense was $13.9 million and $41.8 million during the three-month and nine-month periods ended December 31, 2011, respectively and was $16.6 million and $56.0 million during the three-month and nine-month periods ended December 31, 2010, respectively. The estimated future annual amortization expense for acquired intangible assets is as follows:

Fiscal Year Ending March 31,	Amount (In thousands)
2012 (1)	$ 9,266
2013	31,414
2014	21,150
2015	11,139
2016	5,805
Thereafter	4,545
Total amortization expense	$ 83,319

(1) Represents estimated amortization for the three-month period ending March 31, 2012.

Recent Accounting Pronouncements

In December 2011, the FASB issued guidance which requires an entity to disclose information about offsetting and related arrangements to enable financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of setoff associated with the entity s recognized financial assets and liabilities, on the entity s financial position. The new disclosures will enable financial statement users to compare balance sheets prepared under U.S. GAAP and International Financial Reporting Standards (IFRS), which are subject to different offsetting models. The disclosures will be limited to financial instruments (and derivatives) subject to enforceable master netting arrangements or similar agreements. Similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Financial instruments and transactions that will be subject to the disclosure requirements may include derivatives, repurchase and reverse repurchase agreements, and securities lending and borrowing arrangements. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The guidance is effective for the Company beginning in fiscal 2014. The Company is currently evaluating the potential impact, if any, of the adoption of this guidance on its consolidated financial statements.

In September 2011, the FASB revised guidance for testing goodwill for impairment. Under the revised guidance, entities testing goodwill for impairment have the option of performing a qualitative assessment before calculating the fair value of a reporting unit in step one of the goodwill impairment test. If entities determine, on the basis of qualitative factors, that the fair value of a reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. Otherwise, further testing would not be needed. The guidance is effective for the Company beginning in the first quarter of fiscal 2013. Early adoption is permitted.

In June 2011, the FASB issued a new accounting standard which revises the manner in which entities present comprehensive income in their financial statements. The new guidance removes the presentation options in ASC 220 and requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. For the Company, this new guidance is effective as of April 1, 2012.

In May 2011, the FASB amended fair value measurement and disclosure guidance to achieve convergence with IFRS. The amended guidance modifies the measurement of fair value, clarifies verbiage, and changes disclosure or other requirements in US

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GAAP and IFRS. The guidance is effective for the Company as of January 1, 2012.

In October 2009, the FASB issued amendments to the accounting and disclosure requirements for revenue recognition. These amendments modify the criteria for recognizing revenue in multiple element arrangements. The Company adopted the provisions of this guidance prospectively to new or materially modified arrangements beginning April 1, 2011. The adoption of this new guidance did not have a material impact on the Company s consolidated financial position and results of operations.

3. STOCK-BASED COMPENSATION

During the nine-month period ended December 31, 2011, the Company granted equity compensation awards under the 2010 Equity Incentive Plan (the 2010 Plan). For further discussion of the 2010 Plan, refer to Note 2, Summary of Accounting Policies, of the Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2011.

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

	Three-Month Periods Ended		Nine-Month Periods Ended	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
	(In thousands)		(In thousands)	
Cost of sales	$ 2,021	$ 2,553	$ 6,328	$ 7,924
Selling, general and administrative expenses	9,961	11,265	32,179	34,314
Total stock-based compensation expense	$ 11,982	$ 13,818	$ 38,507	$ 42,238

For the nine-month period ended December 31, 2011, the Company granted 599,800 stock options, at a weighted average fair value per option of $2.57. Total unrecognized compensation expense related to stock options is $12.0 million, net of estimated forfeitures, and will be recognized over a weighted average remaining vesting period of 1.1 years.

As of December 31, 2011, the number of options outstanding and exercisable was 48.4 million and 39.8 million, respectively, at weighted average exercise prices of $7.55 and $8.15 per share, respectively.

