FLEXTRONICS INTERNATIONAL LTD.
Form 10-Q
November 03, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

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

For the quarterly period ended October 1, 2010

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	**486123**
(Address of registrant s principal executive offices)	*(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 þ 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 þ 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 þ	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 þ

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 28, 2010
Ordinary Shares, No Par Value	766,200,284

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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 October 1, 2010, and the related condensed consolidated statements of operations for the three-month and six-month periods ended October 1, 2010 and October 2, 2009, and of cash flows for the six-month periods ended October 1, 2010 and October 2, 2009. 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.

As discussed in Notes 2 and 8 to the condensed consolidated financial statements, on April 1, 2010 the Company adopted new accounting standards related to the accounting for variable interest entities and the transfers of financial assets.

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, 2010, 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 21, 2010, 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, 2010 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
November 3, 2010

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FLEXTRONICS INTERNATIONAL LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS

	As of October 1, 2010	As of March 31, 2010
	(In thousands, except share amounts) (Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,788,196	$ 1,927,556
Accounts receivable, net of allowance for doubtful accounts of $11,518 and $13,163 as of October 1, 2010 and March 31, 2010, respectively	2,978,359	2,438,950
Inventories	3,638,637	2,875,819
Other current assets	964,970	747,676
Total current assets	9,370,162	7,990,001
Property and equipment, net	2,175,946	2,118,576
Goodwill and other intangible assets, net	226,824	254,717
Other assets	236,705	279,258
Total assets	$ 12,009,637	$ 10,642,552
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Bank borrowings, current portion of long-term debt and capital lease obligations	$ 19,881	$ 266,551
Accounts payable	5,713,561	4,447,968
Accrued payroll	379,363	347,324
Other current liabilities	1,377,228	1,285,368
Total current liabilities	7,490,033	6,347,211
Long-term debt and capital lease obligations, net of current portion	2,212,727	1,990,258
Other liabilities	287,296	320,516
Commitments and contingencies (Note 10)		
Shareholders equity		
Ordinary shares, no par value; 846,818,714 and 843,208,876 shares issued, and 765,933,642 and 813,429,154 outstanding as of October 1, 2010 and March 31, 2010, respectively	8,956,115	8,924,769
Treasury stock, at cost; 80,885,072 and 29,779,722 shares as of October 1, 2010 and March 31, 2010, respectively	(560,017)	(260,074)
Accumulated deficit	(6,402,129)	(6,664,723)
Accumulated other comprehensive income (loss)	25,612	(15,405)
Total shareholders equity	2,019,581	1,984,567
Total liabilities and shareholders equity	$ 12,009,637	$ 10,642,552

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		Six-Month Periods Ended	
	October 1, 2010	October 2, 2009	October 1, 2010	October 2, 2009
	(In thousands, except per share amounts) (Unaudited)			
Net sales	$ 7,422,338	$ 5,831,761	$ 13,988,218	$ 11,614,440
Cost of sales	7,024,691	5,519,778	13,219,753	11,026,353
Restructuring charges		12,403		64,512
Gross profit	397,647	299,580	768,465	523,575
Selling, general and administrative expenses	198,954	176,246	394,672	377,938
Intangible amortization	21,439	22,710	39,429	46,044
Restructuring charges		187		12,917
Other charges, net		91,999		199,398
Interest and other expense, net	22,838	38,091	50,367	74,977
Income (loss) before income taxes	154,416	(29,653)	283,997	(187,699)
Provision for (benefit from) income taxes	10,000	(49,312)	21,403	(53,315)
Net income (loss)	$ 144,416	$ 19,659	$ 262,594	$ (134,384)
Earnings (loss) per share:				
Basic	$ 0.19	$ 0.02	$ 0.33	$ (0.17)
Diluted	$ 0.18	$ 0.02	$ 0.33	$ (0.17)
Weighted-average shares used in computing per share amounts:				
Basic	776,362	811,364	793,499	810,769
Diluted	784,271	817,260	804,144	810,769

