FLEXTRONICS INTERNATIONAL LTD.
Form 10-Q
July 28, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 27, 2014

Or

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

For the transition period from to

Commission file number 0-23354

FLEXTRONICS INTERNATIONAL LTD.

(Exact name of registrant as specified in its charter)

Singapore (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 x No o

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

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

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

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

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

Class	Outstanding at July 22, 2014
Ordinary Shares, No Par Value	588,158,853

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PART I. FINANCIAL INFORMATION

ITEM 1. *FINANCIAL STATEMENTS*

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Flextronics International Ltd.
Singapore

We have reviewed the accompanying condensed consolidated balance sheet of Flextronics International Ltd. and subsidiaries (the Company) as of June 27, 2014, and the related condensed consolidated statements of operations, comprehensive income and cash flows for the three-month periods ended June 27, 2014 and June 28, 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
July 28, 2014

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FLEXTRONICS INTERNATIONAL LTD.

CONDENSED CONSOLIDATED BALANCE SHEETS

	As of June 27, 2014	As of March 31, 2014
	(In thousands, except share amounts) (Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,347,690	$ 1,593,728
Accounts receivable, net of allowance for doubtful accounts of $5,504 and $5,529 as of June 27, 2014 and March 31, 2014, respectively	2,894,622	2,697,985
Inventories	3,510,163	3,599,008
Other current assets	1,236,948	1,509,605
Total current assets	8,989,423	9,400,326
Property and equipment, net	2,254,664	2,288,656
Goodwill and other intangible assets, net	389,369	377,218
Other assets	434,368	433,950
Total assets	$ 12,067,824	$ 12,500,150
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Bank borrowings and current portion of long-term debt	$ 55,338	$ 32,575
Accounts payable	4,742,033	4,747,779
Accrued payroll	377,133	354,889
Other current liabilities	2,058,708	2,521,444
Total current liabilities	7,233,212	7,656,687
Long-term debt, net of current portion	2,073,854	2,070,020
Other liabilities	459,890	571,764
Commitments and contingencies (Note 12)		
Shareholders equity		
Flextronics International Ltd. shareholders equity		
Ordinary shares, no par value; 639,301,824 and 641,666,347 issued, and 589,062,469 and 591,426,992 outstanding as of June 27, 2014 and March 31, 2014, respectively	7,533,258	7,614,515
Treasury shares, at cost; 50,239,355 shares as of June 27, 2014 and March 31, 2014	(388,215)	(388,215)
Accumulated deficit	(4,763,207)	(4,937,094)
Accumulated other comprehensive loss	(119,576)	(126,156)
Total Flextronics International Ltd. shareholders equity	2,262,260	2,163,050
Noncontrolling interests	38,608	38,629
Total shareholders equity	2,300,868	2,201,679
Total liabilities and shareholders equity	$ 12,067,824	$ 12,500,150

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

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FLEXTRONICS INTERNATIONAL LTD.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three-Month Periods Ended	
	June 27, 2014	June 28, 2013
	(In thousands, except per share amounts) (Unaudited)	
Net sales	$ 6,642,745	$ 5,791,125
Cost of sales	6,261,960	5,480,090
Gross profit	380,785	311,035
Selling, general and administrative expenses	209,277	223,619
Intangible amortization	6,951	8,202
Interest and other, net	18,637	12,573
Other charges (income), net	(44,009)	7,111
Income before income taxes	189,929	59,530
Provision for income taxes	16,042	273
Net income	$ 173,887	$ 59,257
Earnings per share:		
Basic	$ 0.30	$ 0.09
Diluted	$ 0.29	$ 0.09
Weighted-average shares used in computing per share amounts:		
Basic	587,233	626,120
Diluted	601,300	639,899

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

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FLEXTRONICS INTERNATIONAL LTD.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three-Month Periods Ended	
	June 27, 2014	June 28, 2013
	(In thousands) (Unaudited)	
Net income	$ 173,887	$ 59,257
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of zero tax	(4,145)	(17,509)
Unrealized gain (loss) on derivative instruments and other, net of zero tax	10,725	(10,134)
Comprehensive income	$ 180,467	$ 31,614