The following table summarizes restricted share unit award activity for the Company s equity compensation plans during the nine-month period ended December 31, 2011:

	Number of Shares	Weighted Average Grant-Date Fair Value

Unvested restricted share unit awards as of March 31, 2011	13,801,942	$	8.04
Granted	8,597,305		6.64
Vested	(2,254,398)		9.95
Forfeited	(3,368,125)		9.06
Unvested restricted share unit awards as of December 31, 2011	16,776,724	$	6.86

Of the 8.6 million restricted share unit awards granted during the nine-month period ended December 31, 2011, approximately 1.5 million represents the target amount of grants made to certain key employees whereby vesting is contingent on meeting a certain market condition. The number of shares that ultimately will vest are based on a measurement of Flextronics s total shareholder return against the Standard and Poor s (S&P) 500 Composite Index and will vest over a period of four years. The actual number of shares issued can range from zero to 2.2 million. The average grant-date fair value of these awards was estimated to be $7.78 per share and was calculated using a Monte Carlo simulation.

As of December 31, 2011, total unrecognized compensation expense related to unvested restricted share unit awards is $70.0 million, net of estimated forfeitures, and will be recognized over a weighted average remaining vesting period of 2.9 years. Approximately $12.6 million of the total unrecognized compensation cost, net of estimated forfeitures, is related to awards whereby vesting is contingent on meeting a certain market condition.

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4. EARNINGS PER SHARE

The following table reflects the basic and diluted weighted-average ordinary shares outstanding used to calculate basic and diluted earnings per share:

	Three-Month Periods Ended		Nine-Month Periods Ended	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
	(In thousands, except per share amounts)			
Basic earnings per share:				
Net income	$ 102,177	$ 198,290	$ 364,032	$ 460,884
Shares used in computation:				
Weighted-average ordinary shares outstanding	710,324	762,387	726,432	783,128
Basic earnings per share	$ 0.14	$ 0.26	$ 0.50	$ 0.59
Diluted earnings per share:				
Net income	$ 102,177	$ 198,290	$ 364,032	$ 460,884
Shares used in computation:				
Weighted-average ordinary shares outstanding	710,324	762,387	726,432	783,128
Weighted-average ordinary share equivalents from stock options and awards (1)	10,570	14,208	10,823	11,833
Weighted-average ordinary shares and ordinary share equivalents outstanding (2)	720,894	776,595	737,255	794,961
Diluted earnings per share	$ 0.14	$ 0.26	$ 0.49	$ 0.58

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(1) Ordinary share equivalents from stock options to purchase approximately 24.8 million shares and 25.3 million shares outstanding during the three-month periods ended December 31, 2011 and December 31, 2010, were excluded from the computation of diluted earnings per share primarily because the exercise price of these options was greater than the average market price of the Company s ordinary shares during the respective periods. Ordinary share equivalents from stock options to purchase approximately 26.2 million shares and 25.7 million shares outstanding during the nine-month periods ended December 31, 2011 and December 31, 2010, were excluded from the computation of diluted earnings per share primarily because the exercise price of these options was greater than the average market price of the Company s ordinary shares during the respective periods.

(2) On August 2, 2010 the Company paid approximately $240.0 million to redeem its 1% Convertible Subordinated Notes upon maturity. The notes carried conversion provisions to issue shares to settle any conversion spread (excess of the conversion value over the conversion price) in stock. The conversion price was $15.525 per share (subject to certain adjustments). On the maturity date, the Company s stock price was less than the conversion spread, and therefore no shares were issued. During the nine-month period ended December 31, 2010, the conversion obligation was less than the principal portion of these notes and accordingly, no additional shares were included as ordinary share equivalents.

5. COMPREHENSIVE INCOME

The following table summarizes the components of comprehensive income, net of tax:

	Three-Month Periods Ended		Nine-Month Periods Ended	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
	(In thousands)		(In thousands)	
Net income	$ 102,177	$ 198,290	$ 364,032	$ 460,884
Other comprehensive income:				
Foreign currency translation adjustments	(5,897)	(543)	(41,654)	13,966
Unrealized gain (loss) on derivative instruments, and other	14,962	(7,367)	(29,182)	19,141
Comprehensive income	$ 111,242	$ 190,380	$ 293,196	$ 493,991

