

FLEXTRONICS INTERNATIONAL LTD.

Form 10-Q

October 30, 2014

[Table of Contents](#)

# 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 26, 2014

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) 6876-9899**

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

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

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

| Class                         | Outstanding at October 24, 2014 |
|-------------------------------|---------------------------------|
| Ordinary Shares, No Par Value | 578,974,187                     |



Table of Contents

**FLEXTRONICS INTERNATIONAL LTD.**

**INDEX**

|  | <b>Page</b> |
|--|-------------|
| <b><u>PART I. FINANCIAL INFORMATION</u></b>  |             |
| <u>Item 1.</u>   |             |
| <u>Financial Statements</u>  | 3           |
| <u>Report of Independent Registered Public Accounting Firm</u>   | 3           |
| <u>Condensed Consolidated Balance Sheets (unaudited) September 26, 2014 and March 31, 2014</u>   | 4           |
| <u>Condensed Consolidated Statements of Operations (unaudited) Three-Month and Six-Month Periods Ended September 26, 2014 and September 27, 2013</u>           | 5           |
| <u>Condensed Consolidated Statements of Comprehensive Income (unaudited) Three-Month and Six-Month Periods Ended September 26, 2014 and September 27, 2013</u> | 6           |
| <u>Condensed Consolidated Statements of Cash Flows (unaudited) Six-Month Periods Ended September 26, 2014 and September 27, 2013</u>                           | 7           |
| <u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>  | 8           |
| <u>Item 2.</u>   |             |
| <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>   | 24          |
| <u>Item 3.</u>   |             |
| <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | 31          |
| <u>Item 4.</u>   |             |
| <u>Controls and Procedures</u>   | 31          |
| <b><u>PART II. OTHER INFORMATION</u></b>   |             |
| <u>Item 1.</u>   |             |
| <u>Legal Proceedings</u>   | 31          |
| <u>Item 1A.</u>  |             |
| <u>Risk Factors</u>  | 31          |
| <u>Item 2.</u>   |             |
| <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>   | 32          |
| <u>Item 3.</u>   |             |
| <u>Defaults Upon Senior Securities</u>   | 33          |
| <u>Item 4.</u>   |             |
| <u>Mine Safety Disclosures</u>   | 33          |
| <u>Item 5.</u>   |             |
| <u>Other Information</u>   | 33          |
| <u>Item 6.</u>   |             |
| <u>Exhibits</u>  | 33          |
| <u>Signatures</u>  | 34          |

Table of Contents

**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 26, 2014, and the related condensed consolidated statements of operations and of comprehensive income for the three-month and six-month periods ended September 26, 2014, and September 27, 2013, and the condensed consolidated statements of cash flows for the six-month periods ended September 26, 2014 and September 27, 2013. 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, 2014, 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 20, 2014, 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, 2014 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 30, 2014



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

|  | As of<br>September 26, 2014                            | As of<br>March 31, 2014 |
|--|--|-------------------------|
|  | (In thousands,<br>except share amounts)<br>(Unaudited) |                         |
| <b>ASSETS</b>  |  |                         |
| Current assets:  |  |                         |
| Cash and cash equivalents  | \$ 1,514,352   | \$ 1,593,728            |
| Accounts receivable, net of allowance for doubtful accounts<br>of \$7,735 and \$5,529 as of September 26, 2014 and<br>March 31, 2014, respectively                             | 2,526,880  | 2,697,985               |
| Inventories  | 3,626,640  | 3,599,008               |
| Other current assets   | 1,211,188  | 1,509,605               |
| Total current assets   | 8,879,060  | 9,400,326               |
| Property and equipment, net  | 2,193,966  | 2,288,656               |
| Goodwill and other intangible assets, net  | 413,237  | 377,218                 |
| Other assets   | 433,610  | 433,950                 |
| Total assets   | \$ 11,919,873  | \$ 12,500,150           |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>   |  |                         |
| Current liabilities:   |  |                         |
| Bank borrowings and current portion of long-term debt  | \$ 45,579  | \$ 32,575               |
| Accounts payable   | 4,693,526  | 4,747,779               |
| Accrued payroll  | 381,266  | 354,889                 |
| Other current liabilities  | 1,935,904  | 2,521,444               |
| Total current liabilities  | 7,056,275  | 7,656,687               |
| Long-term debt, net of current portion   | 2,062,926  | 2,070,020               |
| Other liabilities  | 457,818  | 571,764                 |
| Commitments and contingencies (Note 13)  |  |                         |
| Shareholders' equity   |  |                         |
| Flextronics International Ltd. shareholders' equity  |  |                         |
| Ordinary shares, no par value; 630,671,476 and 641,666,347<br>issued, and 580,432,121 and 591,426,992 outstanding as of<br>September 26, 2014 and March 31, 2014, respectively | 7,444,765  | 7,614,515               |
| Treasury shares, at cost; 50,239,355 shares as of<br>September 26, 2014 and March 31, 2014   | (388,215)  | (388,215)               |
| Accumulated deficit  | (4,624,304)  | (4,937,094)             |
| Accumulated other comprehensive loss   | (127,692)  | (126,156)               |
| Total Flextronics International Ltd. shareholders' equity  | 2,304,554  | 2,163,050               |
| Noncontrolling interests   | 38,300   | 38,629                  |
| Total shareholders' equity   | 2,342,854  | 2,201,679               |
| Total liabilities and shareholders' equity   | \$ 11,919,873  | \$ 12,500,150           |

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 26, 2014                       | September 27, 2013 | September 26, 2014      | September 27, 2013 |
|  | (In thousands, except per share amounts) |                    |                         |                    |
|  | (Unaudited)                              |                    |                         |                    |
| Net sales  | \$ 6,528,517                             | \$ 6,410,106       | \$ 13,171,262           | \$ 12,201,231      |
| Cost of sales  | 6,151,436                                | 6,041,683          | 12,413,396              | 11,521,773         |
| Gross profit   | 377,081                                  | 368,423            | 757,866                 | 679,458            |
| Selling, general and administrative expenses                 | 204,590                                  | 218,500            | 413,867                 | 442,119            |
| Intangible amortization                                      | 8,232                                    | 7,718              | 15,183                  | 15,920             |
| Interest and other, net                                      | 12,506                                   | 14,601             | 31,143                  | 27,174             |
| Other charges (income), net                                  | (2,584)                                  | (1,000)            | (46,593)                | 6,111              |
| Income before income taxes                                   | 154,337                                  | 128,604            | 344,266                 | 188,134            |
| Provision for income taxes                                   | 15,434                                   | 10,399             | 31,476                  | 10,672             |
| Net income   | \$ 138,903                               | \$ 118,205         | \$ 312,790              | \$ 177,462         |
| Earnings per share:  |  |                    |                         |                    |
| Basic  | \$ 0.24                                  | \$ 0.19            | \$ 0.53                 | \$ 0.29            |
| Diluted  | \$ 0.23                                  | \$ 0.19            | \$ 0.52                 | \$ 0.28            |
| Weighted-average shares used in computing per share amounts: |  |                    |                         |                    |
| Basic  | 585,760                                  | 610,775            | 586,497                 | 618,447            |
| Diluted  | 595,871                                  | 623,620            | 598,586                 | 631,760            |

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

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

|   | Three-Month Periods Ended     |                    | Six-Month Periods Ended |                    |
|---|-------------------------------|--------------------|-------------------------|--------------------|
|   | September 26, 2014            | September 27, 2013 | September 26, 2014      | September 27, 2013 |
|   | (In thousands)<br>(Unaudited) |                    |                         |                    |
| Net income  | \$ 138,903                    | \$ 118,205         | \$ 312,790              | \$ 177,462         |
| Other comprehensive income (loss):  |                               |                    |                         |                    |
| Foreign currency translation adjustments, net of zero tax                   | (5,683)                       | (11,988)           | (9,828)                 | (29,497)           |
| Unrealized gain (loss) on derivative instruments and other, net of zero tax | (2,433)                       | 9,553              | 8,292                   | (581)              |
| Comprehensive income  | \$ 130,787                    | \$ 115,770         | \$ 311,254              | \$ 147,384         |

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 26, 2014      | September 27, 2013 |
|  | (In thousands)          |                    |
|  | (Unaudited)             |                    |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                 |                         |                    |
| Net income   | \$ 312,790              | \$ 177,462         |
| Depreciation, amortization and other impairment charges                      | 260,328                 | 227,407            |
| Changes in working capital and other   | (266,873)               | (51,111)           |
| Net cash provided by operating activities                                    | 306,245                 | 353,758            |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                 |                         |                    |
| Purchases of property and equipment  | (167,204)               | (321,449)          |
| Proceeds from the disposition of property and equipment                      | 28,809                  | 10,468             |
| Acquisition of businesses, net of cash acquired                              | (32,589)                | (187,543)          |
| Proceeds from divestiture of business, net of cash held in divested business | (5,493)                 | 1,000              |
| Other investing activities, net  | (28,855)                | 7,436              |
| Net cash used in investing activities  | (205,332)               | (490,088)          |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                 |                         |                    |
| Proceeds from bank borrowings and long-term debt                             | 11,387                  | 933,447            |
| Repayments of bank borrowings, long-term debt and capital lease obligations  | (9,185)                 | (404,801)          |
| Payments for early retirement of long-term debt                              |                         | (544,840)          |
| Payments for repurchases of ordinary shares                                  | (206,771)               | (324,594)          |
| Net proceeds from issuance of ordinary shares                                | 11,412                  | 19,637             |
| Other financing activities, net  | 3,382                   | 14,743             |
| Net cash used in financing activities  | (189,775)               | (306,408)          |
| Effect of exchange rates on cash and cash equivalents                        | 9,486                   | (17,283)           |
| Net decrease in cash and cash equivalents                                    | (79,376)                | (460,021)          |
| Cash and cash equivalents, beginning of period                               | 1,593,728               | 1,587,087          |
| Cash and cash equivalents, end of period                                     | \$ 1,514,352            | \$ 1,127,066       |
| <b>Non-cash investing activity:</b>  |                         |                    |
| Accounts payable for fixed assets purchases                                  | \$ 51,814               | \$ 155,109         |

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

Table of Contents

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. ORGANIZATION OF THE COMPANY AND BASIS OF PRESENTATION**

*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 globally-recognized leading provider of supply chain solutions that span from concept through consumption. The Company designs, builds, ships and services a complete packaged electronic product for original equipment manufacturers ( OEMs ) in the following business groups: High Reliability Solutions ( HRS ), which is comprised of our medical, automotive, and defense and aerospace businesses; Consumer Technology Group ( CTG ), which includes our mobile devices business, including smart phones; our consumer electronics business, including game consoles and wearable electronics; and our high-volume computing business, including various supply chain solutions for notebook personal computing ( PC ), tablets, and printers; Industrial and Emerging Industries ( IEI ), which is comprised of our household appliances, semi-cap equipment, kiosks, energy 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 solutions through which the Company can design, build, ship and service complete packaged products for its OEM customers. This enables our OEM customers to leverage the Company's supply chain solutions to meet their product requirements throughout the entire product life cycle.

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

*Basis of Presentation*

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP or GAAP ) for interim financial information and in accordance with the requirements of Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements, and should be read in conjunction with the Company's audited consolidated financial statements as of and for the fiscal year ended March 31, 2014 contained in the Company's Annual Report on Form 10-K. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and six-month periods ended September 26, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2015.

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The first quarters for fiscal year 2015 and fiscal year 2014 ended on June 27, 2014, which is comprised of 88 days in the period, and June 28, 2013, which is comprised of 89 days in period, respectively. The second quarter for fiscal year 2015 and fiscal year 2014 ended on September 26, 2014 and September 27, 2013, which are comprised of 91 days in both periods, respectively.

The accompanying unaudited condensed consolidated financial statements include the financial position and results of operations of a majority owned subsidiary of the Company. Non-controlling interests are presented as a separate component of total shareholders' equity in the condensed consolidated balance sheets. The operating results of the subsidiary attributable to the non-controlling interests are immaterial for all of the periods presented, and are included in interest and other, net in the condensed consolidated statements of operations.

### *Recent Accounting Pronouncements*

In April 2014, the Financial Accounting Standards Board ( FASB ) issued guidance which requires an entity to report a disposal of a component of an entity in discontinued operations if the disposal represents a strategic shift that has a major effect on an entity's operations and financial results when the component of an entity meets certain criteria to be classified as held for sale, or when the component of an entity is disposed of by a sale or disposed of other than by a sale. Further, additional disclosures about discontinued operations should include the following for the periods in which the results of operations of the discontinued operations are presented in the statement of operations: the major classes of line items constituting pretax profit or loss of discontinued operations; total

Table of Contents

operating and investing cash flows of discontinued operations; depreciation, amortization, capital expenditures, and significant operating and investing noncash items of discontinued operations; pretax profit or loss attributable to the parent if a discontinued operation includes a non-controlling interest; a reconciliation of major classes of assets, liabilities of the discontinued operation classified as held for sale; and a reconciliation of major classes of line items constituting the pretax profit or loss of the discontinued operation. The Company early adopted this accounting standard update in the first quarter of fiscal year 2015. During the first quarter of fiscal 2015, the Company disposed of a manufacturing facility in Western Europe which did not meet the criteria of discontinued operations under this accounting standard, as further discussed in note 6 to the condensed consolidated financial statements.