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

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FLEXTRONICS INTERNATIONAL LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three-Month Periods Ended June 27, 2014	Three-Month Periods Ended June 28, 2013
	(In thousands) (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 173,887	$ 59,257
Depreciation, amortization and other impairment charges	121,501	119,051
Changes in working capital and other	(376,557)	20,268
Net cash provided by (used in) operating activities	(81,169)	198,576
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(87,101)	(144,737)
Proceeds from the disposition of property and equipment	14,184	3,364
Acquisition of businesses, net of cash acquired		(187,543)
Proceeds from divesture of business, net of cash held in divested business	(5,493)	
Other investing activities, net	(21,462)	30,179
Net cash used in investing activities	(99,872)	(298,737)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from bank borrowings and long-term debt	26,615	158
Repayments of bank borrowings, long-term debt and capital lease obligations	(859)	(9,151)
Payments for repurchases of ordinary shares	(105,568)	(215,210)
Net proceeds from issuance of ordinary shares	9,329	10,909
Other financing activities, net	300	15,652
Net cash used in financing activities	(70,183)	(197,642)
Effect of exchange rates on cash and cash equivalents	5,186	(9,710)
Net decrease in cash and cash equivalents	(246,038)	(307,513)
Cash and cash equivalents, beginning of period	1,593,728	1,587,087
Cash and cash equivalents, end of period	$ 1,347,690	$ 1,279,574
Non-cash investing activity:		
Accounts payable for fixed assets purchases	$ 49,130	$ 126,231

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. ORGANIZATION OF THE COMPANY 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 a complete packaged product 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-month period ended June 27, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2015.

The first quarters for fiscal year 2015 and fiscal year 2014 ended on June 27, 2014 and June 28, 2013, 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 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

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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 three-months ended June 27, 2014, the Company disposed of a certain 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 June 27, 2014	As of March 31, 2014
	(In thousands)	
Raw materials	$ 2,265,442	$ 2,349,278
Work-in-progress	617,390	608,284
Finished goods	627,331	641,446
	$ 3,510,163	$ 3,599,008

Goodwill and Other Intangibles

The following table summarizes the activity in the Company s goodwill account during the three-month period ended June 27, 2014:

	Amount (In thousands)
Balance, beginning of the year	$ 292,758
Purchase accounting adjustments (1)	8,272

Foreign currency translation adjustments		62
Balance, end of the period	$	301,092

(1) 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:

	As of June 27, 2014			As of March 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In thousands)					
Intangible assets:						
Customer-related intangibles	$ 204,249	$ (146,571)	$ 57,678	$ 204,369	$ (140,713)	$ 63,656
Licenses and other intangibles	43,436	(12,837)	30,599	32,564	(11,760)	20,804
Total	$ 247,685	$ (159,408)	$ 88,277	$ 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 three-month period ended June 27, 2014, the value of licenses and other intangibles increased by $10.0 million as a result of the purchase of certain technology rights. The estimated future annual amortization expense for intangible assets is as follows:

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Fiscal Year Ending March 31,		Amount (In thousands)
2015 (1)	$	22,243
2016		24,845
2017		17,420
2018		9,708
2019		4,798
Thereafter		9,263
Total amortization expense	$	88,277

(1) Represents estimated amortization for the remaining nine-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 $268.4 million and $267.5 million as of June 27, 2014 and March 31, 2014, respectively, with a corresponding liability recorded to other current liabilities of $286.5 million as of both dates.

Other current liabilities also includes customer working capital advances of $246.2 million and $754.7 million as of June 27, 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

During the first quarter of fiscal 2015, the Company granted equity compensation awards under the 2010 Equity Incentive Plan (the 2010 Plan). The following table summarizes the Company s share-based compensation expense:

	Three-Month Periods Ended			
	June 27, 2014		June 28, 2013	
	(In thousands)			
Cost of sales	$	1,611	$	1,352
Selling, general and administrative expenses		10,071		7,237
Total stock-based compensation expense	$	11,682	$	8,589

No options were granted under the 2010 Plan during the first quarter of fiscal 2015. Total unrecognized compensation expense related to share options is $0.4 million, net of estimated forfeitures, and will be recognized over a weighted-average remaining vesting period of 0.9 years. As of June 27, 2014, the number of options outstanding and exercisable was 20.7 million and 20.6 million, respectively, at weighted-average exercise prices of $8.36 and $8.38 per share, respectively.