6. BANK BORROWINGS, LONG-TERM DEBT & CAPITAL LEASE OBLIGATIONS

On October 19, 2011, the Company entered into a five-year $2.0 billion credit facility (New Credit Facility) consisting of a $1.5 billion revolving credit facility (New Revolving Credit Facility) and a $500 million term loan facility (New Term Loan Facility), which expires in October 2016. The New Revolving Credit Facility replaced the Company s previous $2.0 billion revolving credit facility, which was due to expire in May 2012. The New Term Loan Facility refinanced one tranche of the Company s $1.7 billion Term Loan Agreement dated October 1, 2007 that was scheduled to mature in October 2012. Borrowings under the New Credit Facility bear interest, at the Company s option, either at (i) LIBOR plus the applicable margin for LIBOR loans ranging between

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1.25% and 2.25%, based on the Company s credit ratings or (ii) the base rate (the greatest of the agent s prime rate, the federal funds rate plus 0.50% and LIBOR for a one-month interest period plus 1.00%) plus an applicable margin ranging between 0.25% and 1.25% (based on the Company s credit rating). The Company is required to pay a quarterly commitment fee ranging between 0.20% and 0.45% per annum on the daily unused amount of the New Revolving Credit Facility based on the Company s credit rating. The following table presents remaining scheduled repayments under the New Term Loan Facility by fiscal year:

Fiscal Year Ending March 31,		**Amount (In thousands)**
2012	$	6,250
2013		25,000
2014		31,250
2015		37,500
2016		37,500
2017		356,250
Total	$	493,750

The New Credit Facility is unsecured, and contains customary restrictions on the Company s and its subsidiaries ability 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 exceptions and limitations. The New 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, as defined therein, during its term.

The Company was in compliance with the covenants under each of its debt facilities existing as at December 31, 2011.

7. OTHER CHARGES, NET

During the three-month period ended December 31, 2010, the Company recognized a loss associated with the early redemption of its 6.25% Senior Subordinated Notes of approximately $13.2 million, consisting of the redemption price premium of approximately $6.3 million, and approximately $6.9 million primarily for the write-off of the unamortized debt issuance costs.

During the nine-month period ended December 31, 2010, in addition to the loss on early redemption of its notes as discussed above, the Company recognized a loss of approximately $11.7 million in connection with the divestiture of certain international entities and a gain of approximately $18.6 million associated with the sale of an equity investment that was previously fully impaired.

8. INTEREST AND OTHER EXPENSE, NET

During the three-month and nine-month periods ended December 31, 2011, the Company recognized interest expense of $18.3 million and $51.1 million, respectively, on its debt obligations outstanding during the period. During the three-month and nine-month periods ended December 31,

2010, the Company recognized interest expense of $21.4 million and $79.7 million, respectively.

During the three-month and nine-month periods ended December 31, 2011, the Company recognized gains on foreign exchange transactions of $11.5 million and $33.1 million, respectively. During the three-month and nine-month periods ended December 31, 2010, the Company recognized gains on foreign exchange transactions of $12.9 million and $21.4 million, respectively.

9. FINANCIAL INSTRUMENTS

Foreign Currency Contracts

The Company enters into forward contracts and foreign currency swap contracts 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, 2011, the aggregate notional amount of the Company s outstanding foreign currency forward and swap contracts was $2.7 billion as summarized below:

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Currency	Foreign Currency Amount Buy	Foreign Currency Amount Sell	Notional Contract Value in USD Buy	Notional Contract Value in USD Sell
		(In thousands)		
Cash Flow Hedges				
CNY	1,118,000		$ 176,932	$
EUR	35,197	3,875	45,414	5,037
HUF	17,309,000		71,295	
ILS	154,350		40,374	
MXN	958,600		68,459	
MYR	352,400		110,905	
SGD	50,918		39,021	
Other	N/A	N/A	49,094	3,220
			601,494	8,257
Other Forward/Swap Contracts				
BRL	114,100	188,000	60,627	99,894
CAD	41,952	105,343	41,188	103,559
EUR	285,673	235,175	371,878	308,363
GBP	15,654	36,074	24,184	55,465
HUF	9,815,500	10,559,300	40,430	43,493
JPY	5,509,058	2,701,874	70,821	34,860
MXN	866,360	384,720	61,872	27,475
MYR	182,251	20,623	57,357	6,490
SEK	2,423,372	821,309	349,312	118,582
Other	N/A	N/A	134,503	62,234
			1,212,172	860,415
Total Notional Contract Value in USD			$ 1,813,666	$ 868,672