In May 2014, the FASB issued new guidance related to revenue recognition which requires an entity to recognize revenue relating to contracts with customers that depicts the transfer of promised goods or services to customers in an amount reflecting the consideration to which the entity expects to be entitled in exchange for such goods or services. In order to meet this requirement, the entity must apply the following steps: (i) identify the contracts with the customers; (ii) identify performance obligations in the contracts; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations per the contracts; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. Additionally, disclosures required for revenue recognition will include qualitative and quantitative information about contracts with customers, significant judgments and changes in judgments, and assets recognized from costs to obtain or fulfill a contract. This guidance is effective for the Company beginning in the first quarter of fiscal year 2018 and the Company is in the process of assessing the impact on its consolidated financial statements.

**2. BALANCE SHEET ITEMS***Inventories*

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

|                  | As of<br>September 26, 2014 | As of<br>March 31, 2014 |
|------------------|-----------------------------|-------------------------|
|                  | (In thousands)              |                         |
| Raw materials    | \$ 2,422,415                | \$ 2,349,278            |
| Work-in-progress | 578,211                     | 608,284                 |
| Finished goods   | 626,014                     | 641,446                 |
|                  | \$ 3,626,640                | \$ 3,599,008            |

*Goodwill and Other Intangibles*

The following table summarizes the activity in the Company's goodwill account during the six-month period ended September 26, 2014:

**Amount**  
**(In thousands)**

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|  |    |         |
|--|----|---------|
| Balance, beginning of the year           | \$ | 292,758 |
| Additions (1)                            |    | 21,707  |
| Purchase accounting adjustments (2)      |    | 8,651   |
| Foreign currency translation adjustments |    | (2,059) |
| Balance, end of the period               | \$ | 321,057 |

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(1) The goodwill generated from the Company's business combinations completed during the six-month period ended September 26, 2014 is primarily related to value placed on the acquired employee workforces, service offerings and capabilities of the acquired businesses and expected synergies. The goodwill is not deductible for income tax purposes. See note 12 to the condensed consolidated financial statements for additional information.

(2) Fair value adjustment made to certain assets acquired in connection with the Company's acquisition of Riwisa AG.

The components of acquired intangible assets are as follows:

Table of Contents

|                                | As of September 26, 2014 |                          |                     | As of March 31, 2014  |                          |                     |
|--------------------------------|--------------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
|                                | Gross Carrying Amount    | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|                                | (In thousands)           |                          |                     |                       |                          |                     |
| <b>Intangible assets:</b>      |                          |                          |                     |                       |                          |                     |
| Customer-related intangibles   | \$ 211,852               | \$ (152,259)             | \$ 59,593           | \$ 204,369            | \$ (140,713)             | \$ 63,656           |
| Licenses and other intangibles | 47,789                   | (15,202)                 | 32,587              | 32,564                | (11,760)                 | 20,804              |
| Total                          | \$ 259,641               | \$ (167,461)             | \$ 92,180           | \$ 236,933            | \$ (152,473)             | \$ 84,460           |

The gross carrying amounts of intangible assets are removed when the recorded amounts have been fully amortized. During the six-month period ended September 26, 2014, the value of customer-related intangible assets increased by \$8.5 million in connection with the Company's acquisitions, and licenses and other intangibles increased by \$15.7 million primarily as a result of the purchase of certain technology rights. The estimated future annual amortization expense for intangible assets is as follows:

| Fiscal Year Ending March 31, | Amount<br>(In thousands) |
|------------------------------|--------------------------|
| 2015 (1)                     | \$ 15,741                |
| 2016                         | 27,133                   |
| 2017                         | 18,786                   |
| 2018                         | 12,825                   |
| 2019                         | 8,498                    |
| Thereafter                   | 9,197                    |
| Total amortization expense   | \$ 92,180                |

(1) Represents estimated amortization for the remaining six-month period ending March 31, 2015.

**Other Current Assets / Liabilities**

Other current assets include certain assets purchased on behalf of a customer and financed by a third party banking institution of \$267.5 million as of both September 26, 2014 and March 31, 2014, respectively, with a corresponding liability recorded to other current liabilities of \$289.6 million and \$286.5 million as of September 26, 2014 and March 31, 2014, respectively.

Other current liabilities also includes customer working capital advances of \$213.2 million and \$754.7 million as of September 26, 2014 and March 31, 2014, respectively. The customer working capital advances are not interest bearing, do not have fixed repayment dates and are generally reduced as the underlying working capital is consumed in production.

**3. SHARE-BASED COMPENSATION**

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

|  | Three-Month Periods Ended |                    | Six-Month Periods Ended |                    |
|--|---------------------------|--------------------|-------------------------|--------------------|
|  | September 26, 2014        | September 27, 2013 | September 26, 2014      | September 27, 2013 |
|  | (In thousands)            |                    |                         |                    |
| Cost of sales                                | \$ 1,868                  | \$ 1,866           | \$ 3,478                | \$ 3,218           |
| Selling, general and administrative expenses | 9,051                     | 6,851              | 19,122                  | 14,088             |
| Total stock-based compensation expense       | \$ 10,919                 | \$ 8,717           | \$ 22,600               | \$ 17,306          |

Total unrecognized compensation expense related to share options is \$0.3 million, net of estimated forfeitures, and will be recognized over a weighted-average remaining vesting period of one year. As of September 26, 2014, the number of options outstanding and exercisable was 18.3 million and 18.2 million, respectively, both at a weighted-average exercise price of \$8.06 per share.

Table of Contents

During the six-month period ended September 26, 2014, the Company granted 6.0 million unvested share bonus awards at an average grant date price of \$11.75 per share, under its 2010 Equity Incentive Plan. Of this amount, approximately 0.9 million represents the target amount of grants made to certain key employees whereby vesting is contingent on certain market conditions. The number of shares that ultimately will vest range from zero up to a maximum of 1.8 million based on a measurement of the percentile rank of the Company's total shareholder return over a certain specified period against the Standard and Poor's (S&P) 500 Composite Index and will cliff vest after a period of three years, if such market conditions have been met. The average grant-date fair value of these awards was estimated to be \$15.81 per share and was calculated using a Monte Carlo simulation.

As of September 26, 2014, approximately 19.3 million unvested share bonus awards were outstanding, of which vesting for a targeted amount of 5.0 million is contingent primarily on meeting certain market conditions. The number of shares that will ultimately be issued can range from zero to 9.7 million based on the achievement levels of the respective conditions. During the six-month period ended September 26, 2014, 0.3 million shares vested in connection with the remaining number of share bonus awards with market conditions granted in fiscal 2011, and 0.4 million shares vested in connection with half of the share bonus awards with market conditions granted in fiscal 2012.

As of September 26, 2014, total unrecognized compensation expense related to unvested share bonus awards is \$107.7 million, net of estimated forfeitures, and will be recognized over a weighted-average remaining vesting period of 2.8 years. Approximately \$20.8 million of the total unrecognized compensation cost, net of estimated forfeitures, is related to awards whereby vesting is contingent on meeting certain market conditions.

**4. EARNINGS PER SHARE**

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

|   | Three-Month Periods Ended |                    | Six-Month Periods Ended |                    |
|---|---------------------------|--------------------|-------------------------|--------------------|
|   | September 26, 2014        | September 27, 2013 | September 26, 2014      | September 27, 2013 |
| (In thousands, except per share amounts)  |                           |                    |                         |                    |
| <b>Basic earnings per share:</b>  |                           |                    |                         |                    |
| Net income  | \$ 138,903                | \$ 118,205         | \$ 312,790              | \$ 177,462         |
| <b>Shares used in computation:</b>  |                           |                    |                         |                    |
| Weighted-average ordinary shares outstanding                                      | 585,760                   | 610,775            | 586,497                 | 618,447            |
| Basic earnings per share  | \$ 0.24                   | \$ 0.19            | \$ 0.53                 | \$ 0.29            |
| <b>Diluted earnings per share:</b>  |                           |                    |                         |                    |
| Net income  | \$ 138,903                | \$ 118,205         | \$ 312,790              | \$ 177,462         |
| <b>Shares used in computation:</b>  |                           |                    |                         |                    |
| Weighted-average ordinary shares outstanding                                      | 585,760                   | 610,775            | 586,497                 | 618,447            |
| Weighted-average ordinary share equivalents from stock options and awards (1) (2) | 10,111                    | 12,845             | 12,089                  | 13,313             |
| Weighted-average ordinary shares and ordinary share equivalents outstanding       | 595,871                   | 623,620            | 598,586                 | 631,760            |

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|                            |    |      |    |      |    |      |    |      |
|----------------------------|----|------|----|------|----|------|----|------|
| Diluted earnings per share | \$ | 0.23 | \$ | 0.19 | \$ | 0.52 | \$ | 0.28 |
|----------------------------|----|------|----|------|----|------|----|------|

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(1) Options to purchase ordinary shares of 7.0 million and 18.1 million during the three-month periods ended September 26, 2014 and September 27, 2013, respectively, and share bonus awards of 0.8 million and 1.0 million during the three-month periods ended September 26, 2014 and September 27, 2013, respectively, were excluded from the computation of diluted earnings per share due to their anti-dilutive impact on the weighted average ordinary share equivalents.

(2) Options to purchase ordinary shares of 12.1 million and 18.7 million during the six-month periods ended September 26, 2014 and September 27, 2013, respectively, and share bonus awards of 0.4 million and 2.4 million during the six-month periods ended September 26, 2014 and September 27, 2013, respectively, were excluded from the computation of diluted earnings per share due to their anti-dilutive impact on the weighted average ordinary share equivalents.

### 5. INTEREST AND OTHER, NET

During the three-month and six-month periods ended September 26, 2014, the Company recognized interest expense of \$19.0 million and \$37.5 million, respectively, on its debt obligations outstanding during the period. During the three-month and six-month periods ended September 27, 2013, the Company recognized interest expense of \$20.3 million and \$40.5 million, respectively.

The weighted average interest rates for the Company's long-term debt were 3.2% and 3.3% for the six-month periods ended September 26, 2014 and September 27, 2013, respectively.

Table of Contents

During the three-month and six-month periods ended September 26, 2014, the Company recognized interest income of \$4.8 million and \$10.1 million, respectively. During the three-month and six-month periods ended September 27, 2013, the Company recognized interest income of \$4.0 million and \$7.3 million, respectively.

During the three-month and six-month periods ended September 26, 2014, the Company recognized gains on foreign exchange transactions of \$6.8 million and \$5.4 million, respectively. During the three-month and six-month periods ended September 27, 2013, the Company recognized gains on foreign exchange transactions of \$3.4 million and \$8.0 million, respectively.

**6. OTHER CHARGES (INCOME), NET**

During the six-month period ended September 26, 2014, an amendment to a customer contract to reimburse a customer for certain performance provisions was executed which included the removal of a \$55.0 million contractual obligation recognized during fiscal year 2014. Accordingly, the Company reversed this charge with a corresponding credit to other charges (income), net in the condensed consolidated statement of operations.

Further, during the six-month period ended September 26, 2014, the Company recognized a loss of \$11.0 million in connection with the disposition of a manufacturing facility in Western Europe. The Company received \$11.5 million in cash for the sale of \$27.2 million in net assets of the facility. The loss also includes \$4.6 million of estimated transaction costs, partially offset by a gain of \$9.3 million for the release of cumulative foreign currency translation gains triggered by the disposition.

During the six-month period ended September 27, 2013, the Company recognized a loss of \$7.1 million relating to the exercise of a warrant to purchase shares of a certain supplier and sale of the underlying shares for total proceeds of \$67.3 million.

