FLEXTRONICS INTERNATIONAL LTD.
Form 10-Q
November 03, 2009

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 2, 2009

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.)*
One Marina Boulevard, #28-00 Singapore	**018989**
(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 29, 2009

Ordinary Shares, No Par Value	812,268,139

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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 2, 2009, and the related condensed consolidated statement of operations for the three-month and six-month periods ended October 2, 2009 and September 26, 2008, and of cash flows for the six-month periods ended October 2, 2009 and September 26, 2008. 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, 2009, 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 20, 2009, 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, 2009 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, 2009

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FLEXTRONICS INTERNATIONAL LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS

	As of October 2, 2009	As of March 31, 2009
	(In thousands, except share amounts) (Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,966,494	$ 1,821,886
Accounts receivable, net of allowance for doubtful accounts of $19,620 and $29,020 as of October 2, 2009 and March 31, 2009, respectively	2,323,329	2,316,939
Inventories	2,692,077	2,996,785
Other current assets	731,838	799,396
Total current assets	7,713,738	7,935,006
Property and equipment, net	2,180,670	2,333,781
Goodwill and other intangible assets, net	277,435	291,491
Other assets	381,747	756,662
Total assets	$ 10,553,590	$ 11,316,940
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Bank borrowings, current portion of long-term debt and capital lease obligations	$ 253,272	$ 208,403
Accounts payable	3,993,899	4,049,534
Accrued payroll	337,018	336,123
Other current liabilities	1,573,074	1,814,711
Total current liabilities	6,157,263	6,408,771
Long-term debt and capital lease obligations, net of current portion	2,299,598	2,733,680
Other liabilities	295,738	313,321
Commitments and contingencies (Note 10)		
Shareholders equity		
Ordinary shares, no par value; 841,959,342 and 839,412,939 shares issued, and 812,179,620 and 809,633,217 outstanding as of October 2, 2009 and March 31, 2009, respectively	8,894,298	8,862,008
Treasury stock, at cost; 29,779,722 shares as of October 2, 2009 and March 31, 2009, respectively	(260,074)	(260,074)
Accumulated deficit	(6,817,701)	(6,683,317)
Accumulated other comprehensive loss	(15,532)	(57,449)
Total shareholders equity	1,800,991	1,861,168
Total liabilities and shareholders equity	$ 10,553,590	$ 11,316,940

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 2, 2009	September 26, 2008	October 2, 2009	September 26, 2008
	(In thousands, except per share amounts) (Unaudited)			
Net sales	$ 5,831,761	$ 8,862,516	$ 11,614,440	$ 17,212,762
Cost of sales	5,519,778	8,445,055	11,026,353	16,312,217
Restructuring charges	12,403		64,512	26,317
Gross profit	299,580	417,461	523,575	874,228
Selling, general and administrative expenses	176,246	258,687	377,938	507,313
Intangible amortization	22,710	50,317	46,044	75,563
Restructuring charges	187		12,917	2,898
Other charges, net	91,999	11,937	199,398	11,937
Interest and other expense, net	38,091	59,390	74,977	110,117
Income (loss) before income taxes	(29,653)	37,130	(187,699)	166,400
Provision for (benefit from) income taxes	(49,312)	10,059	(53,315)	20,120
Net income (loss)	$ 19,659	$ 27,071	$ (134,384)	$ 146,280
Earnings per share:				
Basic	$ 0.02	$ 0.03	$ (0.17)	$ 0.18
Diluted	$ 0.02	$ 0.03	$ (0.17)	$ 0.18
Weighted-average shares used in computing per share amounts:				
Basic	811,364	828,182	810,769	832,337
Diluted	817,260	830,030	810,769	835,279