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 expense, net in the Condensed Consolidated Statements of Operations. Gains or losses from fair value adjustments for these instruments are designed to offset losses and gains from the Company s revaluation of monetary assets and liabilities denominated in a non-functional currency. As of December 31, 2011 and March 31, 2011, the Company also has included net deferred gains and losses, respectively, in other comprehensive income, a component of shareholders equity in the Condensed Consolidated Balance Sheets, relating to changes in fair value of its foreign currency contracts that are accounted for as cash flow hedges. These deferred gains and losses were not material, and the deferred losses as of December 31, 2011 are expected to be recognized as a component of cost of sales 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 expense, net in the Condensed Consolidated Statements of Operations.

The following table presents the fair value of the Company s derivative instruments located on the Condensed Consolidated Balance Sheets utilized for foreign currency risk management purposes:

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	Fair Values of Derivative Instruments					
	Asset Derivatives			Liability Derivatives		
		Fair Value			Fair Value	
	Balance Sheet Location	December 31, 2011	March 31, 2011	Balance Sheet Location	December 31, 2011	March 31, 2011
	(In thousands)					
Derivatives designated as hedging instruments						
Foreign currency contracts	Other current assets	$ 948	$ 19,579	Other current liabilities	$ (24,725)	$ (778)
Derivatives not designated as hedging instruments						
Foreign currency contracts	Other current assets	$ 23,742	$ 4,492	Other current liabilities	$ (18,269)	$ (6,122)

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, 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. The Company maintains a continuing involvement in the receivables sold as a result of the deferred purchase price. The investment limits by the financial institutions are $500.0 million for the Global Program and $300.0 million for the North American Program and require a minimum level of deferred purchase price receivable to be retained by the Company in connection with the sales.

Servicing fees recognized during the three-month and nine-month periods ended December 31, 2011 and December 31, 2010 were not material and are included in Interest and other expense, 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, 2011, approximately $1.4 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 $600.7 million and deferred purchase price receivables of approximately $750.3 million. As of March 31, 2011, approximately $1.0 billion of accounts receivable had been sold to the special purpose entities for which the Company had received net cash proceeds of $545.0 million and deferred purchase price receivables of approximately $460.0 million. The deferred purchase price receivables are included in other current assets as of December 31, 2011 and March 31, 2011. Retained interests consisted primarily of the Company s investment participation in the sold receivables and were carried at the expected recovery amount of the related receivables; such amounts were included in other current assets in the Condensed Consolidated Balance Sheets. 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 expense, net in the Condensed Consolidated Statements of Operations; such amounts were $2.5 million and $8.8 million for the three-month and nine-month

periods ended December 31, 2011, respectively and were $2.4 million and $13.1 million for the three-month and nine-month periods ended December 31, 2010, respectively.

As of December 31, 2011 and March 31, 2011, 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. As discussed more fully in the Company s Annual Report on Form 10-K, upon adoption of two new accounting standards on April 1, 2010, the balance of receivables sold for cash under the Global Program as of March 31, 2010, totaling $217.1 million, was recorded as accounts receivables and short-term bank borrowings in the opening balance sheet of fiscal 2011. Upon collection of these receivables the Company recorded cash from operations offset by repayments of bank borrowings from financing activities in the Condensed Consolidated Statements of Cash Flows during the nine-month period ended December 31, 2010.

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For the nine-month periods ended December 31, 2011 and December 31, 2010, cash flows from sales of receivables under the ABS Programs consisted of approximately $3.6 billion and $1.5 billion for transfers of receivables, respectively (of which approximately $0.4 billion and $0.5 billion, respectively represented new transfers and the remainder proceeds from collections reinvested in revolving-period transfers).