**7. 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 September 26, 2014, the aggregate notional amount of the Company's outstanding foreign currency forward and swap contracts was \$5.2 billion as summarized below:

Table of Contents

| Currency                             | Foreign Currency Amount |            | Notional Contract Value in USD |              |
|--------------------------------------|-------------------------|------------|--------------------------------|--------------|
|                                      | Buy                     | Sell       | Buy                            | Sell         |
| <b>Cash Flow Hedges</b>              |                         |            |                                |              |
| CNY                                  | 2,725,000               |            | \$ 444,057                     | \$           |
| EUR                                  | 15,273                  | 13,728     | 19,518                         | 18,148       |
| HUF                                  | 16,348,000              |            | 67,389                         |              |
| MXN                                  | 1,889,800               |            | 142,206                        |              |
| MYR                                  | 320,000                 |            | 98,720                         |              |
| Other                                | N/A                     | N/A        | 131,629                        |              |
|                                      |                         |            | 903,519                        | 18,148       |
| <b>Other Forward/Swap Contracts</b>  |                         |            |                                |              |
| BRL                                  |                         | 326,000    |                                | 136,356      |
| CAD                                  | 137,524                 | 134,540    | 125,173                        | 122,175      |
| CNY                                  | 4,955,264               | 3,077,814  | 803,676                        | 500,000      |
| EUR                                  | 530,989                 | 698,030    | 680,254                        | 897,235      |
| GBP                                  | 31,850                  | 57,585     | 52,081                         | 94,205       |
| HUF                                  | 17,297,300              | 20,225,600 | 71,303                         | 83,374       |
| JPY                                  | 6,914,690               | 1,354,020  | 63,471                         | 12,599       |
| MXN                                  | 1,157,840               | 589,470    | 87,126                         | 44,357       |
| MYR                                  | 239,320                 | 37,342     | 73,830                         | 11,520       |
| SEK                                  | 488,358                 | 717,285    | 68,157                         | 100,930      |
| Other                                | N/A                     | N/A        | 166,590                        | 120,356      |
|                                      |                         |            | 2,191,661                      | 2,123,107    |
| Total Notional Contract Value in USD |                         |            | \$ 3,095,180                   | \$ 2,141,255 |

As of September 26, 2014, the fair value of the Company's short-term foreign currency contracts was not material and is included in other current assets or other current liabilities, as applicable, in the condensed consolidated balance sheets. Certain of these contracts are designed to economically hedge the Company's exposure to monetary assets and liabilities denominated in a non-functional currency and are not accounted for as hedges under the accounting standards. Accordingly, changes in the fair value of these instruments are recognized in earnings during the period of change as a component of interest and other, net in the condensed consolidated statements of operations. As of September 26, 2014 and March 31, 2014, the Company also has included net deferred losses in accumulated other comprehensive loss, a component of shareholders equity in the condensed consolidated balance sheets, relating to the effective portion of changes in fair value of its foreign currency contracts that are accounted for as cash flow hedges. These deferred losses were not material as of September 26, 2014, and are expected to be recognized primarily as a component of cost of sales in the condensed consolidated statements of operations primarily over the next twelve-month period. The gains and losses recognized in earnings due to hedge ineffectiveness were not material for all fiscal periods presented and are included as a component of interest and other, net in the condensed consolidated statements of operations.

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

Table of Contents

|  | Balance Sheet Location | Fair Values of Derivative Instruments |        |                       |       | September 26, 2014 | March 31, 2014            | Balance Sheet Location | September 26, 2014 | March 31, 2014 |        |
|--|------------------------|---------------------------------------|--------|-----------------------|-------|--------------------|---------------------------|------------------------|--------------------|----------------|--------|
|  |                        | Asset Derivatives                     |        | Liability Derivatives |       |                    |                           |                        |                    |                |        |
|  |                        | Fair Value                            |        | Fair Value            |       |                    |                           |                        |                    |                |        |
| (In thousands)   |                        |                                       |        |                       |       |                    |                           |                        |                    |                |        |
| <b>Derivatives designated as hedging instruments</b>     |                        |                                       |        |                       |       |                    |                           |                        |                    |                |        |
| Foreign currency contracts                               | Other current assets   | \$                                    | 6,135  | \$                    | 3,464 |                    | Other current liabilities | \$                     | 8,016              | \$             | 10,457 |
| <b>Derivatives not designated as hedging instruments</b> |                        |                                       |        |                       |       |                    |                           |                        |                    |                |        |
| Foreign currency contracts                               | Other current assets   | \$                                    | 19,816 | \$                    | 4,722 |                    | Other current liabilities | \$                     | 10,896             | \$             | 6,949  |

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

**8. ACCUMULATED OTHER COMPREHENSIVE LOSS**

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

|   | September 26, 2014   |  | Three-Month Periods Ended |  | September 27, 2013                       |              |
|---|--|--|---------------------------|--|--|--------------|
|   | Unrealized gain (loss) on derivative instruments and other | Foreign currency translation adjustments | Total                     | Unrealized gain (loss) on derivative instruments and other | Foreign currency translation adjustments | Total        |
|   | (In thousands)   |  |                           |  |  |              |
| Beginning balance   | \$ (22,124)  | \$ (97,452)                              | \$ (119,576)              | \$ (28,991)  | \$ (76,133)                              | \$ (105,124) |
| Other comprehensive gain (loss) before reclassifications                  | (2,965)  | (3,099)                                  | (6,064)                   | 5,937  | (11,988)                                 | (6,051)      |
| Net (gains) losses reclassified from accumulated other comprehensive loss | 532  | (2,584)                                  | (2,052)                   | 3,616  |  | 3,616        |
| Net current-period other comprehensive gain (loss)                        | (2,433)  | (5,683)                                  | (8,116)                   | 9,553  | (11,988)                                 | (2,435)      |
| Ending balance  | \$ (24,557)  | \$ (103,135)                             | \$ (127,692)              | \$ (19,438)  | \$ (88,121)                              | \$ (107,559) |

|  | September 26, 2014   |  | Six-Month Periods Ended |  | September 27, 2013                       |       |
|--|--|--|-------------------------|--|--|-------|
|  | Unrealized gain (loss) on derivative instruments and other | Foreign currency translation adjustments | Total                   | Unrealized gain (loss) on derivative instruments and other | Foreign currency translation adjustments | Total |
|  | (In thousands)   |  |                         |  |  |       |

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|   | other       |              | (In thousands) |             | other       |              |
|---|-------------|--------------|----------------|-------------|-------------|--------------|
| Beginning balance   | \$ (32,849) | \$ (93,307)  | \$ (126,156)   | \$ (18,857) | \$ (58,624) | \$ (77,481)  |
| Other comprehensive gain (loss) before reclassifications                  | (1,965)     | 2,008        | 43             | (308)       | (29,497)    | (29,805)     |
| Net (gains) losses reclassified from accumulated other comprehensive loss | 10,257      | (11,836)     | (1,579)        | (273)       |             | (273)        |
| Net current-period other comprehensive gain (loss)                        | 8,292       | (9,828)      | (1,536)        | (581)       | (29,497)    | (30,078)     |
| Ending balance  | \$ (24,557) | \$ (103,135) | \$ (127,692)   | \$ (19,438) | \$ (88,121) | \$ (107,559) |

Net losses reclassified from accumulated other comprehensive loss during the six-month period ended September 26, 2014 relating to derivative instruments and other includes \$5.8 million attributable to the Company's cash flow hedge instruments which were recognized as a component of cost of sales in the condensed consolidated statement of operations.

During the six-month period ended September 26, 2014, the Company recognized a loss of \$11.0 million in connection with the disposition of a manufacturing facility in Western Europe. This loss includes the settlement of unrealized losses of \$4.2 million on an insignificant defined benefit plan associated with the disposed facility offset by the release of cumulative foreign currency translation gains of \$9.3 million, both of which have been reclassified from accumulated other comprehensive loss during the period. The loss on sale is included in other charges (income), net in the condensed consolidated statement of operations.

Additionally, net gains reclassified from accumulated other comprehensive loss during the six-month period ended September 26, 2014 includes \$2.6 million in connection with cumulative translation gains related to the liquidation of a foreign entity, which is included in other charges (income), net in the condensed consolidated statement of operations.

Table of Contents

Substantially all unrealized losses relating to derivative instruments and other, reclassified from accumulated other comprehensive loss for the three-month and six-month periods ended September 27, 2013, was recognized as a component of cost of sales in the condensed consolidated statement of operations, which primarily relate to the Company's foreign currency contracts accounted for as cash flow hedges.

**9. TRADE RECEIVABLES SECURITIZATION**

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

*Asset-Backed Securitization Programs*

The Company continuously sells designated pools of trade receivables under its Global Asset-Backed Securitization Agreement (the Global Program) and its North American Asset-Backed Securitization Agreement (the North American Program, collectively, the ABS Programs) to affiliated special purpose entities, each of which in turn sells 100% of the receivables to unaffiliated financial institutions. These programs allow the operating subsidiaries to receive a cash payment and a deferred purchase price receivable for sold receivables. Following the transfer of the receivables to the special purpose entities, the transferred receivables are isolated from the Company and its affiliates, and upon the sale of the receivables from the special purpose entities to the unaffiliated financial institutions effective control of the transferred receivables is passed to the unaffiliated financial institutions, which has the right to pledge or sell the receivables. Although the special purpose entities are consolidated by the Company, they are separate corporate entities and their assets are available first to satisfy the claims of their creditors. The investment limits set by the financial institutions are \$500.0 million for the Global Program and \$225.0 million for the North American Program. Both programs require a minimum level of deferred purchase price receivable to be retained by the Company in connection with the sales.

The Company services, administers and collects the receivables on behalf of the special purpose entities and receives a servicing fee of 0.1% to 0.5% of serviced receivables per annum. Servicing fees recognized during the three-month and six-month periods ended September 26, 2014 and September 27, 2013 were not material and are included in interest and other, net within the condensed consolidated statements of operations. As the Company estimates the fee it receives in return for its obligation to service these receivables is at fair value, no servicing assets and liabilities are recognized.

As of September 26, 2014, approximately \$1.1 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 \$673.6 million and deferred purchase price receivables of approximately \$426.1 million. As of March 31, 2014, approximately \$1.2 billion of accounts receivable had been sold to the special purpose entities for which the Company had received net cash proceeds of \$729.3 million and deferred purchase price receivables of approximately \$470.9 million. The portion of the purchase price for the receivables which is not paid by the unaffiliated financial institutions in cash is a deferred purchase price receivable, which is paid to the special purpose entity as payments on the receivables are collected from account debtors. The deferred purchase price receivable represents a beneficial interest in the transferred financial assets and is recognized at fair value as part of the sale transaction. The deferred purchase price receivables are included in other current assets as of September 26, 2014 and March 31, 2014, and were carried at the expected recovery amount of the related receivables. The difference between the carrying amount of the receivables sold under these programs and the sum of the cash and fair value of the deferred purchase price receivables received at time of transfer is recognized as a loss on sale of the related receivables and recorded in interest and other, net in the condensed consolidated statements of operations and were immaterial for all periods presented.

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As of September 26, 2014 and March 31, 2014, the accounts receivable balances that were sold under the ABS Programs were removed from the condensed consolidated balance sheets and the net cash proceeds received by the Company were included as cash provided by operating activities in the condensed consolidated statements of cash flows.

For the six-month periods ended September 26, 2014 and September 27, 2013, cash flows from sales of receivables under the ABS Programs consisted of approximately \$2.1 billion and \$1.9 billion for transfers of receivables, respectively (of which approximately \$76.5 million and \$182.7 million, 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:

Table of Contents

|                          | Three-Month Periods Ended |                       | Six-Month Periods Ended |                       |
|--------------------------|---------------------------|-----------------------|-------------------------|-----------------------|
|                          | September 26,<br>2014     | September 27,<br>2013 | September 26,<br>2014   | September 27,<br>2013 |
|                          | (In thousands)            |                       |                         |                       |
| Beginning balance        | \$ 463,124                | \$ 420,887            | \$ 470,908              | \$ 412,357            |
| Transfers of receivables | 720,921                   | 983,623               | 1,499,781               | 1,866,540             |
| Collections              | (757,988)                 | (846,199)             | (1,544,632)             | (1,720,586)           |
| Ending balance           | \$ 426,057                | \$ 558,311            | \$ 426,057              | \$ 558,311            |

**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 \$571.5 million and \$341.8 million as of September 26, 2014 and March 31, 2014, respectively. For the six-month periods ended September 26, 2014 and September 27, 2013, total accounts receivable sold to certain third party banking institutions was approximately \$2.3 billion and \$1.2 billion, respectively. The receivables that were sold were removed from the condensed consolidated balance sheets and the cash received is reflected as cash provided by operating activities in the condensed consolidated statements of cash flows.

**10. FAIR VALUE MEASUREMENT OF ASSETS AND LIABILITIES**

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

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

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

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

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

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

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

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

The Company has accrued for certain contingent consideration in connection with its business acquisitions, which is measured at fair value based on internal cash flow models and other inputs. The following table summarizes the activities related to contingent consideration:

Table of Contents

|                        | Three-Month Periods Ended |                       | Six-Month Periods Ended |                       |
|------------------------|---------------------------|-----------------------|-------------------------|-----------------------|
|                        | September 26,<br>2014     | September 27,<br>2013 | September 26,<br>2014   | September 27,<br>2013 |
|                        | (In thousands)            |                       |                         |                       |
| Beginning balance      | \$ 11,300                 | \$ 19,000             | \$ 11,300               | \$ 25,000             |
| Additions to accrual   | 4,500                     |                       | 4,500                   |                       |
| Fair value adjustments |                           | (3,000)               |                         | (9,000)               |
| Ending balance         | \$ 15,800                 | \$ 16,000             | \$ 15,800               | \$ 16,000             |

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. Due to its high credit quality and short term maturity the fair value approximates carrying value. Significant increases in either of the major unobservable inputs (credit spread, risk free interest rate) in isolation would result in lower fair value estimates, however the impact is not meaningful. The interrelationship between these inputs is also insignificant. Refer to note 9 to the condensed consolidated financial statements for a reconciliation of the change in the deferred purchase price receivable during the three-month and six-month periods ended September 26, 2014 and September 27, 2013.

There were no transfers between levels in the fair value hierarchy during the three-month and six-month periods ended September 26, 2014 and September 27, 2013.