During the three-month period ended June 27, 2014, the Company granted 3.1 million unvested share bonus awards at an average grant date price of $11.20 per share, under its 2010 Plan. Additionally, the Company granted share bonus awards to certain key employees of 0.9 million shares, which represents the target amount, whereby vesting is contingent primarily on certain market conditions. These shares will cliff vest after a period of three years, if such conditions have been met. The number of shares issued can range from zero to 1.8 million based on the achievement levels of the respective conditions.

As of June 27, 2014, approximately 18.6 million unvested share bonus awards were outstanding under the 2010 Plan, of which vesting for a targeted amount of 5.2 million is contingent primarily on meeting certain market conditions. The number of shares that will ultimately be issued can range from zero to 10.1 million based on the achievement levels of the respective conditions. During the three-month period ended June 27, 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 June 27, 2014, total unrecognized compensation expense related to unvested share bonus awards granted under the 2010 Plan is $92.9 million, net of estimated forfeitures, and will be recognized over a weighted-average remaining vesting period of 2.75 years.

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Approximately $25.6 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			
	June 27, 2014		June 28, 2013	
	(In thousands, except per share amounts)			
Basic earnings per share:				
Net income	$	173,887	$	59,257
Shares used in computation:				
Weighted-average ordinary shares outstanding		587,233		626,120
Basic earnings per share	$	0.30	$	0.09
Diluted earnings per share:				
Net income	$	173,887	$	59,257
Shares used in computation:				
Weighted-average ordinary shares outstanding		587,233		626,120
Weighted-average ordinary share equivalents from stock options and awards (1)		14,067		13,779
Weighted-average ordinary shares and ordinary share equivalents outstanding		601,300		639,899
Diluted earnings per share	$	0.29	$	0.09

(1) Options to purchase ordinary shares of 12.6 million and 19.2 million during the three-month periods ended June 27, 2014 and June 28, 2013, respectively, and share bonus awards of 0.4 million and 2.5 million during the three-month periods ended June 27, 2014 and June 28, 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 periods ended June 27, 2014 and June 28, 2013, the Company recognized interest expense of $18.5 million and $20.2 million, respectively, on its debt obligations outstanding during the period. The weighted average interest rates for the Company s long-term debt were 3.2% and 3.5% for the three-month periods ended June 27, 2014 and June 28, 2013, respectively.

During the three-month periods ended June 27, 2014 and June 28, 2013, the Company recognized interest income of $5.3 million and $3.3 million, respectively.

During the three-month periods ended June 27, 2014 and June 28, 2013, the Company recognized a foreign exchange loss of $1.4 million and a gain of $4.7 million, respectively.

6. OTHER CHARGES (INCOME), NET

During the fourth quarter of fiscal year 2014, the Company recognized $55.0 million of other charges for a contractual obligation to reimburse a customer for certain performance provisions as defined in the customer contract. During the first quarter of fiscal 2015, an amendment to this contract was executed which included the removal of the $55.0 million contractual obligation. Accordingly, the Company reversed this charge with a corresponding credit to other income, included in other charges (income), net in the condensed consolidated statement of operations.

Further, during the three-month period ended June 27, 2014, the Company recognized a loss of $11.0 million in connection with the disposition of a certain 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 credit of $9.3 million for the release of cumulative foreign translation gains triggered by the disposition.

During the three-month period ended June 28, 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.

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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 June 27, 2014, the aggregate notional amount of the Company s outstanding foreign currency forward and swap contracts was $4.2 billion as summarized below:

	Foreign Currency Amount		Notional Contract Value in USD	
Currency	**Buy**	**Sell**	**Buy**	**Sell**
		(In thousands)		
Cash Flow Hedges				
CNY	3,302,000		$ 529,650	$
EUR	15,113	29,518	20,598	40,120
HUF	10,532,000		46,767	
PLN	83,000		27,316	
MXN	1,935,600		148,749	
MYR	294,850		91,449	
SGD	34,230		27,382	
Other	N/A	N/A	31,373	450
			923,284	40,570
Other Forward/Swap Contracts				
BRL		348,000		157,694
CAD	138,591	120,959	128,472	112,374
CNY	666,823		106,943	
EUR	485,286	654,488	661,247	891,706
GBP	29,972	55,750	50,857	94,535
HUF	18,963,300	20,835,600	84,206	92,520
JPY	5,490,146	2,172,817	53,897	21,324
MXN	1,217,840	712,520	93,590	54,757
MYR	211,344	21,655	65,549	6,716
SEK	486,657	852,268	72,314	126,916
Other	N/A	N/A	176,694	140,468
			1,493,769	1,699,010
Total Notional Contract Value in USD			$ 2,417,053	$ 1,739,580

As of June 27, 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 June 27, 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 June 27, 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.