The following table summarizes the activity in the deferred purchase price receivables account during the nine-month periods ended December 31, 2011 and December 31, 2010:

	Nine-Month Period Ended December 31, 2011 (In thousands)		Nine-Month Period Ended December 31, 2010 (In thousands)	
Beginning balance	$	459,994	$	135,401
Transfers of receivables		4,072,482		2,395,398
Collections		(3,782,161)		(1,709,560)
Ending balance	$	750,315	$	821,239

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 was approximately $54.1 million and $109.7 million as of December 31, 2011 and March 31, 2011, respectively. For the nine-month periods ended December 31, 2011 and December 31, 2010, total accounts receivable sold to certain third party banking institutions was approximately $1.6 billion and $1.9 billion, respectively. The receivables that were sold were removed from the Condensed Consolidated Balance Sheets and were 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.

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); 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 include foreign currency and interest spot and forward rates quoted by banks or foreign currency dealers.

The Company s cash equivalents are comprised of bank deposits and money market accounts, 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.

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 values deferred purchase price receivables relating to its Asset-Backed Securitization Program 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 and due to its high credit quality and short term maturity their fair value approximates carrying value.

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There were no transfers between levels in the fair value hierarchy during the three-month and nine-month periods ended December 31, 2011 and December 31, 2010.

Financial Instruments Measured at Fair Value on a Recurring Basis

The following table presents the Company s assets and liabilities measured at fair value on a recurring basis as of December 31, 2011 and March 31, 2011:

	Fair Value Measurements as of December 31, 2011			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Money market funds and time deposits (Note 2)	$	$ 383,871	$	$ 383,871
Deferred purchase price receivable (Note 10)			750,315	750,315
Foreign exchange forward contracts (Note 9)		24,690		24,690
Liabilities:				
Foreign exchange forward contracts (Note 9)	$	$ 42,994	$	$ 42,994

	Fair Value Measurements as of March 31, 2011			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Money market funds and time deposits (Note 2)	$	$ 375,760	$	$ 375,760
Deferred purchase price receivable (Note 10)			460,000	460,000
Foreign exchange forward contracts (Note 9)		24,071		24,071
Liabilities:				
Foreign exchange forward contracts (Note 9)	$	$ (6,900)	$	$ (6,900)

Other financial instruments

The following table presents the Company s liabilities not carried at fair value as at December 31, 2011 and March 31, 2011:

	As of December 31, 2011		As of March 31, 2011		
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Fair Value Hierarchy
	(In thousands)		(In thousands)		
Revolving credit facility	$ 140,000	$ 140,000	$ 160,000	$ 160,000	Level 2
Term loan dated October 1, 2007	1,182,680	1,173,892	1,674,435	1,662,714	Level 1
Term loan dated October 19, 2011	493,750	477,703			Level 1
Asia term loans	377,500	374,695	379,000	376,347	Level 2

Total	$ 2,193,930	$ 2,166,290	$ 2,213,435	$ 2,199,061

Revolving credit facility - The carrying amount approximates fair value because of the short period to maturity of those instruments.

Term loans dated October 1, 2007 and October 19, 2011 - The term loans are valued based on broker trading prices in active markets.

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Asia term loans - The Company s Asia Term Loans are not traded publicly; however, as the pricing, maturity and other pertinent terms of these loans closely approximate those of the Term Loan Agreement dated October 1, 2007, management estimates the respective trading prices would be approximately the same.

Assets held for sale

As of December 31, 2011 and March 31, 2011, assets that were no longer in use and held for sale totaled approximately $25.9 million and $27.1 million, respectively, primarily representing manufacturing facilities that have been closed as part of the Company s historical facility consolidations. These assets are recorded at the lesser of carrying value or fair value, which is based on comparable sales from prevailing market data (level two inputs). There were no material fair value adjustments or other transfers between levels in the fair value hierarchy for these assets during the three-month and nine-month periods ended December 31, 2011 and December 31, 2010.