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

FLEXTRONICS INTERNATIONAL LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six-Month Periods Ended	
	October 2, 2009	September 26, 2008
	(In thousands) (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (134,384)	$ 146,280
Depreciation, amortization and other impairment charges	466,472	276,490
Changes in working capital and other	86,316	325,241
Net cash provided by operating activities	418,404	748,011
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment, net of dispositions	(80,163)	(300,409)
Acquisition of businesses, net of cash acquired	(59,055)	(182,188)
Proceeds from divestitures of operations		5,269
Other investments and notes receivable, net	255,281	(90,596)
Net cash provided by (used in) investing activities	116,063	(567,924)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from bank borrowings and long-term debt	786,909	6,767,847
Repayments of bank borrowings, long-term debt and capital lease obligations	(992,449)	(6,734,388)
Payments for repurchase of long-term debt	(203,183)	
Payments for repurchase of ordinary shares		(260,074)
Net proceeds from issuance of ordinary shares	3,423	11,893
Net cash used in financing activities	(405,300)	(214,722)
Effect of exchange rates on cash	15,441	15,594
Net increase (decrease) in cash and cash equivalents	144,608	(19,041)
Cash and cash equivalents, beginning of period	1,821,886	1,719,948
Cash and cash equivalents, end of period	$ 1,966,494	$ 1,700,907

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

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 and white goods; automotive, marine and aerospace; 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.

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, 2009 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 2, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ended March 31, 2010. The Company evaluated subsequent events for disclosure through November 2, 2009.

The Company s third fiscal quarter ends on December 31, and the fourth fiscal quarter and year ends on March 31 of each year. The first fiscal quarters ended on July 3, 2009 and June 27, 2008, respectively, and the second fiscal quarters ended on October 2, 2009 and September 26, 2008, respectively.

Customer Credit Risk

The Company has an established customer credit policy, through which it manages customer credit exposures through credit evaluations, credit limit setting, monitoring, and enforcement of credit limits for new and existing customers. The Company performs ongoing credit evaluations of its customers financial condition and makes provisions for doubtful accounts based on the outcome of those credit evaluations. The Company evaluates the collectability of its accounts receivable based on specific customer circumstances, current economic trends, historical experience with collections and the age of past due receivables. To the extent the Company identifies exposures as a result of credit or customer evaluations, the Company also reviews other customer related exposures, including but not limited to inventory and related contractual obligations.

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During the three-month and six-month periods ended September 26, 2008, the Company recognized approximately $117.4 million of charges associated with certain customers that were filing for bankruptcy or were experiencing significant financial and liquidity difficulties. The Company classified approximately $96.7 million of these charges in cost of sales related to the write-down of inventory and associated contractual obligations. Additionally, the Company recognized approximately $20.7 million as selling, general and administrative expenses for provisions for doubtful accounts.

Inventories

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

	As of October 2, 2009	As of March 31, 2009
	(In thousands)	
Raw materials	$ 1,649,106	$ 1,907,584
Work-in-progress	570,846	524,038
Finished goods	472,125	565,163
	$ 2,692,077	$ 2,996,785

Property and Equipment

Depreciation expense associated with property and equipment amounted to approximately $91.5 million and $186.0 million for the three-month and six-month periods ended October 2, 2009, respectively, and $91.8 million and $183.8 million for the three-month and six-month periods ended September 26, 2008, respectively. Proceeds from the disposition of property and equipment were $15.7 million and $32.7 million during the six-month periods ended October 2, 2009 and September 26, 2008, respectively, and are presented net with purchases of property and equipment within cash flows from investing activities in the Condensed Consolidated Statements of Cash Flows.

Goodwill and Other Intangibles

The following table summarizes the activity in the Company s goodwill account during the six-month period ended October 2, 2009:

	Amount (In thousands)
Balance, beginning of the year	$ 36,776
Purchase accounting adjustments (1)	31,382
Balance, end of the quarter	$ 68,158

(1) Includes adjustments and reclassifications resulting from management s review of the valuation of tangible and identifiable intangible 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 2, 2009			As of March 31, 2009		
	Gross Carrying Amount	**Accumulated Amortization (In thousands)**	**Net Carrying Amount**	**Gross Carrying Amount**	**Accumulated Amortization (In thousands)**	**Net Carrying Amount**
Intangible assets:						
Customer-related	$ 506,861	$ (320,143)	$ 186,718	$ 506,449	$ (280,046)	$ 226,403
Licenses and other	54,799	(32,240)	22,559	54,559	(26,247)	28,312
Total	$ 561,660	$ (352,383)	$ 209,277	$ 561,008	$ (306,293)	$ 254,715

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Total intangible amortization expense was $22.7 million and $46.0 million during the three-month and six-month periods ended October 2, 2009, respectively, and $50.3 million and $75.6 million during the three-month and six-month periods ended September 26, 2008, respectively. The estimated future annual amortization expense for acquired intangible assets is as follows:

Fiscal Year Ending March 31,	Amount (In thousands)
2010 (1)	$ 42,600
2011	63,007
2012	41,526
2013	28,103
2014	18,314
Thereafter	15,727
Total amortization expense	$ 209,277

(1) Represents estimated amortization for the six-month period ending March 31, 2010.