**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:

|  | Fair Value Measurements as of September 26, 2014 |             |          | Total       |
|--|--|-------------|----------|-------------|
|  | Level 1  | Level 2     | Level 3  |             |
|  | (In thousands)                                   |             |          |             |
| <b>Assets:</b>   |  |             |          |             |
| Money market funds and time deposits<br>(included in cash and cash equivalents of the<br>condensed consolidated balance sheet) | \$   | \$ 528,169  | \$       | \$ 528,169  |
| Deferred purchase price receivable (Note 9)  |  |             | 426,057  | 426,057     |
| Foreign exchange forward contracts (Note 7)  |  | 25,951      |          | 25,951      |
| Deferred compensation plan assets:   |  |             |          |             |
| Mutual funds, money market accounts and<br>equity securities   | 9,216  | 37,245      |          | 46,461      |
| <b>Liabilities:</b>  |  |             |          |             |
| Foreign exchange forward contracts (Note 7)  | \$   | \$ (18,912) | \$       | \$ (18,912) |
| Contingent consideration in connection with<br>business acquisitions   |  |             | (15,800) | (15,800)    |

|                | Fair Value Measurements as of March 31, 2014 |         |         | Total |
|----------------|--|---------|---------|-------|
|                | Level 1                                      | Level 2 | Level 3 |       |
|                | (In thousands)                               |         |         |       |
| <b>Assets:</b> |  |         |         |       |

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|  |    |       |          |          |    |          |
|--|----|-------|----------|----------|----|----------|
| Money market funds and time deposits<br>(included in cash and cash equivalents of the<br>condensed consolidated balance sheet) | \$ | \$    | 552,928  | \$       | \$ | 552,928  |
| Deferred purchase price receivable (Note 9)  |    |       |          | 470,908  |    | 470,908  |
| Foreign exchange forward contracts (Note 7)  |    |       | 8,186    |          |    | 8,186    |
| Deferred compensation plan assets:   |    |       |          |          |    |          |
| Mutual funds, money market accounts and<br>equity securities   |    | 9,456 | 36,751   |          |    | 46,207   |
| <b>Liabilities:</b>  |    |       |          |          |    |          |
| Foreign exchange forward contracts (Note 7)  | \$ | \$    | (17,406) | \$       | \$ | (17,406) |
| Contingent consideration in connection with<br>business acquisitions   |    |       |          | (11,300) |    | (11,300) |

*Assets Measured at Fair Value on a Nonrecurring Basis*

Assets held for sale are recorded at the lesser of the carrying value or fair value, which is based on comparable sales from prevailing market data (level 2 inputs). As of September 26, 2014 and March 31, 2014, the fair value of assets that were no longer in use and held for sale totaled approximately \$3.6 million and \$43.5 million, respectively. These assets primarily represent manufacturing facilities that have been closed as part of the Company's historical facility consolidations and that met the criteria to be classified as held for sale. During the six-month period ended September 26, 2014, the Company sold \$39.9 million of assets held for sale.

Table of Contents

There were no transfers between levels in the fair value hierarchy for assets held-for-sale during the three-month and six-month periods ended September 26, 2014 and September 27, 2013.

**Other financial instruments**

The following table presents the Company's debt not carried at fair value:

|   | As of September 26, 2014 |                     | As of March 31, 2014 |                     | Fair Value Hierarchy |
|---|--------------------------|---------------------|----------------------|---------------------|----------------------|
|   | Carrying Amount          | Fair Value          | Carrying Amount      | Fair Value          |                      |
|   | (In thousands)           |                     |                      |                     |                      |
| Term Loan, including current portion, due in installments through August 2018 | \$ 600,000               | \$ 585,750          | \$ 600,000           | \$ 591,750          | Level 1              |
| Term Loan, including current portion, due in installments through March 2019  | 493,750                  | 484,803             | 500,000              | 497,190             | Level 1              |
| 4.625% Notes due February 2020  | 500,000                  | 502,510             | 500,000              | 504,688             | Level 1              |
| 5.000% Notes due February 2023  | 500,000                  | 505,000             | 500,000              | 517,650             | Level 1              |
| <b>Total</b>  | <b>\$ 2,093,750</b>      | <b>\$ 2,078,063</b> | <b>\$ 2,100,000</b>  | <b>\$ 2,111,278</b> |                      |

The term loans and Notes due February 2020 and February 2023 are valued based on broker trading prices in active markets.

**11. RESTRUCTURING CHARGES**

The Company completed certain restructuring activities during fiscal year 2014 that were intended to improve its operational efficiencies by reducing excess workforce and capacity and realign the corporate cost structure. Restructuring charges are recorded based upon employee termination dates, site closure and consolidation plans.

During the six-month period ended September 27, 2013, the Company recognized restructuring charges of approximately \$40.8 million, of which \$35.1 million were recorded as a component of cost of sales and \$5.6 million were recorded as a component of selling, general and administrative expenses. Of the total restructuring charges, \$32.2 million was associated with the terminations of 5,106 identified employees. The identified employee terminations by reportable geographic region amounted to approximately 3,947 in Asia, 1,105 in the Americas and 54 in Europe. The costs associated with these restructuring activities include employee severance, other personnel costs, non-cash impairment charges on equipment no longer in use and to be disposed of, and other exit related costs due to facility closures or rationalizations. Of the total restructuring charges, \$1.9 million were non-cash charges related to the impairment of long-lived assets, and were classified as a component of cost of sales.

The components of the restructuring charges by geographic region incurred during the six-month period ended September 27, 2013 were as follows:

|                             | Americas  | Asia      | (In thousands) |       | Europe | Total  |
|-----------------------------|-----------|-----------|----------------|-------|--------|--------|
| Severance                   | \$ 11,331 | \$ 16,205 | \$             | 4,631 | \$     | 32,167 |
| Long-lived asset impairment |           | 1,900     |                |       |        | 1,900  |
| Other exit costs            | 2,248     | 3,157     |                | 1,288 |        | 6,693  |
| Total restructuring charges | \$ 13,579 | \$ 21,262 | \$             | 5,919 | \$     | 40,760 |

The majority of severance costs were classified as a component of cost of sales.

During the six-month period ended September 27, 2013, the Company recognized approximately \$6.7 million of other exit costs, which was primarily comprised of \$3.8 million related to personnel costs and \$2.9 million of contractual obligations that resulted from facility closures. The majority of these costs were classified as a component of cost of sales.

During the six-month period ended September 26, 2014, the Company paid approximately \$25.0 million for restructuring charges. Total restructuring charges accrued as of September 26, 2014 were approximately \$17.4 million, of which the majority was classified as a short-term obligation.

Table of Contents

**12. BUSINESS AND ASSETS ACQUISITIONS**

During the three-month period ended September 26, 2014, the Company completed two acquisitions that were not individually, nor in the aggregate, significant to the consolidated financial position, results of operations and cash flows of the Company. Both of the acquired businesses expanded the Company's capabilities in the medical devices market, particularly precision plastics. The total consideration was paid in cash and amounted to \$31.4 million net of \$5.6 million of cash held by the acquirees. The Company recorded goodwill of \$21.7 million in connection with these acquisitions. The results of operations were included in the Company's consolidated financial results beginning on the date of these acquisitions. Pro-forma results of operations for these acquisitions have not been presented because the effects of the acquisitions were immaterial to the Company's consolidated financial results for all periods presented.

The Company is in the process of evaluating the fair value of the assets and liabilities related to business combinations completed during the recent periods. Additional information, which existed as of the acquisition date, may become known to the Company during the remainder of the measurement period, a period not to exceed 12 months from the date of acquisition. Changes to amounts recorded as assets and liabilities may result in a corresponding adjustment to goodwill during the respective measurement periods.

**13. COMMITMENTS AND CONTINGENCIES**

*Litigation and other legal matters*

On December 11, 2013, Xilinx, Inc. (plaintiff) filed a lawsuit in Santa Clara County, California, Superior Court against Flextronics International, Ltd.; Flextronics International USA, Inc.; and Flextronics Corporation (Case No. 113CV257431). The complaint asserts various claims, including fraud, negligent misrepresentation, breach of contract, and unfair competition, based on specific alleged incidents concerning our purchases and sales of Xilinx products. The plaintiff seeks an unspecified amount of compensatory, statutory, punitive, and other forms of damages, injunctive relief, and attorneys' fees and costs. The plaintiff also seeks a jury trial. On June 25, 2014, we filed motions for Demurrer and to Strike asking the court to dismiss the claims against us. The court has scheduled a hearing on the motions for December 19, 2014. Although the outcome of this matter is currently not determinable, management expects that any losses that are probable or reasonably possible of being incurred as a result of this matter, which are in excess of amounts already accrued in the Company's condensed consolidated balance sheets, would not be material to the financial statements.

During the six-month period ended September 26, 2014, one of our non-operating Brazilian subsidiaries received an assessment of approximately \$100 million related to income and social contribution taxes, interest and penalties. The Company believes there is no legal basis for the assessment and expects that any losses are remote. The Company plans to vigorously defend itself through the administrative and judicial processes.

In addition, from time to time, the Company is subject to 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 the Company's condensed consolidated balance sheets would not be material to the financial statements as a whole.

#### 14. SHARE REPURCHASES

During the three-month and six-month periods ended September 26, 2014 the Company repurchased 9.3 million shares at an aggregate purchase price of \$101.3 million and 19.8 million shares at an aggregate purchase price of \$203.4 million, respectively, and retired all of these shares.

Under the Company's current share repurchase program, the Board of Directors authorized repurchases of its outstanding ordinary shares for up to \$500 million in accordance with the share repurchase mandate approved by the Company's shareholders at the date of the most recent Extraordinary General Meeting held on August 28, 2014. As of September 26, 2014, shares in the aggregate amount of \$456.7 million were available to be repurchased under the current plan.

Table of Contents**15. SUPPLEMENTAL GUARANTOR AND NON-GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS**

Flextronics International Ltd. ( Parent ) has two tranches of Notes of \$500 million each outstanding, which mature on February 15, 2020 and February 15, 2023, respectively. These Notes are senior unsecured obligations, and are guaranteed, fully and unconditionally, jointly and severally, on an unsecured basis, by certain of the Company s 100% owned subsidiaries (the guarantor subsidiaries ). These subsidiary guarantees will terminate upon 1) a sale or other disposition of the guarantor or the sale or disposition of all or substantially all the assets of the guarantor (other than to the Parent or a subsidiary); 2) such guarantor ceasing to be a guarantor or a borrower under the Company s Term Loan Agreement and the Revolving Line of Credit; 3) defeasance or discharge of the Notes, as provided in the Notes indenture; or 4) if at any time the Notes are rated investment grade.

In lieu of providing separate financial statements for the guarantor subsidiaries, the Company has included the accompanying condensed consolidating financial statements, which are presented using the equity method of accounting. The principal elimination entries relate to investment in subsidiaries and intercompany balances and transactions, including transactions with the Company s non-guarantor subsidiaries.

**Condensed Consolidating Balance Sheets as of September 26, 2014**

|  | Parent        | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>(in thousands) | Eliminations    | Consolidated  |
|--|---------------|---------------------------|---|-----------------|---------------|
| <b>ASSETS</b>  |               |                           |   |                 |               |
| Current assets:  |               |                           |   |                 |               |
| Cash and cash equivalents                                | \$ 470,139    | \$ 321,665                | \$ 722,548                                      | \$              | \$ 1,514,352  |
| Accounts receivable                                      |               | 1,189,969                 | 1,336,911                                       |                 | 2,526,880     |
| Inventories  |               | 1,653,596                 | 1,973,044                                       |                 | 3,626,640     |
| Inter company receivable                                 | 10,094,013    | 8,128,810                 | 10,142,505                                      | (28,365,328)    |               |
| Other current assets                                     | 6,577         | 202,559                   | 1,002,052                                       |                 | 1,211,188     |
| Total current assets                                     | 10,570,729    | 11,496,599                | 15,177,060                                      | (28,365,328)    | 8,879,060     |
| Property and equipment, net                              |               | 504,883                   | 1,689,083                                       |                 | 2,193,966     |
| Goodwill and other intangible<br>assets, net             | 625           | 47,428                    | 365,184   |                 | 413,237       |
| Other assets   | 2,495,053     | 108,349                   | 2,196,815                                       | (4,366,607)     | 433,610       |
| Investment in subsidiaries                               | 930,357       | 1,372,617                 | 16,077,482                                      | (18,380,456)    |               |
| Total assets   | \$ 13,996,764 | \$ 13,529,876             | \$ 35,505,624                                   | \$ (51,112,391) | \$ 11,919,873 |
| <b>LIABILITIES AND<br/>SHAREHOLDERS EQUITY</b>           |               |                           |   |                 |               |
| Current liabilities:                                     |               |                           |   |                 |               |
| Bank borrowings and current<br>portion of long-term debt | \$ 40,000     | \$ 35                     | \$ 5,544  | \$              | \$ 45,579     |
| Accounts payable   |               | 1,657,866                 | 3,035,660                                       |                 | 4,693,526     |
| Accrued payroll  |               | 117,170                   | 264,096   |                 | 381,266       |
| Inter company payable                                    | 9,532,897     | 11,370,249                | 7,462,182                                       | (28,365,328)    |               |
| Other current liabilities                                | 26,609        | 825,056                   | 1,084,239                                       |                 | 1,935,904     |
| Total current liabilities                                | 9,599,506     | 13,970,376                | 11,851,721                                      | (28,365,328)    | 7,056,275     |
| Long term liabilities                                    | 2,092,704     | 2,091,422                 | 2,703,225                                       | (4,366,607)     | 2,520,744     |
| Flextronics International Ltd.<br>shareholders equity    | 2,304,554     | (2,531,922)               | 20,912,378                                      | (18,380,456)    | 2,304,554     |

