

FLEXTRONICS INTERNATIONAL LTD.
Form 10-Q
October 26, 2012
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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 September 28, 2012

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

FLEXTRONICS INTERNATIONAL LTD.

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(Exact name of registrant as specified in its charter)

Singapore (State or other jurisdiction of incorporation or organization)	Not Applicable (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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

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 October 22, 2012
Ordinary Shares, No Par Value	663,220,260

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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 September 28, 2012, the related condensed consolidated statements of operations and of comprehensive income for the three-month and six-month periods ended September 28, 2012 and September 30, 2011, and the condensed consolidated statements of cash flows for the six-month periods ended September 28, 2012 and September 30, 2011. 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, 2012, 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 25, 2012, 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, 2012 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

October 26, 2012

Table of Contents**FLEXTRONICS INTERNATIONAL LTD.****CONDENSED CONSOLIDATED BALANCE SHEETS**

	As of September 28, 2012	As of March 31, 2012
	(In thousands, except share amounts) (Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,561,569	\$ 1,518,329
Accounts receivable, net of allowance for doubtful accounts of \$15,028 and \$39,071 as of September 28, 2012 and March 31, 2012, respectively	2,400,558	2,593,829
Inventories	3,121,534	3,300,791
Current assets of discontinued operations	19,818	21,642
Other current assets	1,337,766	1,099,959
Total current assets	8,441,245	8,534,550
Property and equipment, net	2,179,297	2,076,442
Goodwill and other intangible assets, net	299,934	159,924
Long-term assets of discontinued operations	6,692	41,417
Other assets	262,100	221,471
Total assets	\$ 11,189,268	\$ 11,033,804
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Bank borrowings, current portion of long-term debt and capital lease obligations	\$ 218,955	\$ 42,467
Accounts payable	4,208,471	4,294,873
Accrued payroll	379,407	345,337
Current liabilities of discontinued operations	19,521	24,854
Other current liabilities	1,597,969	1,580,654
Total current liabilities	6,424,323	6,288,185
Long-term debt and capital lease obligations, net of current portion	1,876,756	2,157,798
Other liabilities	435,246	303,842
Commitments and contingencies (Note 11)		
Shareholders' equity		
Ordinary shares, no par value; 717,364,229 and 733,979,527 issued, and 667,124,874 and 683,740,173 outstanding as of September 28, 2012 and March 31, 2012, respectively	8,187,184	8,292,370
Treasury shares, at cost; 50,239,355 shares as of September 28, 2012 and March 31, 2012	(388,215)	(388,215)
Accumulated deficit	(5,300,720)	(5,579,739)
Accumulated other comprehensive loss	(45,306)	(40,437)
Total shareholders' equity	2,452,943	2,283,979
Total liabilities and shareholders' equity	\$ 11,189,268	\$ 11,033,804

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

Table of Contents**FLEXTRONICS INTERNATIONAL LTD.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three-Month Periods Ended		Six-Month Periods Ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
(In thousands, except per share amounts)				
(Unaudited)				
Net sales	\$ 6,174,841	\$ 8,008,428	\$ 12,150,836	\$ 15,503,716
Cost of sales	5,808,069	7,635,910	11,426,707	14,730,422
Gross profit	366,772	372,518	724,129	773,294
Selling, general and administrative expenses	192,183	210,378	382,527	422,198
Intangible amortization	7,265	11,459	15,074	23,580
Interest and other expense (income), net	(10,450)	1,419	335	23,668
Income from continuing operations before income taxes	177,774	149,262	326,193	303,848
Provision for income taxes	17,321	15,313	28,971	32,594
Income from continuing operations	160,453	133,949	297,222	271,254
Loss from discontinued operations, net of tax	(9,906)	(4,069)	(18,203)	(9,399)
Net income	\$ 150,547	\$ 129,880	\$ 279,019	\$ 261,855
Earnings per share:				
Income from continuing operations:				
Basic	\$ 0.24	\$ 0.19	\$ 0.44	\$ 0.37
Diluted	\$ 0.24	\$ 0.18	\$ 0.44	\$ 0.36
Loss from discontinued operations:				
Basic	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.01)
Diluted	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.01)
Net income:				
Basic	\$ 0.23	\$ 0.18	\$ 0.42	\$ 0.36
Diluted	\$ 0.22	\$ 0.18	\$ 0.41	\$ 0.35
Weighted-average shares used in computing per share amounts:				
Basic	666,265	722,208	670,816	734,485
Diluted	678,086	731,049	683,171	745,436

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

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	Three-Month Periods Ended		Six-Month Periods Ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
	(In thousands)			
	(Unaudited)			
Net income	\$ 150,547	\$ 129,880	\$ 279,019	\$ 261,855
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of zero tax	21,135	(35,830)	(10,972)	(35,757)
Unrealized gain (loss) on derivative instruments and other, net of zero tax	22,218	(37,347)	6,103	(44,144)
Comprehensive income	\$ 193,900	\$ 56,703	\$ 274,150	\$ 181,954

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

Table of Contents**FLEXTRONICS INTERNATIONAL LTD.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six-Month Periods Ended	
	September 28, 2012	September 30, 2011
	(In thousands)	
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 279,019	\$ 261,855
Depreciation, amortization and other impairment charges	229,700	237,498
Changes in working capital and other	19,126	(62,473)
Net cash provided by operating activities	527,845	436,880
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(264,471)	(260,703)
Proceeds from the disposition of property and equipment	19,275	23,760
Acquisition of businesses, net of cash acquired	7,834	(21,426)
Proceeds from divestiture of business, net of cash held in divested business	16,472	
Other investing activities, net	(58,077)	2,408
Net cash used in investing activities	(278,967)	(255,961)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from bank borrowings and long-term debt	160,185	1,616,545
Repayments of bank borrowings, long-term debt and capital lease obligations	(272,211)	(1,620,748)
Payments for repurchase of ordinary shares	(134,014)	(306,057)
Net proceeds from issuance of ordinary shares	10,636	6,230
Other financing activities, net	31,273	
Net cash used in financing activities	(204,131)	(304,030)
Effect of exchange rates on cash and cash equivalents	(1,507)	(29,651)
Net increase (decrease) in cash and cash equivalents	43,240	(152,762)
Cash and cash equivalents, beginning of period	1,518,329	1,748,471
Cash and cash equivalents, end of period	\$ 1,561,569	\$ 1,595,709

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 global provider of vertically-integrated advanced design, manufacturing and services to original equipment manufacturers (OEMs) of a broad range of electronic products in the following markets: High Reliability Solutions (HRS), which is comprised of our medical, automotive, and defense and aerospace businesses; High Velocity Solutions (HVS), which includes our mobile devices business, including smart phones, consumer electronics, including game consoles, high-volume computing business, including notebook personal computing (PC), tablets, printers, and our original design manufacturing (ODM) PC business which we exited in fiscal 2012; Industrial and Emerging Industries (IEI), which is comprised of our white goods, equipment, and emerging industries businesses; and Integrated Network Solutions (INS), which includes our telecommunications infrastructure, data networking, connected home, and server and storage businesses. 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 can design, build, ship and service 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), supply chain management software solutions and component product offerings. Additionally, the Company provides a comprehensive range of value-added design and engineering services that are tailored to the various markets and needs of its customers.

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 fina