12. RESTRUCTURING CHARGES

During the nine-month period ended December 31, 2011, the Company paid $15.2 million for restructuring charges recorded in fiscal year 2010 and prior; the Company has essentially completed all activities associated with previously announced plans and the remaining restructuring accrual as at December 31, 2011 was not significant. Additionally, there were no changes to any of the previously announced plans in the nine-month period. While the Company incurs severance, asset impairment charges and other facilities charges as a result of changes in its customer mix on an ongoing basis, such individual actions were not considered material to be separately disclosed as restructuring charges, and are included in either cost of sales or selling, general and administrative expenses, as appropriate. The amount of accrued liabilities related to these actions at December 31, 2011 was not significant.

13. BUSINESS AND ASSET ACQUISITIONS

Business Acquisitions

During the nine-month periods ended December 31, 2011 and December 31, 2010, the Company completed three acquisitions in each period that were not individually, nor in the aggregate, significant to the Company s consolidated financial position, results of operations and cash flows. The aggregate purchase consideration which was paid in cash for these acquisitions and contingent consideration related to certain prior period acquisitions during the nine-month periods ended December 31, 2011 and December 31, 2010 totaled approximately $93.7 million and $9.1 million, net of cash acquired, respectively. The acquired businesses expanded the Company s capabilities in the communications market. The Company primarily acquired inventory and certain other manufacturing assets and recorded goodwill of $8.6 million in connection with the acquisitions made during the nine-month period ended December 31, 2011.

14. COMMITMENTS AND CONTINGENCIES

On June 4, 2007, a shareholder class action lawsuit was filed in Santa Clara County Superior Court. The lawsuit arose out of the merger with Solectron Corp. in 2007 and other defendants included selected officers of the Company, Solectron and Solectron s former directors and officers. On behalf of the class, the plaintiff sought compensatory, rescissory, and other forms of damages, as well as attorneys fees and costs. On August 12, 2010, the Court certified a class of all former Solectron shareholders that were entitled to vote and receive cash or shares of the Company s stock in exchange for their shares of Solectron stock following the merger. On April 21, 2011, the Court granted a request by the plaintiff s counsel to withdraw as class counsel, and ordered the plaintiff to retain new counsel by June 24, 2011. The plaintiff failed to do so, thus on June 28, 2011, the Court issued an order to show cause as to why the case should not be dismissed. On August 12, 2011, the plaintiff failed to obtain new class counsel and the Court granted a one month extension to obtain new class counsel. On September 26, 2011, the plaintiff failed to obtain new class counsel and the Court dismissed the case without prejudice. The plaintiff had 60 days to appeal the Court s decision and no such appeal was made. As a result, the matter is closed.

In addition, from time to time, the Company is subject to other legal proceedings, claims, and litigation arising in the ordinary course of business. The Company defends itself vigorously against any such claims. Although the outcome of these matters is currently not determinable, management expects that any losses that are probable or reasonably possible of being incurred as a result of these matters, which are in excess of amounts already accrued in its consolidated balance sheet would not be material to the financial statements as a whole.

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15. SHARE REPURCHASES

On July 18, 2011, the Company s Board of Directors authorized the repurchase of $200.0 million of the Company s outstanding ordinary shares which was approved by the Company s shareholders at the 2011 Extraordinary General Meeting on July 22, 2011. Share repurchases by the Company under the share repurchase plans are subject to an aggregate limit of 10% of its ordinary shares outstanding as of the date of the Extraordinary General Meeting held in July 2011. On December 22, 2011, the Company s Board of Directors authorized the repurchase of the remaining balance of ordinary shares outstanding not to exceed the 10% limitation. During the nine-month period ended December 31, 2011, the Company repurchased approximately 66.9 million shares for an aggregate purchase price of approximately $415.8 million, and retired all of these shares. During the second quarter of fiscal 2012, the Company retired an additional 23.5 million shares which were repurchased in the prior periods. As of December 31, 2011, approximately 35 million shares were available to be repurchased under the plans.

During the nine-month period ended December 31, 2010, the Company repurchased approximately 60.9 million shares for an aggregate purchase price of approximately $368.0 million, and did not retire any shares.

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