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|  |               |               |               |                 |               |        |
|--|---------------|---------------|---------------|-----------------|---------------|--------|
| Noncontrolling interests                   |               |               |               | 38,300          |               | 38,300 |
| Total shareholders' equity                 | 2,304,554     | (2,531,922)   | 20,950,678    | (18,380,456)    | 2,342,854     |        |
| Total liabilities and shareholders' equity | \$ 13,996,764 | \$ 13,529,876 | \$ 35,505,624 | \$ (51,112,391) | \$ 11,919,873 |        |

Table of Contents**Condensed Consolidating Balance Sheets as of March 31, 2014**

|  | Parent        | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>(in thousands) | Eliminations    | Consolidated  |
|--|---------------|---------------------------|---|-----------------|---------------|
| <b>ASSETS</b>  |               |                           |   |                 |               |
| Current assets:  |               |                           |   |                 |               |
| Cash and cash equivalents                                | \$ 638,714    | \$ 210,462                | \$ 744,552                                      | \$              | \$ 1,593,728  |
| Accounts receivable                                      |               | 1,203,600                 | 1,494,385                                       |                 | 2,697,985     |
| Inventories  |               | 1,701,872                 | 1,897,136                                       |                 | 3,599,008     |
| Inter company receivable                                 | 8,867,520     | 6,963,002                 | 9,528,158                                       | (25,358,680)    |               |
| Other current assets                                     | 246           | 383,590                   | 1,125,769                                       |                 | 1,509,605     |
| Total current assets                                     | 9,506,480     | 10,462,526                | 14,790,000                                      | (25,358,680)    | 9,400,326     |
| Property and equipment, net                              |               | 490,166                   | 1,798,490                                       |                 | 2,288,656     |
| Goodwill and other intangible<br>assets, net             | 775           | 46,916                    | 329,527   |                 | 377,218       |
| Other assets   | 2,585,169     | 120,739                   | 4,692,156                                       | (6,964,114)     | 433,950       |
| Investment in subsidiaries                               | 3,350,690     | 822,528                   | 15,965,981                                      | (20,139,199)    |               |
| Total assets   | \$ 15,443,114 | \$ 11,942,875             | \$ 37,576,154                                   | \$ (52,461,993) | \$ 12,500,150 |
| <b>LIABILITIES AND<br/>SHAREHOLDERS EQUITY</b>           |               |                           |   |                 |               |
| Current liabilities:                                     |               |                           |   |                 |               |
| Bank borrowings and current<br>portion of long-term debt | \$ 32,500     | \$ 60                     | \$ 15   | \$              | \$ 32,575     |
| Accounts payable   |               | 1,614,384                 | 3,133,395                                       |                 | 4,747,779     |
| Accrued payroll  |               | 106,046                   | 248,843   |                 | 354,889       |
| Inter company payable                                    | 8,607,486     | 10,126,691                | 6,624,503                                       | (25,358,680)    |               |
| Other current liabilities                                | 24,868        | 756,767                   | 1,739,809                                       |                 | 2,521,444     |
| Total current liabilities                                | 8,664,854     | 12,603,948                | 11,746,565                                      | (25,358,680)    | 7,656,687     |
| Long term liabilities                                    | 4,615,210     | 2,140,985                 | 2,849,703                                       | (6,964,114)     | 2,641,784     |
| Flextronics International Ltd.<br>shareholders equity    | 2,163,050     | (2,802,058)               | 22,941,257                                      | (20,139,199)    | 2,163,050     |
| Noncontrolling interest                                  |               |                           | 38,629  |                 | 38,629        |
| Total shareholders equity                                | 2,163,050     | (2,802,058)               | 22,979,886                                      | (20,139,199)    | 2,201,679     |
| Total liabilities and shareholders<br>equity             | \$ 15,443,114 | \$ 11,942,875             | \$ 37,576,154                                   | \$ (52,461,993) | \$ 12,500,150 |

**Condensed Consolidating Statements of Operations for the Three-Month Period Ended September 26, 2014**

|   | Parent   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>(in thousands) | Eliminations   | Consolidated |
|---|----------|---------------------------|---|----------------|--------------|
| Net sales                                       | \$       | \$ 4,456,995              | \$ 5,219,767                                    | \$ (3,148,245) | \$ 6,528,517 |
| Cost of sales                                   |          | 4,139,945                 | 5,159,736                                       | (3,148,245)    | 6,151,436    |
| Gross profit                                    |          | 317,050                   | 60,031  |                | 377,081      |
| Selling, general and administrative<br>expenses |          | 57,525                    | 147,065   |                | 204,590      |
| Intangible amortization                         | 75       | 605                       | 7,552   |                | 8,232        |
| Interest and other, net                         | (68,309) | 277,193                   | (198,962)                                       |                | 9,922        |
|   | 68,234   | (18,273)                  | 104,376   |                | 154,337      |

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|  |            |    |          |    |         |             |            |
|--|------------|----|----------|----|---------|-------------|------------|
| Income (loss) from continuing operations before income taxes |            |    |          |    |         |             |            |
| Provision for income taxes                                   |            |    | 8,142    |    | 7,292   |             | 15,434     |
| Equity in earnings in subsidiaries                           | 70,669     |    | (49,086) |    | 50,147  | (71,730)    |            |
| Net income (loss)  | \$ 138,903 | \$ | (75,501) | \$ | 147,231 | \$ (71,730) | \$ 138,903 |

Condensed Consolidating Statements of Operations for the Three-Month Period Ended September 27, 2013

|  | Parent     | Guarantor Subsidiaries | Non-Guarantor Subsidiaries<br>(in thousands) | Eliminations   | Consolidated |
|--|------------|------------------------|--|----------------|--------------|
| Net sales  | \$         | \$ 4,325,352           | \$ 5,239,450                                 | \$ (3,154,696) | \$ 6,410,106 |
| Cost of sales  |            | 3,965,291              | 5,231,088                                    | (3,154,696)    | 6,041,683    |
| Gross profit   |            | 360,061                | 8,362  |                | 368,423      |
| Selling, general and administrative expenses                 |            | 57,999                 | 160,501                                      |                | 218,500      |
| Intangible amortization                                      | 75         | 955                    | 6,688  |                | 7,718        |
| Interest and other, net                                      | (163,869)  | 284,155                | (106,685)                                    |                | 13,601       |
| Income (loss) from continuing operations before income taxes | 163,794    | 16,952                 | (52,142)                                     |                | 128,604      |
| Provision for income taxes                                   |            | 2,188                  | 8,211  |                | 10,399       |
| Equity in earnings in subsidiaries                           | (45,589)   | (85,198)               | 41,901                                       | 88,886         |              |
| Net income (loss)  | \$ 118,205 | \$ (70,434)            | \$ (18,452)                                  | \$ 88,886      | \$ 118,205   |

Table of Contents**Condensed Consolidating Statements of Operations for the Six-Month Period Ended September 26, 2014**

|   | Parent     | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>(in thousands) | Eliminations   | Consolidated  |
|---|------------|---------------------------|---|----------------|---------------|
| Net sales   | \$         | \$ 8,968,224              | \$ 10,025,449                                   | \$ (5,822,411) | \$ 13,171,262 |
| Cost of sales   |            | 8,298,137                 | 9,937,670                                       | (5,822,411)    | 12,413,396    |
| Gross profit  |            | 670,087                   | 87,779  |                | 757,866       |
| Selling, general and administrative expenses          |            | 112,019                   | 301,848   |                | 413,867       |
| Intangible amortization                               | 150        | 1,229                     | 13,804  |                | 15,183        |
| Interest and other, net                               | (51,777)   | 536,944                   | (500,617)                                       |                | (15,450)      |
| Income from continuing operations before income taxes | 51,627     | 19,895                    | 272,744   |                | 344,266       |
| Provision for income taxes                            |            | 14,790                    | 16,686  |                | 31,476        |
| Equity in earnings in subsidiaries                    | 261,163    | 12,774                    | 86,579  | (360,516)      |               |
| Net income (loss)                                     | \$ 312,790 | \$ 17,879                 | \$ 342,637                                      | \$ (360,516)   | \$ 312,790    |

**Condensed Consolidating Statements of Operations for the Six-Month Period Ended September 27, 2013**

|  | Parent     | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>(in thousands) | Eliminations   | Consolidated  |
|--|------------|---------------------------|---|----------------|---------------|
| Net sales  | \$         | \$ 8,066,344              | \$ 9,582,043                                    | \$ (5,447,156) | \$ 12,201,231 |
| Cost of sales  |            | 7,360,905                 | 9,608,024                                       | (5,447,156)    | 11,521,773    |
| Gross profit (loss)  |            | 705,439                   | (25,981)  |                | 679,458       |
| Selling, general and administrative expenses                 | 800        | 118,448                   | 322,871   |                | 442,119       |
| Intangible amortization                                      | 150        | 2,036                     | 13,734  |                | 15,920        |
| Interest and other, net                                      | (213,203)  | 550,750                   | (304,262)                                       |                | 33,285        |
| Income (loss) from continuing operations before income taxes | 212,253    | 34,205                    | (58,324)  |                | 188,134       |
| Provision for income taxes                                   | 10         | 6,582                     | 4,080   |                | 10,672        |
| Equity in earnings in subsidiaries                           | (34,781)   | (95,847)                  | 34,748  | 95,880         |               |
| Net income (loss)  | \$ 177,462 | \$ (68,224)               | \$ (27,656)                                     | \$ 95,880      | \$ 177,462    |

**Condensed Consolidating Statements of Comprehensive Income (Loss) for the Three-Month Period Ended September 26, 2014**

|   | Parent     | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>(in thousands) | Eliminations | Consolidated |
|---|------------|---------------------------|---|--------------|--------------|
| Net income (loss)   | \$ 138,903 | \$ (75,501)               | \$ 147,231                                      | \$ (71,730)  | \$ 138,903   |
| Other comprehensive income (loss):  |            |                           |   |              |              |
| Foreign currency translation adjustments, net of zero tax                   | (5,683)    | 75,966                    | 65,611  | (141,577)    | (5,683)      |
| Unrealized gain (loss) on derivative instruments and other, net of zero tax | (2,433)    | (2,058)                   | (2,433)   | 4,491        | (2,433)      |

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|                             |    |         |    |         |    |         |    |           |    |         |
|-----------------------------|----|---------|----|---------|----|---------|----|-----------|----|---------|
| Comprehensive income (loss) | \$ | 130,787 | \$ | (1,593) | \$ | 210,409 | \$ | (208,816) | \$ | 130,787 |
|-----------------------------|----|---------|----|---------|----|---------|----|-----------|----|---------|

**Condensed Consolidating Statements of Comprehensive Income (Loss) for the Three-Month Period Ended September 27, 2013**

|  | Parent     | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries<br>(in thousands) | Eliminations | Consolidated |
|--|------------|---------------------------|---|--------------|--------------|
| Net income (loss)  | \$ 118,205 | \$ (70,434)               | \$ (18,452)   | \$ 88,886    | \$ 118,205   |
| Other comprehensive income (loss):   |            |                           |   |              |              |
| Foreign currency translation adjustments,<br>net of zero tax                   | (11,988)   | (38,084)                  | (39,132)  | 77,216       | (11,988)     |
| Unrealized gain (loss) on derivative<br>instruments and other, net of zero tax | 9,553      | 4,668                     | 9,553   | (14,221)     | 9,553        |
| Comprehensive income (loss)  | \$ 115,770 | \$ (103,850)              | \$ (48,031)   | \$ 151,881   | \$ 115,770   |

**Condensed Consolidating Statements of Comprehensive Income (Loss) for the Six-Month Period Ended September 26, 2014**

|  | Parent     | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries<br>(in thousands) | Eliminations | Consolidated |
|--|------------|---------------------------|---|--------------|--------------|
| Net income (loss)  | \$ 312,790 | \$ 17,879                 | \$ 342,637  | \$ (360,516) | \$ 312,790   |
| Other comprehensive income (loss):   |            |                           |   |              |              |
| Foreign currency translation<br>adjustments, net of zero tax                   | (9,828)    | 91,618                    | 71,337  | (162,955)    | (9,828)      |
| Unrealized gain (loss) on derivative<br>instruments and other, net of zero tax | 8,292      | (228)                     | 8,292   | (8,064)      | 8,292        |
| Comprehensive income (loss)  | \$ 311,254 | \$ 109,269                | \$ 422,266  | \$ (531,535) | \$ 311,254   |

**Condensed Consolidating Statements of Comprehensive Income (Loss) for the Six-Month Period Ended September 27, 2013**

|  | Parent     | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries<br>(in thousands) | Eliminations | Consolidated |
|--|------------|---------------------------|---|--------------|--------------|
| Net income (loss)  | \$ 177,462 | \$ (68,224)               | \$ (27,656)   | \$ 95,880    | \$ 177,462   |
| Other comprehensive income (loss):   |            |                           |   |              |              |
| Foreign currency translation adjustments,<br>net of zero tax                   | (29,497)   | (64,165)                  | (66,413)  | 130,578      | (29,497)     |
| Unrealized gain (loss) on derivative<br>instruments and other, net of zero tax | (581)      | 3,424                     | (582)   | (2,842)      | (581)        |
| Comprehensive income (loss)  | \$ 147,384 | \$ (128,965)              | \$ (94,651)   | \$ 223,616   | \$ 147,384   |