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

	Six-Month Periods Ended October 1, 2010	October 2, 2009
	(In thousands) (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 262,594	$ (134,384)
Depreciation, amortization and other impairment charges	230,714	466,472
Changes in working capital and other	104,211	86,316
Net cash provided by operating activities	597,519	418,404
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(273,172)	(95,891)
Proceeds from the disposition of property and equipment	51,438	15,728
Acquisition of businesses, net of cash acquired	(2,502)	(59,055)
Other investments and notes receivable, net	13,123	255,281
Net cash (used in) provided by investing activities	(211,113)	116,063
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from bank borrowings and long-term debt	1,249,515	786,909
Repayments of bank borrowings, long-term debt and capital lease obligations	(1,491,192)	(992,449)
Payments for repurchase of long-term debt	(7,029)	(203,183)
Payments for repurchase of ordinary shares	(299,943)	
Net proceeds from issuance of ordinary shares	3,309	3,423
Net cash used in financing activities	(545,340)	(405,300)
Effect of exchange rates on cash	19,574	15,441
Net (decrease) increase in cash and cash equivalents	(139,360)	144,608
Cash and cash equivalents, beginning of period	1,927,556	1,821,886
Cash and cash equivalents, end of period	$ 1,788,196	$ 1,966,494

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 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 markets: infrastructure; mobile communication devices; computing; consumer digital devices; industrial, semiconductor capital equipment, clean technology, aerospace and defense, and white goods; automotive and marine; 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 printed circuit board and flexible circuit fabrication, systems assembly and manufacturing (including enclosures, testing services, materials procurement and inventory management), logistics, after-sales services (including product repair, re-manufacturing and maintenance) and multiple component product offerings. Additionally, the Company provides market-specific design and engineering services ranging from contract design services (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. The Company also provides after market services such as logistics, repair and warranty services.

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, 2010 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 six-month periods ended October 1, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ended March 31, 2011.

The first fiscal quarters ended on July 2, 2010 and July 3, 2009, respectively, and the second fiscal quarters ended on October 1, 2010 and October 2, 2009, respectively. The Company s third fiscal quarter ends on December 31, and the fourth fiscal quarter and year ends on March 31 of each year.

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Inventories

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

	As of October 1, 2010	As of March 31, 2010
	(In thousands)	
Raw materials	$ 2,433,012	$ 1,874,244
Work-in-progress	607,718	480,216
Finished goods	597,907	521,359
	$ 3,638,637	$ 2,875,819

Property and Equipment

Depreciation expense associated with property and equipment amounted to approximately $97.8 million and $191.3 million for the three-month and six-month periods ended October 1, 2010, respectively, and $91.5 million and $186.0 million for the three-month and six-month periods ended October 2, 2009, respectively.

Goodwill and Other Intangibles

The following table summarizes the activity in the Company s goodwill account during the six-month period ended October 1, 2010:

	Amount (In thousands)
Balance, beginning of the year, net of accumulated impairment of $5,949,977	$ 84,360
Acquisitions (1)	2,358
Purchase accounting adjustments (2)	1,170
Foreign currency translation adjustments	156
Balance, end of the quarter, net of accumulated impairment of $5,949,977	$ 88,044

(1) Balance is attributable to certain acquisitions that were not individually, nor in the aggregate, significant to the Company. Refer to the discussion of the Company s acquisitions in Note 11, Business and Asset Acquisitions.

(2) Includes adjustments and reclassifications resulting from management s review of the valuation of assets and liabilities acquired through certain business combinations completed in a period subsequent to the respective acquisition, based on management s estimates. The amount was attributable to purchase accounting adjustments for certain historical acquisitions that were not individually, nor in the aggregate, significant to the Company.

The components of acquired intangible assets are as follows:

	As of October 1, 2010			As of March 31, 2010		
	Gross Carrying Amount	**Accumulated Amortization (In thousands)**	**Net Carrying Amount**	**Gross Carrying Amount**	**Accumulated Amortization (In thousands)**	**Net Carrying Amount**
Intangible assets:						
Customer-related	$ 485,154	$ (362,133)	$ 123,021	$ 506,595	$ (355,409)	$ 151,186
Licenses and other	42,893	(27,134)	15,759	54,792	(35,621)	19,171
Total	$ 528,047	$ (389,267)	$ 138,780	$ 561,387	$ (391,030)	$ 170,357

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The gross carrying amounts of intangible assets are removed when the recorded amounts have been fully amortized. Total intangible amortization expense was $21.4 million and $39.4 million during the three-month and six-month periods ended October 1, 2010, respectively, and $22.7 million and $46.0 million during the three-month and six-month periods ended October 2, 2009, respectively. The estimated future annual amortization expense for acquired intangible assets is as follows:

Fiscal Year Ending March 31,	Amount (In thousands)
2011 (1)	$ 30,583
2012	43,497
2013	29,448
2014	19,389
2015	9,506
Thereafter	6,357
Total amortization expense	$ 138,780

(1) Represents estimated amortization for the six-month period ending March 31, 2011.

Other Assets

The Company has certain equity investments in non-publicly traded companies which are included within other assets in the Company s Condensed Consolidated Balance Sheets. As of October 1, 2010 and March 31, 2010, the Company s equity investments in these non-publicly traded companies totaled $33.3 million and $27.3 million, respectively. The Company monitors these investments for impairment and makes appropriate reductions in carrying values as required. Fair values of these investments, when required, are estimated using unobservable inputs, which are primarily discounted cash flow projections.

During the three-month and six-month periods ended October 1, 2010, the Company recognized a gain of approximately $13.5 million and $18.6 million, respectively, associated with the sale of an equity investment that was previously fully impaired and is included in Interest and other expense, net, in the Condensed Consolidated Statement of Operations.

In August of 2009, the Company sold its interest in one of its non-majority owned investments and related note receivable for approximately $252.2 million, net of closing costs and recognized an impairment charge associated with the sale of $107.4 million in the three-month period ended July 3, 2009. During the three-month period ended October 2, 2009, the Company recognized charges totaling approximately $92.0 million associated with the impairment of notes receivable from one affiliate and an equity investment in another affiliate. Total impairment charges related to the Company s equity investments and notes receivables for the six-month period ended October 2, 2009 were approximately $199.4 million and are included in Other charges, net in the Condensed Consolidated Statements of Operations.

Provision for income taxes

The Company has tax loss carryforwards attributable to operations for which the Company has recognized deferred tax assets. The Company s policy is to provide a reserve against those deferred tax assets that in management s estimate are not more likely than not to be realized.

Recent Accounting Pronouncements

In June 2009, a new accounting standard was issued which amends the consolidation guidance applicable to variable interest entities (VIEs), the approach for determining the primary beneficiary of a VIE, and disclosure requirements of a company s involvement with VIEs. Also in June 2009, a new accounting standard was issued which removes the concept of a qualifying special-purpose entity, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies other sale-accounting criteria, and changes the initial measurement of a transferor s interest in transferred financial assets. These standards are effective for fiscal years beginning after November 15, 2009 and were adopted by the Company effective April 1, 2010. The adoption of these standards did not impact the Company s consolidated statement of operations. Upon adoption, accounts receivables sold in the Global Asset-Backed Securitization program were consolidated by the Company and remained on its balance sheet; cash received from the program was treated as a bank borrowing on the Company s balance sheet and as a financing activity in the statement of cash flows. As a result of the adoption of these standards, the Company recorded accounts receivables and related bank borrowings of $217.1 million as of April 1, 2010. In September 2010 the securitization agreement was amended such that sales of accounts receivable from this program are accounted for as sales of financial assets and are removed from the consolidated balance sheets. Cash received from the sale of accounts receivables, under this program, including amounts received for the beneficial interest that are paid upon collection of accounts receivables, are reported as cash provided by operating activities in the statement of cash flows (see Note 8).