Other Assets

The Company has certain equity investments in, and notes receivable from, non-publicly traded companies, which are included within other assets in the Company s Condensed Consolidated Balance Sheets. As of October 2, 2009 and March 31, 2009, the Company s equity investments and notes receivable from these non-publicly traded companies totaled $30.7 million and $473.6 million respectively. The Company monitors these investments and notes receivable for impairment and makes appropriate reductions in carrying values as required.

During the second quarter of fiscal 2010, 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, which are included in Other charges, net in the Condensed Consolidated Statements of Operations. The notes receivable were partially impaired during the fourth quarter of fiscal year 2009 based on discussions with a third party for the potential sale of the notes and the related expected recoverable value. Subsequent deterioration in the affiliate s business prospects, cash flow expectations, and increased liquidity concerns has resulted in an additional impairment. Similarly, deterioration in the business prospects and liquidity concerns of the equity investment occurring in the six-month period ended October 2, 2009 has resulted in an impairment of the carrying value to the estimated recoverable value.

In August 2009, the Company sold one of its non-majority owned investments and related note receivable for approximately $252.5 million, net of closing costs. In conjunction with this transaction the Company recognized an impairment charge of approximately $107.4 million in the three-month period ended July 3, 2009. Total impairment charges related to the Company s equity investments and notes receivable 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.

During the three-month and six-month periods ended September 26, 2008, the Company recognized $11.9 million in charges for other-than-temporary impairment of certain of the Company s investments primarily associated with a customer that was experiencing significant financial and liquidity difficulties.

Provision for income taxes

The Company has tax loss carryforwards attributable to continuing 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. During the three-month and six-month periods ended October 2, 2009, the provision for income taxes includes a benefit of approximately $63.3 million and $75.2 million, respectively, for the net change in the liability for unrecognized tax benefits as a result of settlements in various tax jurisdictions. During the six-month period ended September 26, 2008, the provision for income taxes includes a benefit of approximately $38.5 million for the reversal of valuation allowances and other tax reserves.

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Recent Accounting Pronouncements

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. This guidance is effective for fiscal years beginning after November 15, 2009 and is required to be adopted by the Company in the first quarter of fiscal year 2011. The adoption of this standard will not have any impact on the Company s consolidated statement of operations and could require that future sales of accounts receivable be treated as a financing activity in the statement of cash flows and as a liability on the Company s balance sheet (see Note 8).

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. This standard is effective for fiscal years beginning after November 15, 2009 and is required to be adopted by the Company in the first quarter of fiscal year 2011. The adoption of this standard will not have any impact on the Company s consolidated statement of operations and could require that future sales of accounts receivable be treated as a financing activity in the statement of cash flows and as a liability on the Company s balance sheet (see Note 8).

3. STOCK-BASED COMPENSATION

The Company grants equity compensation awards to acquire the Company s ordinary shares from four plans, and which collectively are referred to as the Company s equity compensation plans below. For further discussion of these 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, 2009.

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 2, 2009	September 26, 2008	October 2, 2009	September 26, 2008
	(In thousands)		(In thousands)	
Cost of sales	$ 2,375	$ 2,148	$ 5,015	$ 4,191
Selling, general and administrative expenses	10,620	15,348	23,183	27,321
Total stock-based compensation expense	$ 12,995	$ 17,496	$ 28,198	$ 31,512