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

	Fair Values of Derivative Instruments					
	Asset Derivatives			Liability Derivatives		
		Fair Value			Fair Value	
	Balance Sheet Location	June 27, 2014	March 31, 2014	Balance Sheet Location	June 27, 2014	March 31, 2014
	(In thousands)					
Derivatives designated as hedging instruments						
Foreign currency contracts	Other current assets	$ 6,007	$ 3,464	Other current liabilities	$ 6,763	$ 10,457
Derivatives not designated as hedging instruments						
Foreign currency contracts	Other current assets	$ 3,574	$ 4,722	Other current liabilities	$ 4,077	$ 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:

	Three-Month Period Ended June 27, 2014			Three-Month Period Ended June 28, 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	$ (32,849)	$ (93,307)	$ (126,156)	$ (18,857)	$ (58,624)	$ (77,481)
Other comprehensive gain (loss) before reclassifications	1,000	5,107	6,107	(6,245)	(17,509)	(23,754)
Net (gains) losses reclassified from accumulated other comprehensive loss	9,725	(9,252)	473	(3,889)		(3,889)
Net current-period other comprehensive gain (loss)	10,725	(4,145)	6,580	(10,134)	(17,509)	(27,643)
Ending balance	$ (22,124)	$ (97,452)	$ (119,576)	$ (28,991)	$ (76,133)	$ (105,124)

Net losses reclassified from accumulated other comprehensive loss during the three-month period ended June 27, 2014 relating to derivative instruments and other includes $5.5 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 three-month period ended June 27, 2014, the Company recognized a loss of $11.0 million in connection with the disposition of a certain 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 certain 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.

Substantially all unrealized losses relating to derivative instruments and other, reclassified from accumulated other comprehensive loss for the three-month period ended June 28, 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.

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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 sell 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, of which $400.0 million is committed and $100.0 million is uncommitted, and $300.0 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 0.5% to 1.00% of serviced receivables per annum. Servicing fees recognized during the three-month periods ended June 27, 2014 and June 28, 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 June 27, 2014, approximately $1.2 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 $699.1 million and deferred purchase price receivables of approximately $463.1 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 June 27, 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.

As of June 27, 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 three-month periods ended June 27, 2014 and June 28, 2013, cash flows from sales of receivables under the ABS Programs consisted of approximately $1.1 billion and $0.9 billion for transfers of receivables, respectively (of which approximately $42.5 million and $141.2 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:

	Three-Month Periods Ended	
	June 27, 2014	June 28, 2013
	(In thousands)	
Beginning balance	$ 470,908	$ 412,357
Transfers of receivables	778,860	882,918
Collections	(786,644)	(874,388)
Ending balance	$ 463,124	$ 420,887

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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 $546.0 million and $341.8 million as of June 27, 2014 and March 31, 2014, respectively. For the three-month periods ended June 27, 2014 and June 28, 2013, total accounts receivable sold to certain third party banking institutions was approximately $1.2 billion and $268.7 million, respectively. The receivables that were sold were removed from the condensed consolidated balance sheets and were reflected as cash provided by operating activities in the condensed consolidated statements of cash flows.

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.

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 certain internal models and inputs. The following table summarizes the activities related to contingent consideration:

	Three-Month Periods Ended	
	June 27, 2014	June 28, 2013
	(In thousands)	
Beginning balance	$ 11,300	$ 25,000
Fair value adjustments		(6,000)
Ending balance	$ 11,300	$ 19,000

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

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quality of the underlying creditor. Due to its high credit quality and short term maturity their fair value approximates carrying value. Significant increases in either of the significant unobservable inputs (credit spread, risk free interest rate) in isolation would result in lower fair value estimates, however the impact is insignificant. 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 periods ended June 27, 2014 and June 28, 2013.

There were no transfers between levels in the fair value hierarchy during the three-month periods ended June 27, 2014 and June 28, 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 June 27, 2014 (In thousands)			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Money market funds and time deposits (included in cash and cash equivalents of the condensed consolidated balance sheet)	$	$ 607,202	$	$ 607,202
Deferred purchase price receivable (Note 9)				