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The North American Asset-Backed Securitization program and the accounts receivable factoring program were amended effective in the quarter ended July 2, 2010, such that sales of accounts receivable from these programs continue to be accounted for as sales of financial assets and are removed from the consolidated balance sheets. Cash received from the sale of accounts receivables under these programs, including amounts received for the beneficial interest that are paid upon collection of accounts receivables, are reported as cash provided by operating activities in the statement of cash flows (see Note 8).

3. STOCK-BASED COMPENSATION

The Company historically granted equity compensation awards to acquire the Company s ordinary shares under four plans. Effective July 23, 2010, equity awards are granted under the Company s 2010 Equity Incentive Plan, which was approved by the Company s shareholders at the 2010 Annual General Meeting. These plans collectively are referred to as the Company s equity compensation plans below. For further discussion of the Company s four historical Plans, 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, 2010. Refer to the Company s Definitive Proxy Statement, which was filed with the Securities and Exchange Commission on June 7, 2010, for further discussion of the Company s 2010 Equity Incentive Plan.

Compensation expense for the Company s stock options and unvested share bonus awards was as follows:

	Three-Month Periods Ended		Six-Month Periods Ended	
	October 1, 2010	October 2, 2009	October 1, 2010	October 2, 2009
	(In thousands)		(In thousands)	
Cost of sales	$ 2,648	$ 2,375	$ 5,371	$ 5,015
Selling, general and administrative expenses	11,282	10,620	23,049	23,183
Total stock-based compensation expense	$ 13,930	$ 12,995	$ 28,420	$ 28,198

For the six-month period ended October 1, 2010, the Company granted 925,803 stock options, at a weighted average fair value per option of $2.55. Total unrecognized compensation expense related to stock options is $42.8 million, net of estimated forfeitures, and will be recognized over a weighted average vesting period of 1.6 years. As of October 1, 2010, total unrecognized compensation expense related to unvested share bonus awards is $78.4 million, net of estimated forfeitures, and will be recognized over a weighted average vesting period of 2.7 years. Approximately $22.7 million of the unrecognized compensation cost is related to awards where vesting is contingent upon meeting both a service requirement and achievement of long-term performance goals. As of October 1, 2010, management believes achievement of these goals is probable for approximately 315,000 of these awards and approximately $1.6 million of compensation expense is remaining to be recognized in fiscal year 2011.

The number of options outstanding and exercisable was 60.3 million and 34.1 million, respectively, as of October 1, 2010, at weighted average exercise prices of $7.26 and $9.01, respectively.

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The following table summarizes share bonus award activity for the Company s equity compensation plans during the six-month period ended October 1, 2010:

	Number of Shares	Weighted Average Grant-Date Fair Value
Unvested share bonus awards as of March 31, 2010	8,801,609	$ 10.31
Granted	8,410,125	6.92
Vested	(2,270,952)	10.86
Forfeited	(1,163,699)	10.37
Unvested share bonus awards as of October 1, 2010	13,777,083	$ 8.14

Of the 8.4 million share bonus awards granted during the six-month period ended October 1, 2010, approximately 1.2 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. The actual number of shares issued can range from zero to 1.8 million. These awards vest over a period of four years, subject to achievement of total shareholder return levels relative to the S&P 500 Composite Index. The grant-date fair value of these awards was estimated to be $7.32 per share and was calculated using a Monte Carlo simulation.

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		Six-Month Periods Ended	
	October 1, 2010	October 2, 2009	October 1, 2010	October 2, 2009
	(In thousands, except per share amounts)			
Basic earnings per share:				
Net income (loss)	$ 144,416	$ 19,659	$ 262,594	$ (134,384)
Shares used in computation:				
Weighted-average ordinary shares outstanding	776,362	811,364	793,499	810,769
Basic earnings (loss) per share	$ 0.19	$ 0.02	$ 0.33	$ (0.17)
Diluted earnings per share:				
Net income (loss)	$ 144,416	$ 19,659	$ 262,594	$ (134,384)
Shares used in computation:				
Weighted-average ordinary shares outstanding	776,362	811,364	793,499	810,769
Weighted-average ordinary share equivalents from stock options and awards (1)	7,909			