Table of Contents**Condensed Consolidating Statements of Cash Flows for the Six-Month Period Ended September 26, 2014**

|   | Parent     | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>(In thousands) | Eliminations | Consolidated |
|---|------------|---------------------------|---|--------------|--------------|
| Net cash provided by operating activities   | \$ 24,949  | \$ 217,745                | \$ 63,551                                       | \$           | 306,245      |
| Cash flows from investing activities:   |            |                           |   |              |              |
| Purchases of property and equipment,<br>net of proceeds from disposal             |            | (73,455)                  | (64,929)  | (11)         | (138,395)    |
| Acquisition of businesses, net of cash<br>acquired                                |            |                           | (32,589)  |              | (32,589)     |
| Proceeds from divestiture of business, net<br>of cash held in divested business   |            |                           | (5,493)   |              | (5,493)      |
| Investing cash flows from (to) affiliates   | (833,951)  | (1,064,718)               | 351,146   | 1,547,523    |              |
| Other investing activities, net   |            | (6,134)                   | (22,721)  |              | (28,855)     |
| Net cash provided by (used in) investing<br>activities                            | (833,951)  | (1,144,307)               | 225,414   | 1,547,512    | (205,332)    |
| Cash flows from financing activities:   |            |                           |   |              |              |
| Proceeds from bank borrowings and<br>long-term debt                               |            |                           | 11,387  |              | 11,387       |
| Repayments of bank borrowings,<br>long-term debt and capital lease<br>obligations | (6,250)    | (888)                     | (2,047)   |              | (9,185)      |
| Payments for repurchases of ordinary<br>shares                                    | (206,771)  |                           |   |              | (206,771)    |
| Net proceeds from issuance of ordinary<br>shares                                  | 11,412     |                           |   |              | 11,412       |
| Financing cash flows from (to) affiliates   | 925,410    | 1,039,792                 | (417,690)                                       | (1,547,512)  |              |
| Other financing activities, net   |            |                           | 3,382   |              | 3,382        |
| Net cash provided by (used in) financing<br>activities                            | 723,801    | 1,038,904                 | (404,968)                                       | (1,547,512)  | (189,775)    |
| Effect of exchange rates on cash and<br>cash equivalents                          | (83,374)   | (1,139)                   | 93,999  |              | 9,486        |
| Net increase (decrease) in cash and cash<br>equivalents                           | (168,575)  | 111,203                   | (22,004)  |              | (79,376)     |
| Cash and cash equivalents, beginning of<br>period                                 | 638,714    | 210,462                   | 744,552   |              | 1,593,728    |
| Cash and cash equivalents, end of period  | \$ 470,139 | \$ 321,665                | \$ 722,548                                      | \$           | \$ 1,514,352 |

**Condensed Consolidating Statements of Cash Flows for the Six-Month Period Ended September 27, 2013**

|   | Parent     | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>(In thousands) | Eliminations | Consolidated |
|---|------------|---------------------------|---|--------------|--------------|
| Net cash provided by (used in) operating<br>activities                | \$ 199,101 | \$ (729,765)              | \$ 884,283                                      | \$ 139       | \$ 353,758   |
| Cash flows from investing activities:                                 |            |                           |   |              |              |
| Purchases of property and equipment,<br>net of proceeds from disposal |            | (175,791)                 | (135,190)                                       |              | (310,981)    |
|   |            | (61,587)                  | (125,956)                                       |              | (187,543)    |

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|  |            |            |             |             |              |
|--|------------|------------|-------------|-------------|--------------|
| Acquisition of businesses, net of cash acquired                              |            |            |             |             |              |
| Proceeds from divestiture of business, net of cash held in divested business |            |            | 1,000       |             | 1,000        |
| Investing cash flows from (to) affiliates                                    | (345,190)  | 110,985    | (2,108,241) | 2,342,446   |              |
| Other investing activities, net  |            | 1,165      | 6,271       |             | 7,436        |
| Net cash provided by (used in) investing activities                          | (345,190)  | (125,228)  | (2,362,116) | 2,342,446   | (490,088)    |
| Cash flows from financing activities:  |            |            |             |             |              |
| Proceeds from bank borrowings and long-term debt                             | 933,000    | 278        | 169         |             | 933,447      |
| Repayments of bank borrowings, long-term debt and capital lease obligations  | (403,821)  | (979)      | (1)         |             | (404,801)    |
| Payments for early retirement of long-term debt                              | (503,422)  | (41,418)   |             |             | (544,840)    |
| Payments for repurchases of ordinary shares                                  | (324,594)  |            |             |             | (324,594)    |
| Net proceeds from issuance of ordinary shares                                | 19,637     |            |             |             | 19,637       |
| Financing cash flows from (to) affiliates                                    | (90,262)   | 823,930    | 1,608,917   | (2,342,585) |              |
| Other financing activities, net  |            |            | 14,743      |             | 14,743       |
| Net cash provided by (used in) financing activities                          | (369,462)  | 781,811    | 1,623,828   | (2,342,585) | (306,408)    |
| Effect of exchange rates on cash and cash equivalents                        | 38,541     | 1,502      | (57,326)    |             | (17,283)     |
| Net decrease (increase) in cash and cash equivalents                         | (477,010)  | (71,680)   | 88,669      |             | (460,021)    |
| Cash and cash equivalents, beginning of period                               | 740,515    | 226,372    | 620,200     |             | 1,587,087    |
| Cash and cash equivalents, end of period                                     | \$ 263,505 | \$ 154,692 | \$ 708,869  | \$          | \$ 1,127,066 |

Table of Contents

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Unless otherwise specifically stated, references in this report to Flextronics, the Company, we, us, our and similar terms mean Flextronics International Ltd. and its subsidiaries.

This report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. The words expects, anticipates, believes, intends, plans and similar expressions identify forward-looking statements. In addition, any statements which refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. We undertake no obligation to publicly disclose any revisions to these forward-looking statements to reflect events or circumstances occurring subsequent to filing this Form 10-Q with the Securities and Exchange Commission. These forward-looking statements are subject to risks and uncertainties, including, without limitation, those risks and uncertainties discussed in this section, as well as any risks and uncertainties discussed in Part II, Item 1A, Risk Factors of this report on Form 10-Q, and in Part I, Item 1A, Risk Factors and in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended March 31, 2014. In addition, new risks emerge from time to time and it is not possible for management to predict all such risk factors or to assess the impact of such risk factors on our business. Accordingly, our future results may differ materially from historical results or from those discussed or implied by these forward-looking statements. Given these risks and uncertainties, the reader should not place undue reliance on these forward-looking statements.

**OVERVIEW**

We are a globally-recognized leading provider of supply chain solutions that span from concept through consumption. We design, build, ship and service complete packaged electronic products for original equipment manufacturers ( OEMs ) in the following business groups: High Reliability Solutions ( HRS ), which is comprised of our medical, automotive, and defense and aerospace businesses; Consumer Technology Group ( CTG ), which includes our mobile devices business, including smart phones; our consumer electronics business, including game consoles and wearable electronics; and our high-volume computing business, including various supply chain solutions for notebook personal computing ( PC ), tablets, and printers; Industrial and Emerging Industries ( IEI ), which is comprised of our household appliances, semi-cap equipment, kiosks, energy and emerging industries businesses; and Integrated Network Solutions ( INS ), which includes our telecommunications infrastructure, data networking, connected home, and server and storage businesses.

Our strategy is to provide customers with a full range of cost competitive, vertically integrated global supply chain solutions through which we can design, build, ship and service a complete packaged product for our OEM customers. This enables our OEM customers to leverage our supply chain solutions to meet their product requirements throughout the entire product life cycle.

Over the past few years, we have seen an increased level of diversification by many companies, primarily in the technology sector. Some companies that have historically identified themselves as software providers, internet service providers or e-commerce retailers have started to enter the highly competitive and rapidly evolving technology hardware markets, such as mobile devices, home entertainment and wearable devices. This trend has resulted in a significant change in the manufacturing and supply chain solutions requirements of such companies. While the products have become more complex, the supply chain solutions required by such companies have become more customized and demanding, and it has changed the manufacturing and supply chain landscape significantly.

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We use a portfolio management approach to manage our extensive service offerings. As our OEM customers change the way they go to market, we are able to reorganize and rebalance our business portfolio in order to align with our customers' needs and requirements in an effort to optimize operating results. The objective of our business model is to allow us to be flexible and redeploy and reposition our assets and resources as necessary to meet specific customer's supply chain solutions across all of the markets we serve and earn a return on our invested capital above the weighted average cost of that capital.

During fiscal year 2014, we launched multiple programs broadly across our portfolio of services and, in some instances, we deployed certain new technologies. We expect that these new programs will continue to increase in complexity in order to provide competitive advantages to our customers. We anticipate these programs will continue ramping with an increase in volume production during fiscal year 2015 and beyond. Until we achieve such higher levels of revenue, we expect that our gross margin and operating margin may be negatively impacted as profitability normally lags revenue growth due to incremental start-up costs, operational inefficiencies, under-absorbed overhead costs and lower manufacturing program volumes while in the ramp phase. We expect that our margins for these programs will improve over time as the revenue increases due to increased volumes and certain cost control measures.

Table of Contents

We are one of the world's largest providers of global supply chain solutions, with revenues of \$13.2 billion for the six-month period ended September 26, 2014 and \$26.1 billion in fiscal year 2014. We have established an extensive network of manufacturing facilities in the world's major electronics markets (Asia, the Americas and Europe) in order to serve the growing outsourcing needs of both multinational and regional OEMs. We design, build, ship and service electronics products for our customers through a network of facilities in approximately 30 countries across four continents. As of September 26, 2014, our total manufacturing capacity was approximately 25.0 million square feet. The following tables set forth the relative percentages and dollar amounts of net sales and net property and equipment, by country, based on the location of our manufacturing sites:

| Net sales: | Three-Month Periods Ended |     |                    |     | Six-Month Periods Ended |     |                    |     |
|------------|---------------------------|-----|--------------------|-----|-------------------------|-----|--------------------|-----|
|            | September 26, 2014        |     | September 27, 2013 |     | September 26, 2014      |     | September 27, 2013 |     |
|            | (In thousands)            |     |                    |     | (In thousands)          |     |                    |     |
| China      | \$ 2,476,736              | 38% | \$ 2,513,539       | 39% | \$ 5,026,967            | 38% | \$ 4,648,581       | 38% |
| Mexico     | 876,339                   | 13% | 899,752            | 14% | 1,725,937               | 13% | 1,777,225          | 15% |
| U.S        | 689,737                   | 11% | 706,346            | 11% | 1,444,457               | 11% | 1,347,132          | 11% |
| Malaysia   | 560,849                   | 9%  | 562,071            | 9%  | 1,101,961               | 8%  | 1,097,690          | 9%  |
| Brazil     | 545,384                   | 8%  | 388,956            | 6%  | 1,142,031               | 9%  | 719,550            | 6%  |
| Other      | 1,379,472                 | 21% | 1,339,442          | 21% | 2,729,909               | 21% | 2,611,053          | 21% |
|            | \$ 6,528,517              |     | \$ 6,410,106       |     | \$ 13,171,262           |     | \$ 12,201,231      |     |

| Property and equipment, net: | As of              |     | As of          |     |
|------------------------------|--------------------|-----|----------------|-----|
|                              | September 26, 2014 |     | March 31, 2014 |     |
|                              | (In thousands)     |     |                |     |
| China                        | \$ 835,028         | 38% | \$ 941,850     | 41% |
| U.S                          | 360,479            | 16% | 362,199        | 16% |
| Mexico                       | 290,525            | 13% | 326,287        | 14% |
| Malaysia                     | 156,803            | 7%  | 153,194        | 7%  |
| Brazil                       | 98,502             | 4%  | 88,867         | 4%  |
| Other                        | 452,629            | 22% | 416,259        | 18% |
|                              | \$ 2,193,966       |     | \$ 2,288,656   |     |

We believe that the combination of our extensive open innovation platform solutions, design and engineering services, advanced supply chain management solutions and services, significant scale and global presence, and industrial campuses in low-cost geographic areas provide us with a competitive advantage and strong differentiation in the market for designing, manufacturing and servicing electronics products for leading multinational and regional OEMs. Specifically, we have launched multiple product innovation centers ( PIC ) focused exclusively on offering our OEM customers the ability to simplify their global product development, manufacturing process, and after sales services, and enable them to meaningfully accelerate their time to market and cost savings.

Our operating results are affected by a number of factors, including the following:

- changes in the macro-economic environment and related changes in consumer demand;
- the mix of the manufacturing services we are providing, the number and size of new manufacturing programs, the degree to which we utilize our manufacturing capacity, seasonal demand, shortages of components and other factors;

- the effects on our business when our customers are not successful in marketing their products, or when their products do not gain widespread commercial acceptance;
- our ability to achieve commercially viable production yields and to manufacture components in commercial quantities to the performance specifications demanded by our OEM customers;
- the effects on our business due to our customers' products having short product life cycles;
- our customers' ability to cancel or delay orders or change production quantities;
- our customers' decision to choose internal manufacturing instead of outsourcing for their product requirements;
- our exposure to financially troubled customers;
- integration of acquired businesses and facilities;
- increased labor costs due to adverse labor conditions in the markets we operate; and

Table of Contents

- changes in tax legislation.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ( U.S. GAAP or GAAP ) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates and assumptions.