On July 14, 2009, the Company launched an exchange offer under which eligible employees had the opportunity to voluntarily exchange their eligible stock options granted under certain of the Company s equity compensation plans for a lesser amount of replacement stock options granted under one of the Company s current equity incentive plans with new exercise prices equal to the closing price of the Company s ordinary shares on the date of exchange (the Exchange). The Exchange offer was open to all active U.S. and international employees of the Company, except in those jurisdictions where the local law, administrative burden or similar considerations made participation in the program illegal, inadvisable or impractical, and where exclusion otherwise was consistent with the Company s compensation policies with respect to those jurisdictions. The Exchange offer was not open to the Company s Board of Directors or its executive officers. To be eligible for exchange an option must: (i) have had an exercise price of at least $10.00 per share, (ii) have been outstanding, and (iii) have been granted at least 12 months prior to the commencement date of the Exchange offer. All replacement option grants were subject to a vesting schedule of two, three or four years from the date of grant of the replacement options depending on the remaining vesting period of the option grants surrendered for cancellation in the Exchange. The number of replacement options an eligible employee received in exchange for an eligible option grant was determined by an exchange ratio applicable to that option. Stock options with exercise prices between $10.00 and $11.99 were exchangeable for new options at a rate of 1.5 existing options per new option grant, and stock options with exercise prices of $12.00 or more were exchangeable at a rate of 2.4 existing options per new option grant. Outstanding Options covering approximately 29.8 million shares were eligible to participate in the Exchange.

The Exchange was completed on August 11, 2009. Approximately 27.9 million stock options were tendered in the Exchange, and approximately 16.9 million replacement options were granted with an exercise price of $5.57, a weighted average vesting term of 1.58 years, and a contractual life of 7 years. The Exchange was accounted for as a modification of the existing option awards tendered in the Exchange. As a result of the Exchange, the Company will recognize approximately $1.8 million in incremental compensation expense over the expected service period of the replacement grants vesting terms.

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Excluding options granted in the Exchange, for the three months ended October 2, 2009, the Company granted 302,900 stock options and 317,229 unvested share bonus awards, at a weighted average fair value per award of $2.70 and $7.31, respectively. As of October 2, 2009, total unrecognized compensation expense related to stock options was $75.9 million, net of estimated forfeitures, and will be recognized over a weighted average vesting period of 2.3 years. Total unrecognized compensation expense related to unvested share bonus awards was $64.2 million, net of estimated forfeitures, and will be recognized over a weighted average vesting period of 1.7 years. Approximately $29.6 million of the unrecognized compensation cost is related to awards where vesting is contingent upon meeting both a service requirement and achievement of longer-term goals. As of October 2, 2009, management believes achievement of these goals is not probable, and these unvested share bonus awards are not expected to vest and the cost is not expected to be recognized.

The number of options outstanding and exercisable as of October 2, 2009 were 64.9 million and 25.2 million, at weighted average exercise prices of $7.10 and $10.50, respectively.

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 2, 2009	September 26, 2008	October 2, 2009	September 26, 2008
	(In thousands, except per share amounts)			
Basic earnings per share:				
Net income (loss)	$ 19,659	$ 27,071	$ (134,384)	$ 146,280
Shares used in computation:				
Weighted-average ordinary shares outstanding	811,364	828,182	810,769	832,337
Basic earnings (loss) per share	$ 0.02	$ 0.03	$ (0.17)	$ 0.18
Diluted earnings per share:				
Net income (loss)	$ 19,659	$ 27,071	$ (134,384)	$ 146,280
Shares used in computation:				
Weighted-average ordinary shares outstanding	811,364	828,182	810,769	832,337
Weighted-average ordinary share equivalents from stock options and awards (1)	5,896	1,848		2,942
Weighted-average ordinary share equivalents from convertible notes (2)				
Weighted-average ordinary shares and ordinary share equivalents outstanding	817,260	830,030	810,769	835,279
Diluted earnings (loss) per share	$ 0.02	$ 0.03	$ (0.17)	$ 0.18

(1) As a result of the Company s

net loss, ordinary share equivalents from approximately 5.3 million options and share bonus awards were excluded from the calculation of diluted earnings (loss) per share for the six-month period ended October 2, 2009. Ordinary share equivalents from stock options to purchase approximately 41.1 million and 50.0 million shares outstanding during the three-month and six-month periods ended October 2, 2009, respectively, and 65.1 million and 54.5 million shares outstanding during the three-month and six-month periods ended September 26, 2008, respectively, 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