Refer to the accounting policies under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended March 31, 2014, where we discuss our more significant judgments and estimates used in the preparation of the condensed consolidated financial statements.

**RESULTS OF OPERATIONS**

The following table sets forth, for the periods indicated, certain statements of operations data expressed as a percentage of net sales. The financial information and the discussion below should be read in conjunction with the condensed consolidated financial statements and notes thereto included in this document. In addition, reference should be made to our audited consolidated financial statements and notes thereto and related Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2014 Annual Report on Form 10-K.

|  | Three-Month Periods Ended |                       | Six-Month Periods Ended |                       |
|--|---------------------------|-----------------------|-------------------------|-----------------------|
|  | September 26,<br>2014     | September 27,<br>2013 | September 26,<br>2014   | September 27,<br>2013 |
| Net sales                                    | 100.0%                    | 100.0%                | 100.0%                  | 100.0%                |
| Cost of sales                                | 94.2                      | 94.3                  | 94.2                    | 94.4                  |
| Gross profit                                 | 5.8                       | 5.7                   | 5.8                     | 5.6                   |
| Selling, general and administrative expenses | 3.1                       | 3.4                   | 3.1                     | 3.6                   |
| Intangible amortization                      | 0.1                       | 0.1                   | 0.1                     | 0.1                   |
| Interest and other, net                      | 0.2                       | 0.2                   | 0.2                     | 0.2                   |
| Other charges (income), net                  |                           |                       | (0.3)                   | 0.1                   |
| Income before income taxes                   | 2.4                       | 2.0                   | 2.7                     | 1.6                   |
| Provision for income taxes                   | 0.2                       | 0.2                   | 0.2                     | 0.1                   |
| Net income                                   | 2.2%                      | 1.8%                  | 2.5%                    | 1.5%                  |

*Net sales*

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The following table sets forth our net sales by business group and their relative percentages. Historical information has been recast to reflect realignment of customers and/or products between business groups to ensure comparability:

| Business groups:                 | Three-Month Periods Ended |     |                    |     | Six-Month Periods Ended |     |                    |     |
|----------------------------------|---------------------------|-----|--------------------|-----|-------------------------|-----|--------------------|-----|
|                                  | September 26, 2014        |     | September 27, 2013 |     | September 26, 2014      |     | September 27, 2013 |     |
|                                  | (In thousands)            |     | (In thousands)     |     | (In thousands)          |     | (In thousands)     |     |
| Integrated Network Solutions     | \$ 2,408,899              | 37% | \$ 2,587,528       | 40% | \$ 4,911,394            | 37% | \$ 5,119,673       | 42% |
| Consumer Technology Group        | 2,141,444                 | 33% | 2,097,495          | 33% | 4,301,577               | 33% | 3,643,978          | 30% |
| Industrial & Emerging Industries | 1,103,040                 | 17% | 939,979            | 15% | 2,237,219               | 17% | 1,846,206          | 15% |
| High Reliability Solutions       | 875,134                   | 13% | 785,104            | 12% | 1,721,072               | 13% | 1,591,374          | 13% |
|                                  | \$ 6,528,517              |     | \$ 6,410,106       |     | \$ 13,171,262           |     | \$ 12,201,231      |     |

Net sales during the three-month and six-month periods ended September 26, 2014 totaled \$6.5 billion and \$13.2 billion, respectively. Sales increased by approximately \$0.1 billion, or 2%, and \$1.0 billion, or 8% from \$6.4 billion and \$12.2 billion during the three-month and six-month periods ended September 27, 2013, respectively. Revenue increased across all of our business groups, except for INS, which experienced a marginal decrease.

The increase in revenue from our IEI business group is primarily attributable to a broad increase across product categories, most notably in our energy business and in our household appliances businesses. The increased revenue from our HRS business group is primarily due to higher sales to our automotive customers as a result of an increased use of electronics throughout vehicles in areas such as in-car connectivity, LED lighting, and power management. The increased revenue from our CTG business group is primarily as a result of our acquisition of certain manufacturing operations from Google's Motorola Mobility LLC (Motorola) during the first quarter of fiscal 2014 and the business ramping up during the mid to latter part of fiscal 2014. These increases were offset by a

Table of Contents

decrease in revenue in our INS business group amounting to \$0.2 billion for both the three-month and six-month periods ended September 26, 2014 primarily attributable to broad softness in our connected home and telecom businesses.

For the three-month and six-month periods ended September 26, 2014, net sales increased \$100.1 million to \$2.1 billion and \$450.4 million to \$4.3 billion in the Americas, respectively, and increased \$46.6 million to \$1.1 billion and \$115.1 million to \$2.1 billion in Europe, respectively. Net sales in Asia decreased \$28.3 million to \$3.3 billion for the three-month period ended September 26, 2014, while increasing \$404.6 million to \$6.7 billion for the six-month period then ended.

Our ten largest customers during the three-month and six-month periods ended September 26, 2014 accounted for approximately 51% and 52% of net sales, respectively. Google (including Motorola) accounted for more than 10% of net sales during the three-month and six-month periods ended September 26, 2014. Our ten largest customers during the three-month and six-month periods ended September 27, 2013 accounted for approximately 52% and 50% of net sales, respectively. Google (including Motorola) accounted for more than 10% of net sales during the three-month period ended September 27, 2013. No single customer accounted for greater than 10% of our net sales during the six-month period ended September 27, 2013.

***Gross profit***

Gross profit is affected by a number of factors, including the number and size of new manufacturing programs, product mix, component costs and availability, product life cycles, unit volumes, pricing, competition, new product introductions, capacity utilization and the expansion and consolidation of manufacturing facilities. The flexible design of our manufacturing processes allows us to build a broad range of products in our facilities and better utilize our manufacturing capacity. In the cases of new programs, profitability normally lags revenue growth due to product start-up costs, lower manufacturing program volumes in the start-up phase, operational inefficiencies, and under-absorbed overhead. Gross margin for these programs often improves over time as manufacturing volumes increase, as our utilization rates and overhead absorption improve, and as we increase the level of manufacturing services content. As a result of these various factors, our gross margin varies from period to period.

Gross profit during the three-month period ended September 26, 2014 increased \$8.7 million to \$377.1 million, or 5.8% of net sales from \$368.4 million, or 5.7% of net sales, during the three-month period ended September 27, 2013. Gross profit during the six-month period ended September 26, 2014 increased \$78.4 million to \$757.9 million, or 5.8% of net sales from \$679.5 million, or 5.6% of net sales, during the six-month period ended September 27, 2013. Gross margins improved 10 basis points and 20 basis points in the three-month and six-month periods ended September 26, 2014 compared to that of the three-month and six-month periods ended September 27, 2013 primarily as a result of increased revenues and favorable product mix from our higher margin business groups such as IEI and HRS coupled with benefits of an improved cost structure following our restructuring activities completed in fiscal year 2014.

***Selling, general and administrative expenses***

Selling, general and administrative expenses ( SG&A ) amounted to \$204.6 million, or 3.1% of net sales, during the three-month period ended September 26, 2014, decreasing \$13.9 million from \$218.5 million, or 3.4% of net sales, during the three-month period ended September 27, 2013. SG&A was \$413.9 million, or 3.1% of net sales, during the six-month period ended September 26, 2014, decreasing \$28.3 million from

\$442.1 million, or 3.6% of net sales, during the six-month period ended September 27, 2013. Our SG&A expenses decreased in the current year periods, both in dollars and as a percentage of revenue, primarily as a result of certain cost reduction and rationalization measures that we undertook in the prior fiscal year.

*Intangible amortization*

Amortization of intangible assets increased by \$0.5 million during the three-month period ended September 26, 2014 to \$8.2 million from \$7.7 million for the three-month period ended September 27, 2013 primarily due to incremental amortization expenses on intangible assets relating to our acquisitions completed during the latter part of fiscal 2014 and during fiscal 2015, as well as the purchase of certain technology rights during fiscal 2015 as further discussed in note 2 to the condensed consolidated financial statements.

Amortization of intangible assets decreased by \$0.7 million during the six-month period ended September 26, 2014 to \$15.2 million from \$15.9 million for the six-month period ended September 27, 2013 primarily due to certain high value intangible assets that were fully amortized during fiscal year 2014, resulting in lower amortization expense during the current fiscal year. The decrease was offset by incremental intangible amortization expense in connection with our recent acquisitions, as well as the purchase of certain technology rights as discussed above.

Table of Contents

***Interest and other, net***

Interest and other, net was \$12.5 million during the three-month period ended September 26, 2014 compared to \$14.6 million during the three-month period ended September 27, 2013. The decrease in interest and other, net of \$2.1 million was primarily due to an increase in foreign currency gains in the current period mainly associated with the strength of the Chinese renminbi ( RMB ) combined with lower interest on our debt facilities that were refinanced during the period ended September 27, 2013 and in the later part of fiscal 2014.

Interest and other, net was \$31.1 million during the six-month period ended September 26, 2014 compared to \$27.2 million during the six-month period ended September 27, 2013. The increase in interest and other, net of \$3.9 million was primarily due to a decrease in foreign currency gains as a result of losses incurred during the first quarter of fiscal 2015 associated with the weakened Chinese RMB during that period, partially offset by an increase in income of \$6.0 million during the six-month period ended September 27, 2013 relating to the fair value adjustment of contingent consideration in connection with certain insignificant business acquisitions, and a decrease in interest expense as a result of refinancing of certain debt facilities as described above.

Refer to note 5 to the condensed consolidated financial statements for further discussion of our interest and other, net activities.

***Other charges (income), net***

Other income, net remained relatively consistent for the three-month periods ended September 26, 2014 and September 27, 2013, respectively.

Other income, net was \$46.6 million during the six-month period ended September 26, 2014 principally as a result of the reversal of a contractual obligation with a certain customer recognized during the fourth quarter of fiscal 2014 in the amount of \$55.0 million. We executed an amendment to the customer contract during the first quarter of fiscal year 2015 which relieved us of this contractual commitment. This was partially offset by an \$11.0 million loss in connection with the disposition of a manufacturing facility in Western Europe.

During the six-month period ended September 27, 2013, we recognized a loss of \$7.1 million relating to the exercise of a warrant to purchase shares of a certain supplier and sale of the underlying shares for total proceeds of \$67.3 million.

***Income taxes***

Certain of our subsidiaries have, at various times, been granted tax relief in their respective countries, resulting in lower income taxes than would otherwise be the case under ordinary tax rates. Refer to note 13, *Income Taxes*, of the notes to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended March 31, 2014 for further discussion.

Our policy is to provide a valuation allowance against deferred tax assets that in our estimation are not more likely than not to be realized.

The consolidated effective tax rate was 10.0% and 9.1% for the three and six-month periods ended September 26, 2014, respectively, and 8.1% and 5.7% for the three and six-month periods ended September 27, 2013, respectively. The consolidated effective tax rate varies from the Singapore statutory rate of 17.0% as a result of recognition of earnings in different jurisdictions, operating loss carryforwards, income tax credits, previously established valuation allowances for deferred tax assets, liabilities for uncertain tax positions, as well as the effect of certain tax holidays and incentives granted to our subsidiaries primarily in China, Malaysia and Israel. We generate most of our revenues and profits from operations outside of Singapore. The effective tax rate for the six-month period ended September 26, 2014 is higher than the effective tax rate for the six-month period ended September 27, 2013 primarily as a result of changes in various valuation allowance positions and a shift in jurisdictional mix of income to higher tax jurisdictions, partially offset by a net decrease in the liabilities for uncertain tax positions.

## **LIQUIDITY AND CAPITAL RESOURCES**

As of September 26, 2014, we had cash and cash equivalents of approximately \$1.5 billion and bank and other borrowings of approximately \$2.1 billion. We also have a \$1.5 billion revolving credit facility that expires in March 2019, under which there were no borrowings outstanding as of the end of the quarter. As of September 26, 2014, we were in compliance with the covenants under each of our existing credit facilities and indentures.

Cash provided by operating activities was \$306.2 million during the six-month period ended September 26, 2014. This resulted primarily from \$312.8 million of net income for the period plus \$260.3 million of non-cash charges such as depreciation, amortization, and other impairment charges, offset by \$266.9 million from changes in our operating assets and liabilities, which was mainly related

Table of Contents

to reductions in customer deposits that were received in prior periods to support increased working capital requirements in those periods.

For the quarterly periods indicated, certain key liquidity metrics were as follows:

|                                   | September 26,<br>2014 | June 27, 2014 | Three-Month Periods Ended<br>March 31,<br>2014 | December 31,<br>2013 | September 27,<br>2013 |
|-----------------------------------|-----------------------|---------------|--|----------------------|-----------------------|
| Days in trade accounts receivable | 44 days               | 45 days       | 42 days  | 38 days              | 42 days               |
| Days in inventory                 | 53 days               | 52 days       | 54 days  | 53 days              | 53 days               |
| Days in accounts payable          | 70 days               | 69 days       | 70 days  | 68 days              | 71 days               |
| Cash conversion cycle             | 27 days               | 28 days       | 26 days  | 23 days              | 24 days               |

Days in trade accounts receivable was calculated as average accounts receivable for the current and prior quarters, adding back the reduction in accounts receivable resulting from non-cash accounts receivable sales, divided by annualized sales for the current quarter by day. During the three-month period ended September 26, 2014, days in trade accounts receivable increased by 2 days compared to the three-month period ended September 27, 2013 largely due to timing of invoicing customers during the current period. Non-cash accounts receivable sales or deferred purchase price receivables included for the purposes of the calculation were \$426.1 million, \$463.1 million, \$470.9 million, \$528.8 million and \$558.3 million for the quarters ended September 26, 2014, June 27, 2014, March 31, 2014, December 31, 2013 and September 27, 2013, respectively. Deferred purchase price receivables are recorded in other current assets in the condensed consolidated balance sheets. For further information regarding deferred purchase price receivables see note 9 to the condensed consolidated financial statements.

Days in inventory was calculated as the average inventory for the current and prior quarters divided by annualized cost of sales for the respective quarter by day. Days in inventory remained consistent at 53 days for both the three-month periods ended September 26, 2014 and September 27, 2013.

Days in accounts payable was calculated as the average accounts payable for the current and prior quarters divided by annualized cost of sales for the respective quarter by day. Days in accounts payable decreased by 1 day during the three-month period ended September 26, 2014, compared to the three-month period ended September 27, 2013 primarily due to timing of payments.

Our cash conversion cycle was calculated as the sum of days of inventory and days of accounts receivables outstanding less days payable outstanding. During the three-month period ended September 26, 2014, our cash conversion cycle increased by 3 days compared to the three-month period ended September 27, 2013, due to the factors for each of the components in the calculation discussed above.

Cash used by investing activities amounted to \$205.3 million during the six-month period ended September 26, 2014. This resulted primarily from \$138.4 million in net capital expenditures for property and equipment to support certain programs and the payment of \$32.6 million primarily for the acquisition of two businesses completed during the six-month period ended September 26, 2014. Other investing activities also includes \$15.7 million paid for the purchase of certain technology rights as further discussed in note 2 to the condensed consolidated financial statements.

We believe free cash flow is an important liquidity metric because it measures, during a given period, the amount of cash generated that is available to repay debt obligations, make investments, fund acquisitions, repurchase company shares and for certain other activities. Our free cash flow is calculated as cash from operations less net purchases of property and equipment. Our free cash flows for the six-month period ended September 26, 2014 was \$167.9 million compared to \$42.8 million for the six-month period ended September 27, 2013. Free cash flow is not a measure of liquidity under U.S. GAAP, and may not be defined and calculated by other companies in the same manner. Free cash flow should not be considered in isolation or as an alternative to net cash provided by operating activities. Free cash flows reconcile to the most directly comparable GAAP financial measure of cash flows from operations as follows:

Table of Contents

|   | Six-Month Periods Ended |                       |
|---|-------------------------|-----------------------|
|   | September 26,<br>2014   | September 27,<br>2013 |
|   | (In thousands)          |                       |
| Net cash provided by operating activities               | \$ 306,245              | \$ 353,758            |
| Purchases of property and equipment                     | (167,204)               | (321,449)             |
| Proceeds from the disposition of property and equipment | 28,809                  | 10,468                |
| Free cash flow  | \$ 167,850              | \$ 42,777             |

Cash used in financing activities was \$189.8 million during the six-month period ended September 26, 2014, which was primarily the result of cash paid for the repurchase of our ordinary shares in the amount of \$206.8 million partially offset by proceeds from the issuance of our shares for option exercises amounting to \$11.4 million and net proceeds from bank borrowings and long-term debt of \$2.2 million.

Our cash balances are held in numerous locations throughout the world. Liquidity is affected by many factors, some of which are based on normal ongoing operations of the business and some of which arise from fluctuations related to global economics and markets. Local government regulations may restrict our ability to move cash balances to meet cash needs under certain circumstances; however, any current restrictions are not material. We do not currently expect such regulations and restrictions to impact our ability to pay vendors and conduct operations throughout the global organization. We believe that our existing cash balances, together with anticipated cash flows from operations and borrowings available under our credit facilities, will be sufficient to fund our operations through at least the next twelve months. As of September 26, 2014 and March 31, 2014, over half of our cash and cash equivalents was held by foreign subsidiaries outside of Singapore. Although substantially all of the amounts held outside of Singapore could be repatriated, under current laws, a significant amount could be subject to income tax withholdings. We provide for tax liabilities on these amounts for financial statement purposes, except for certain of our foreign earnings that are considered indefinitely reinvested outside of Singapore (approximately \$779.0 million as of March 31, 2014). Repatriation could result in an additional income tax payment, however, our intent is to permanently reinvest these funds outside of Singapore and our current plans do not demonstrate a need to repatriate them to fund our operations in jurisdictions outside of where they are held. Where local restrictions prevent an efficient intercompany transfer of funds, our intent is that cash balances would remain outside of Singapore and we would meet our liquidity needs through ongoing cash flows, external borrowings, or both.

Future liquidity needs will depend on fluctuations in levels of inventory, accounts receivable and accounts payable, the timing of capital expenditures for new equipment, the extent to which we utilize operating leases for new facilities and equipment, the levels of shipments and changes in the volumes of customer orders, and our targeted business and asset acquisitions.

Historically, we have funded operations from cash and cash equivalents generated from operations, proceeds from public offerings of equity and debt securities, bank debt and lease financings. We also sell a designated pool of trade receivables under asset-backed securitization programs and sell certain trade receivables, which are in addition to the trade receivables sold in connection with these securitization agreements.

We anticipate that we will enter into debt and equity financings, sales of accounts receivable and lease transactions to fund acquisitions and growth. The sale or issuance of equity or convertible debt securities could result in dilution to current shareholders. Further, we may issue debt securities that have rights and privileges senior to those of holders of ordinary shares, and the terms of this debt could impose restrictions on operations and could increase debt service obligations. This increased indebtedness could limit our flexibility as a result of debt service requirements and restrictive covenants, potentially affect our credit ratings, and may limit our ability to access additional capital or execute our business strategy. Any downgrades in credit ratings could adversely affect our ability to borrow as a result of more restrictive borrowing terms. We continue to assess our capital structure and evaluate the merits of redeploying available cash to reduce existing debt or repurchase ordinary shares.

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Under our current share repurchase program, our Board of Directors authorized repurchases of our outstanding ordinary shares for up to \$500 million in accordance with the share purchase mandate approved by our shareholders at the date of the most recent Extraordinary General Meeting which was held on August 28, 2014. During the six-month period ended September 26, 2014, we paid \$206.8 million to repurchase shares (under the current and prior repurchase plans) at an average price of \$10.20 per share. As of September 26, 2014, shares in the aggregate amount of \$456.7 million were available to be repurchased under the current plan.

### **CONTRACTUAL OBLIGATIONS AND COMMITMENTS**

Information regarding our long-term debt payments, operating lease payments, capital lease payments and other commitments is provided in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report

Table of Contents

on our Form 10-K for the fiscal year ended March 31, 2014. There have been no material changes in our contractual obligations and commitments since March 31, 2014, except for the reversal of a contractual obligation during the first quarter of fiscal 2015 with a certain customer that was recognized during the fourth quarter of fiscal 2014 in the amount of \$55.0 million discussed in note 6 to the condensed consolidated financial statements.

**OFF-BALANCE SHEET ARRANGEMENTS**

We sell designated pools of trade receivables to unaffiliated financial institutions under our ABS programs, and in addition to cash, we receive a deferred purchase price receivable for each pool of the receivables sold. Each of these deferred purchase price receivables serves as additional credit support to the financial institutions and is recorded at its estimated fair value. As of September 26, 2014 and March 31, 2014, the fair values of our deferred purchase price receivable were approximately \$426.1 million and \$470.9 million, respectively. As of September 26, 2014 and March 31, 2014, the outstanding balances on receivables sold for cash were \$1.2 billion and \$1.1 billion, respectively, under all our accounts receivable sales programs, which are not included in our condensed consolidated balance sheets. For further information see note 9 of our notes to the condensed consolidated financial statements.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There were no material changes in our exposure to market risks for changes in interest and foreign currency exchange rates for the six-month period ended September 26, 2014 as compared to the fiscal year ended March 31, 2014.

**ITEM 4. CONTROLS AND PROCEDURES**

*(a) Evaluation of Disclosure Controls and Procedures*

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of September 26, 2014, the end of the quarterly fiscal period covered by this quarterly report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 26, 2014, such disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

*(b) Changes in Internal Control Over Financial Reporting*

There were no changes in our internal controls over financial reporting that occurred during our second quarter of fiscal year 2015 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

For a description of our material legal proceedings, see note 13 *Commitments and Contingencies* in the notes to the condensed consolidated financial statements, which is incorporated herein by reference.

### **ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this report, you should carefully consider the risks and uncertainties discussed in Part I, *Item 1A. Risk Factors* in our Annual Report on Form 10-K for the year ended March 31, 2014, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be not material also may materially and adversely affect our business, financial condition and/or operating results.

Table of Contents**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS*****Issuer Purchases of Equity Securities***

The following table provides information regarding purchases of our ordinary shares made by us for the period from June 28, 2014 through September 26, 2014:

| <b>Period</b>                          | <b>Total Number of Shares Purchased</b> | <b>Average Price Paid per Share</b> | <b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b> | <b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</b> |
|--|---|-------------------------------------|---|---|
| June 28 - August 1, 2014 (1) (2)       | 1,843,436                               | \$ 10.84                            | 1,843,436   | \$ 266,981,068  |
| August 2 - August 29, 2014 (1) (2)     | 3,553,064                               | \$ 10.71                            | 3,553,064   | \$ 225,601,517  |
| August 30 - September 26, 2014 (1) (3) | 3,942,562                               | \$ 10.97                            | 3,942,562   | \$ 456,732,288  |
| <b>Total</b>                           | <b>9,339,062</b>                        |                                     | <b>9,339,062</b>  |   |

(1) During the period from June 28, 2014 through September 26, 2014, all purchases were made pursuant to the programs discussed below in open market transactions. All purchases were made in accordance with Rule 10b-18 under the Securities Exchange Act of 1934.

(2) On July 24, 2013, our Board of Directors authorized the repurchase of up to 10% of our outstanding ordinary shares which was subsequently approved by our shareholders at the Extraordinary General Meeting held on July 29, 2013. As of June 27, 2014, we had 26.5 million shares available to be repurchased under this plan, of which 5.4 million shares we repurchased prior to August 28, 2014 (after which authorization under this plan terminated).

(3) On August 28, 2014, our Board of Directors authorized the repurchase of our outstanding ordinary shares for up to \$500 million. This is in accordance with the share purchase mandate whereby our shareholders approved a repurchase limit of 20% of our issued ordinary shares outstanding at the Extraordinary General Meeting held on the same date as the Board authorization. As of September 26, 2014, shares in the aggregate amount of \$456.7 million were available to be repurchased under the current plan.

Table of Contents

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable

**ITEM 5. OTHER INFORMATION**

None

**ITEM 6. EXHIBITS**

*Exhibits* See Index to Exhibits below.

Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**FLEXTRONICS INTERNATIONAL LTD.**  
(Registrant)

/s/ Michael M. McNamara  
Michael M. McNamara  
Chief Executive Officer  
(Principal Executive Officer)

Date: October 30, 2014

/s/ Christopher Collier  
Christopher Collier  
Chief Financial Officer  
(Principal Financial Officer)

Date: October 30, 2014

Table of Contents

**EXHIBIT INDEX**

| <b>Exhibit No.</b> | <b>Exhibit</b>   |
|--------------------|--|
| 4.01               | Second Supplemental Indenture, dated as of August 25, 2014, among the Company, the Guarantor party thereto and U.S. Bank National Association, as Trustee, to the Indenture, dated as of February 20, 2013, by and between the Company, the Guarantors party thereto and U.S. Bank National Association, as Trustee, related to the Company's 4.625% Notes due 2020 and 5.000% Notes due 2023. |
| 10.01              | Form of Restricted Share Unit Award Agreement under the 2010 Equity Incentive Plan for certain executive fiscal year 2015 performance-based awards.  |
| 10.02              | Form of Restricted Share Unit Award Agreement under the 2010 Equity Incentive Plan for CEO FY15 performance-based award.   |
| 15.01              | Letter in lieu of consent of Deloitte & Touche LLP.  |
| 31.01              | Certification of Principal Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 31.02              | Certification of Principal Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 32.01              | Certification of Chief Executive Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*   |
| 32.02              | Certification of Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*   |
| 101.INS            | XBRL Instance Document   |
| 101.SCH            | XBRL Taxonomy Extension Schema Document  |
| 101.CAL            | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF            | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB            | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE            | XBRL Taxonomy Extension Presentation Linkbase Document   |

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\* This exhibit is furnished with this Quarterly Report on Form 10-Q, is not deemed filed with the Securities and Exchange Commission, and is not incorporated by reference into any filing of Flextronics International Ltd. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing.