SANMINA-SCI CORP
Form 10-Q
August 01, 2011

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 July 2, 2011
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 0-21272
Sanmina-SCI Corporation
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	77-0228183 (I.R.S. Employer Identification Number)
2700 N. First St., San Jose, CA (Address of principal executive offices)	95134 (Zip Code)

(408) 964-3500
(Registrant's telephone number, including area code)

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 [ ]

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 (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [x] 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 [x]	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 [x]

As of July 28, 2011, there were 80,657,540 shares outstanding of the issuer's common stock, $0.01 par value per share.

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CONDENSED CONSOLIDATED BALANCE SHEETS

	As of July 2, 2011	October 2, 2010
	(Unaudited)	
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$582,816	$592,812
Accounts receivable, net of allowances of $16,204 and $16,752, respectively	1,042,092	1,018,612
Inventories	885,502	844,347
Prepaid expenses and other current assets	125,205	134,238
Total current assets	2,635,615	2,590,009
Property, plant and equipment, net	562,766	570,258
Other	118,247	141,529
Total assets	$3,316,628	$3,301,796
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$958,075	$923,038
Accrued liabilities	134,483	140,371
Accrued payroll and related benefits	125,636	122,934
Short-term debt	60,400	65,000
Total current liabilities	1,278,594	1,251,343
Long-term liabilities:		
Long-term debt	1,151,883	1,240,666
Other	136,851	148,186
Total long-term liabilities	1,288,734	1,388,852
Commitments and contingencies (Note 6)		
Stockholders' equity	749,300	661,601
Total liabilities and stockholders' equity	$3,316,628	$3,301,796

See accompanying notes.

SANMINA-SCI CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Nine Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
	(Unaudited)			
	(In thousands, except per share data)			
Net sales	$1,674,200	$1,625,170	$4,905,709	$4,630,923
Cost of sales	1,542,599	1,501,055	4,529,230	4,279,644
Gross profit	131,601	124,115	376,479	351,279
Operating expenses:				
Selling, general and administrative	67,043	65,392	187,726	191,364
Research and development	5,797	3,057	14,877	9,407
Amortization of intangible assets	958	926	2,875	3,163
Restructuring and integration costs	6,336	6,196	15,885	13,405
Asset impairment	—	600	85	1,100
Gain on sales of long-lived assets, net	(1,440)	(13,796)	(3,465)	(13,796)
Total operating expenses	78,694	62,375	217,983	204,643
Operating income	52,907	61,740	158,496	146,636
Interest income	356	558	1,490	1,536
Interest expense	(24,843)	(27,119)	(77,773)	(80,476)
Other income (expense), net	(14,767)	(2,046)	(11,489)	37,729
Interest and other, net	(39,254)	(28,607)	(87,772)	(41,211)
Income before income taxes	13,653	33,133	70,724	105,425
Provision for income taxes	4,248	11,570	19,895	14,389
Net income	$9,405	$21,563	$50,829	$91,036
Net income per share:				
Basic	$0.12	$0.27	$0.63	$1.15
Diluted	$0.11	$0.26	$0.61	$1.10
Weighted average shares used in computing per share amounts:				
Basic	80,579	79,544	80,223	79,040
Diluted	83,141	83,693	83,275	82,404

See accompanying notes.

SANMINA-SCI CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	July 2, 2011	July 3, 2010
	(Unaudited)	
	(In thousands)	
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net income	$50,829	$91,036
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	75,368	64,565
Stock-based compensation expense	14,894	12,371
Provision (benefit) for doubtful accounts, product returns and other net sales adjustments	(65)	3,633
Deferred income taxes	(1,254)	994
Asset impairment	85	1,100
Loss on extinguishment of debt	16,098	1,197
Gain on sale of assets and business	(3,465)	(17,506)
Other, net	165	650
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(19,949)	(242,264)
Inventories	(39,238)	(74,221)
Prepaid expenses and other assets	4,145	4,749
Accounts payable	42,109	119,338
Accrued liabilities and other long-term liabilities	16,139	(10,078)
Cash provided by (used in) operating activities	155,861	(44,436)
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(82,800)	(44,139)
Proceeds from sales of property, plant and equipment	23,753	30,809
Cash paid in connection with business combinations	(14,656)	(14,676)
Cash used in investing activities	(73,703)	(28,006)
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Change in restricted cash	11,567	1,110
Proceeds from (repayments of) short-term borrowings	(4,600)	50,600
Repayments of long-term debt	(590,623)	(219,867)
Proceeds from issuance of long-term debt, net of issuance costs	489,030	—
Net proceeds from stock issuances	4,225	2,515
Cash used in financing activities	(90,401)	(165,642)
Effect of exchange rate changes	(1,753)	3,502
Decrease in cash and cash equivalents	(9,996)	(234,582)
Cash and cash equivalents at beginning of period	592,812	899,151
Cash and cash equivalents at end of period	$582,816	$664,569
Cash paid during the period for:		
Interest	$63,257	$54,544
Income taxes, net of refunds	$7,860	$31,786

See accompanying notes.

SANMINA-SCI CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

The accompanying condensed consolidated financial statements of Sanmina-SCI Corporation (the “Company”) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles (“GAAP”) have been omitted pursuant to those rules or regulations. The interim condensed consolidated financial statements are unaudited, but reflect all normal recurring and non-recurring adjustments that are, in the opinion of management, necessary for a fair presentation. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended October 2, 2010, included in the Company's 2010 Annual Report on Form 10-K.

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates.

Results of operations for the nine months ended July 2, 2011 are not necessarily indicative of the results that may be expected for the full fiscal year.

The Company operates on a 52 or 53 week year ending on the Saturday nearest September 30. Fiscal 2011 and 2010 are each 52-week years. All references to years relate to fiscal years unless otherwise noted.

Note 2. Inventories

Components of inventories were as follows:

	As of July 2, 2011	October 2, 2010
	(In thousands)	
Raw materials	$632,475	$599,773
Work-in-process	114,927	126,270
Finished goods	138,100	118,304
Total	$885,502	$844,347

Note 3. Fair Value

Fair Value Option for Long-term Debt

The Company has elected not to record its long-term debt instruments at fair value, but has measured them at fair value for disclosure purposes. As of July 2, 2011, the carrying amount and estimated fair value of the Company's long-term debt instruments were $1,157.4 million and $1,147.8 million, respectively. Fair value was estimated based on either the most recent traded price, a quoted price or other market sources (Level 2 inputs).

Assets/Liabilities Measured at Fair Value on a Recurring Basis

The Company's primary financial assets and financial liabilities are as follows:

- Money market funds
- Time deposits
- Foreign currency forward contracts
- Interest rate swaps

Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements and Disclosures, defines fair value 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 fair value measurements for assets and liabilities required to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and also considers assumptions that market participants would use when pricing an asset or liability.

Inputs to valuation techniques used to measure fair value are prioritized into three broad levels (fair value hierarchy), as follows:

Level 1: Observable inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs that reflect quoted prices, other than quoted prices included in Level 1, that are observable for the assets or liabilities, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in less active markets; or inputs that are derived principally from or corroborated by observable market data by correlation.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the measurement of the fair value of assets or liabilities.

There were no transfers between levels in the fair value hierarchy during any period presented herein. The following table presents information as of July 2, 2011 with respect to assets and liabilities measured at fair value on a recurring basis:

	Money market funds	Time deposits	Derivatives designated as hedging instruments under ASC 815: Foreign Currency Forward Contracts and Interest Rate Swaps	Derivatives not designated as hedging instruments under ASC 815: Foreign Currency Forward Contracts	Total
	Level 1	Level 1	Level 2	Level 2	
	(In thousands)				
Balance Sheet Classification:					
Cash and cash equivalents	$435	$22,640	$—	$—	$23,075
Prepaid expenses and other current assets	—	—	11	1,548	1,559
Accrued liabilities (1)	—	—	(92)	(4,405)	(4,497)
Other long-term liabilities (1)	—	—	(38,391)	—	(38,391)
Total	$435	$22,640	$(38,472)	$(2,857)	$(18,254)

(1) Liabilities, or credit balances, are presented as negative amounts.

The following table presents information as of October 2, 2010 with respect to assets and liabilities measured at fair value on a recurring basis:

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	Money market funds	Time deposits	Derivatives designated as hedging instruments under ASC 815: Foreign Currency Forward Contracts and Interest Rate Swaps	Derivatives not designated as hedging instruments under ASC 815: Foreign Currency Forward Contracts	Total
	Level 1	Level 1	Level 2	Level 2	
	(In thousands)				
Balance Sheet Classification:					
Cash and cash equivalents	$791	$99,110	$—	$—	$99,901
Prepaid expenses and other current assets	—	—	10	8,282	8,292
Accrued liabilities (1)	—	—	(42)	(10,475)	(10,517)
Other long-term liabilities (1)	—	—	(40,296)	—	(40,296)
Total	$791	$99,110	$(40,328)	$(2,193)	$57,380

(1) Liabilities, or credit balances, are presented as negative amounts.

The Company sponsors deferred compensation plans for eligible employees and non-employee members of its Board of Directors that allow participants to defer payment of part or all of their compensation. The Company's results of operations are not significantly affected by these plans since changes in the fair value of the assets substantially offset changes in the fair value of the liabilities. As such, assets and liabilities associated with these plans have not been included in the above tables. Assets and liabilities associated with these plans of approximately $12.0 million as of July 2, 2011 and $10.8 million as of October 2, 2010 are recorded as other non-current assets and other long-term liabilities in the condensed consolidated balance sheet.

The Company values derivatives using observable Level 2 market expectations at the measurement date and standard valuation techniques to convert future amounts to a single present value amount assuming that participants are motivated, but not compelled, to transact. The Company seeks high quality counterparties for all financing arrangements. For interest rate swaps, Level 2 inputs include short-term LIBOR rates, futures contracts on LIBOR between two and four years, longer term swap rates at commonly quoted intervals, and credit default swap rates for the Company and relevant counterparties. For currency contracts, Level 2 inputs include foreign currency spot and forward rates and interest rates at commonly quoted intervals. Mid-market pricing is used as a practical expedient for fair value measurements. ASC Topic 820 requires the fair value measurement of an asset or liability to reflect the nonperformance risk of the entity and the counterparty. Therefore, the counterparty's creditworthiness when in an asset position and the Company's creditworthiness when in a liability position have been considered in the fair value measurement of derivative instruments. The effect of nonperformance risk on the fair value of derivative instruments was not material as of July 2, 2011 and October 2, 2010.

Non-Financial Assets Measured at Fair Value on a Nonrecurring Basis

The Company's assets held-for-sale consist of land and buildings that are measured at fair value on a nonrecurring basis since these assets are subject to fair value adjustments only when the carrying amount of such assets exceeds the fair value of such assets or such assets have been previously impaired and the fair value exceeds the carrying amount by less than the amount of the impairment that has been recognized. Level 2 inputs consist of independent third party valuations based on market comparables. The carrying value of the Company's assets held-for-sale was $47.0 million as of July 2, 2011 and is included in prepaid expenses and other current assets in the condensed consolidated balance sheet.

Note 4. Derivative Financial Instruments

The Company is exposed to certain risks related to its ongoing business operations. The primary risks managed by using derivative instruments are interest rate risk and foreign exchange rate risk.

Interest Rate Risk

Interest rate swaps are entered into on occasion to manage interest rate risk associated with borrowings under the Company's long-term debt arrangements.

Cash Flow Hedges

The Company has $257.4 million of floating rate notes outstanding as of July 2, 2011 and has entered into interest rate swap agreements with two independent swap counterparties to hedge its interest rate exposure. The swap agreements, with an aggregate notional amount of $257 million and expiration dates of June 15, 2014, effectively convert the variable interest rate obligation to a fixed interest rate obligation and are accounted for as cash flow hedges under ASC Topic 815, Derivatives and Hedging. Under the terms of the swap agreements, the Company pays the independent swap counterparties a fixed rate and the swap counterparties pay the Company an interest rate equal to the three-month LIBOR. These swap agreements effectively fix the interest rate at 8.344% through maturity.

Fair Value Hedge

The Company has $500 million of fixed-rate senior notes outstanding as of July 2, 2011 and has entered into an interest rate swap to hedge its exposure to interest rates related to these notes. The swap agreement, with a notional amount of $500 million and an expiration date of May 15, 2019, was entered into contemporaneously with the 2019 Notes and effectively converts these notes from fixed-rate debt to variable-rate debt. Pursuant to the interest rate swap, the Company pays the swap counterparty a variable rate equal to the three-month LIBOR plus a spread and receives a fixed rate of 7.0% from the swap counterparty. In accordance with ASC 815, the interest rate swap is accounted for as a fair value hedge but is exempt from periodic assessment of hedge effectiveness. Therefore, the change in the fair value of the 2019 Notes resulting from changes in interest rates is assumed to be equal and opposite to the change in the fair value of the interest rate swap. As of July 2, 2011, the fair value of the interest rate swap, based on observable market data (Level 2), was $5.5 million and is included in other long-term liabilities on the Company's condensed consolidated balance sheet.

Foreign Exchange Rate Risk

Forward contracts on various foreign currencies are used to manage foreign currency risk associated with forecasted foreign currency transactions and certain monetary assets and liabilities denominated in foreign currencies. The Company's primary foreign currency cash flows are in certain Asian and European countries, Israel and Mexico.

The Company had the following outstanding foreign currency forward contracts that were entered into to hedge foreign currency exposures:

	As of	
	July 2, 2011	October 2, 2010
Derivatives Designated as Accounting Hedges:		
Notional amount (in thousands)	$121,386	$80,370
Number of contracts	44	26
Derivatives Not Designated as Accounting Hedges:		
Notional amount (in thousands)	$356,947	$290,688
Number of contracts	29	26

The Company enters into short-term foreign currency forward contracts to hedge currency exposures associated with certain monetary assets and liabilities denominated in foreign currencies. These contracts have maturities of up to two months and are not designated as accounting hedges under ASC 815. Accordingly, these contracts are marked-to-market at the end of each period with unrealized gains and losses recorded in other income (expense), net, in the condensed consolidated statements of income. For the three and nine months ended July 2, 2011, the Company recorded losses of $1.7 million and gains of $1.7 million, respectively, associated with these forward contracts. For the three and nine months ended July 3, 2010, the Company recorded gains of $14.0 million and $27.3 million, respectively, associated with these forward contracts. Gains and losses on forward contracts substantially offset gains and losses on the underlying hedged items for all periods presented herein.

The Company also utilizes foreign currency forward contracts to hedge certain operational (“cash flow”) exposures resulting from changes in foreign currency exchange rates. Such exposures generally result from 1) forecasted sales denominated in currencies other than those used to pay for materials and labor and 2) anticipated capital expenditures denominated in a currency other than the functional currency of the entity making the expenditures. These contracts are up to twelve months in duration and are accounted for as cash flow hedges under ASC 815.

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive income (AOCI), an equity account, and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on derivative instruments representing hedge ineffectiveness are recognized in current earnings and were not material for any period presented herein. As of July 2, 2011, AOCI related to foreign currency forward contracts was not material and AOCI related to interest rate swaps was a loss of $31.5 million, of which $13.0 million is expected to be amortized to interest expense over the next 12 months.

The following table presents the effect of cash flow hedging relationships on the Company's condensed consolidated statement of income for the three and nine months ended July 2, 2011 and July 3, 2010, respectively:

Derivative Type and Income Statement Location	Amount of Gain/(Loss) Recognized in OCI on Derivative (Effective Portion)				Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)			
	Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
	(In thousands)							
Interest rate swaps - Interest expense	$(4,658)	$(8,106)	$(2,721)	(11,567)	$(3,393)	$(3,416)	$(10,208)	$(10,001)
Foreign currency forward contracts - Cost of sales	605	(867)	1,541	(196)	594	(861)	1,504	(78)
Total	$(4,053)	$(8,973)	$(1,180)	(11,763)	$(2,799)	$(4,277)	$(8,704)	$(10,079)

Note 5. Debt

Long-term debt consisted of the following:

	As of July 2, 2011	October 2, 2010
	(In thousands)	
6.75% Senior Subordinated Notes due 2013 (“6.75% Notes”)	—	380,000
$300 Million Senior Floating Rate Notes due 2014 (“2014 Notes”)	257,410	257,410
8.125% Senior Subordinated Notes due 2016 (“2016 Notes”)	400,000	600,000
$500 Million Senior Notes due 2019 (“2019 Notes”)	500,000	—
Fair value adjustment (1)	(5,527)	3,256
Total long-term debt	$1,151,883	$1,240,666

(1) Represents fair value hedge accounting balance related to interest rate swaps. See Note 4 for discussion of interest rate swap entered into during the current period.

On May 10, 2011, the Company issued $500.0 million aggregate principal amount of senior notes due 2019 (the "2019 Notes"). The 2019 Notes will mature on May 15, 2019 and bear interest at an annual rate of 7%, payable semi-annually in arrears. In connection with issuance of the 2019 Notes, the Company incurred debt issuance costs of $11.0 million. These costs are included in other non-current assets on the condensed consolidated balance sheet and are being amortized to interest expense over the term of the 2019 Notes using the effective interest method.

The 2019 Notes are senior unsecured obligations of the Company and are fully and unconditionally guaranteed on a senior, unsecured basis by substantially all of the Company's domestic subsidiaries. The Company may redeem all or any portion of the 2019 Notes at any time prior to May 15, 2014, at par plus accrued and unpaid interest plus a make-whole premium. The Company may redeem all or any portion of the 2019 Notes beginning on or after May 15, 2014, at redemption prices ranging from 100% - 105.25% of the principal amount of the 2019 Notes, plus accrued and unpaid interest. Following a change of control, as defined, each holder of the 2019 Notes shall have the right to require the Company to repurchase all or any portion of such holder's 2019 Notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest.

The indenture for the 2019 Notes includes certain covenants that place limitations on, among other things: debt, restricted payments, liens, asset sales, the Company's ability to create or permit restrictions on distributions from the Company's restricted subsidiaries, transactions with affiliates and consolidating or merging with other companies. The restrictive covenants are subject to a number of important exceptions and qualifications set forth in the indenture.

The indenture provides for customary events of default, including payment defaults, breaches of covenants, certain payment defaults at final maturity or acceleration of other indebtedness, failure to pay certain judgments, certain events of bankruptcy, insolvency and reorganization involving the Company or certain of its subsidiaries and certain instances in which a guarantee ceases to be in full force and effect. If any event of default occurs and is continuing, subject to certain exceptions, the trustee or the holders of at least 25% in aggregate principal amount of the then outstanding 2019 Notes may declare all the 2019 to be due and payable immediately, together with any accrued and unpaid interest. In the event of default resulting from certain events of bankruptcy, insolvency or reorganization involving the Company or certain of its subsidiaries, the 2019 Notes will be due and payable immediately without any declaration or other act on the part of the trustee or the holders of the 2019 Notes.

As discussed in Note 4, the Company entered into an interest rate swap to hedge its exposure to changes in the fair value of the 2019 Notes resulting from changes in interest rates. As of July 2, 2011, the fair value hedge accounting adjustment related to the 2019 Notes was $5.5 million and has been recorded as a reduction to long-term debt.

On May 10, 2011, in conjunction with a tender offer, the Company repurchased $279.3 million in aggregate principal amount of its 2013 Notes and $200.0 million in aggregate principal amount of its 2016 Notes. The aggregate purchase price for the notes was $488.7 million, consisting of $280.1 million for the 2013 Notes and $208.6 million for the 2016 Notes. The repurchases were funded in part by the issuance of the 2019 Notes discussed above. On June 10, 2011, the remaining outstanding 2013 Notes of $100.7 million in aggregate principal amount were repurchased at par.

In accordance with ASC Topic 470, Debt, the Company determined that all debt redeemed in connection with these transactions has been extinguished. Therefore, the Company recognized a loss on extinguishment of $16.1 million, consisting of redemption premiums of $9.4 million, third party costs of $1.3 million and a net write-off of unamortized debt costs of $5.4 million.

Short-term debt

During 2010, one of the Company's subsidiaries in China entered into a $50 million unsecured working capital loan facility that contains certain negative covenants that, upon default, permit the bank to deny any further advances or extension of credit or to terminate the loan agreement. Additionally, one of the Company's subsidiaries in India entered into a $35 million working capital loan facility that contains no covenants.

Information with respect to short-term debt facilities is as follows:

	As of July 2, 2011	
	China Working Capital Loan Facility	India Working Capital Loan Facility
Amount outstanding (in millions)	$30.0	$30.4
Facility expiration date	April 2012	June 2012
Interest rate	3-month LIBOR plus spread	LIBOR plus spread

Note 6. Commitments and Contingencies

Litigation and other contingencies. From time to time, the Company is a party to litigation, claims and other contingencies, including environmental and employee matters and examinations and investigations by governmental agencies, which arise in the ordinary course of business. The Company records a contingent liability when it is probable that a loss has been incurred and the amount of loss is reasonably estimable in accordance with ASC Topic 450, Contingencies or other applicable accounting standards. As of July 2, 2011 and October 2, 2010, the Company had reserves of $20.0 million and $22.3 million, respectively, for these matters, which the Company believes are adequate. Such reserves are included in accrued liabilities and other long-term liabilities on the condensed consolidated balance sheet.

Warranty Reserve. The following table presents information with respect to the warranty reserve, which is included in accrued liabilities in the condensed consolidated balance sheets:

	As of July 2, 2011	July 3, 2010
	(In thousands)	
Beginning balance — end of prior year	$17,752	$15,716
Additions to accrual	7,401	12,734
Utilization of accrual	(8,652)	(8,994)
Ending balance — current quarter	$16,501	$19,456

Operating Leases. The Company leases certain of its land, facilities and equipment under non-cancelable operating leases expiring at various dates through 2040. The Company is responsible for utilities, maintenance, insurance and property taxes under these leases. Future minimum lease payments, net of sublease income, under operating leases are as follows:

	(In thousands)
Current	$25,231
Year 2	18,352
Year 3	11,502
Year 4	8,099
Year 5	7,734
Thereafter	36,741
Total	$107,659

Note 7. Restructuring

Costs associated with restructuring activities are accounted for in accordance with ASC Topic 420, Exit or Disposal Cost Obligations, or ASC Topic 712, Compensation - Nonretirement Postemployment Benefits, as applicable. Pursuant to ASC 712, restructuring costs related to employee severance are recorded when probable and estimable. For restructuring costs other than employee severance accounted under ASC 712, a liability is recognized in accordance with ASC 420 only when incurred.

During 2011, the Company changed its management structure and expects to incur employee severance and benefits costs of $2.2 million in cash and stock compensation expense. As of July 2, 2011, $0.8 million of cash remains payable and is expected to be paid by May 5, 2013.

Restructuring Plans — 2010 and prior

The Company initiated a restructuring plan in 2010 as a result of a business combination. Pursuant to this plan, the Company expects to incur costs up to $15.0 million to consolidate certain facilities and eliminate redundant employees, of which $9.8 million has been incurred to date. The amount of costs ultimately incurred will depend on the Company's ability to recover ongoing lease costs for vacant facilities by subleasing such facilities to third parties.

Due to completion of all actions under restructuring plans initiated prior to 2011 and immateriality of the remaining accrual balance related to such plans, these plans have been combined for disclosure purposes. The Company expects to incur restructuring costs in future periods associated primarily with vacant facilities until such time as those facilities have been sold or leased to third parties.

Below is a summary of restructuring costs associated with facility closures and other consolidation efforts that were implemented prior to 2011:

	Employee Termination Severance and Related Benefits (In thousands)	Leases and Facilities Shutdown and Consolidation Costs	Total
Balance at October 2, 2010	$5,430	$1,102	$6,532
Charges to operations	970	3,498	4,468
Charges utilized	(2,596)	(2,054)	(4,650)
Balance at January 1, 2011	3,804	2,546	6,350
Charges to operations	359	3,844	4,203
Charges utilized	(1,396)	(4,821)	(6,217)
Balance at April 2, 2011	2,767	1,569	4,336
Charges to operations	544	3,621	4,165
Charges utilized	(1,153)	(4,271)	(5,424)
Balance at July 2, 2011	$2,158	$919	$3,077

Costs incurred with respect to facilities consist primarily of 1) costs to maintain vacant facilities that are owned until such facilities can be sold and 2) the portion of the Company's lease payments that have not been recovered due to the absence of sublease income for vacant leased properties. The Company expects to pay the majority of accrued restructuring costs by September 2012.

Note 8. Earnings Per Share

Basic and diluted amounts per share are calculated by dividing net income or loss by the weighted average number of shares of common stock outstanding during the period, as follows:

	Three Months Ended		Nine Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
	(In thousands, except per share data)			
Numerator:				
Net income	$9,405	$21,563	$50,829	$91,036
Denominator:				
Weighted average number of shares				
—basic	80,579	79,544	80,223	79,040
—diluted	83,141	83,693	83,275	82,404
Net income per share:				
—basic	$0.12	$0.27	$0.63	$1.15
—diluted	$0.11	$0.26	$0.61	$1.10

The following table presents weighted-average dilutive securities that were excluded from the above calculation because their inclusion would have had an anti-dilutive effect:

	Three Months Ended		Nine Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
	(In thousands)			
Employee stock options	7,149	3,939	6,229	6,072
Restricted stock awards and units	472	15	238	24
Total anti-dilutive shares	7,621	3,954	6,467	6,096

Securities are anti-dilutive because 1) the exercise price is higher than the Company's stock price or 2) the application of the treasury stock method resulted in an anti-dilutive effect.

Note 9. Comprehensive Income

Other comprehensive income, net of tax as applicable, was as follows:

	Three Months Ended		Nine Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
	(In thousands)			
Net income	$9,405	$21,563	$50,829	$91,036
Other comprehensive income:				
Foreign currency translation adjustments	1,915	615	10,268	1,684
Unrealized holding gains (losses) on derivative financial instruments	(1,254)	(4,695)	7,524	(1,684)
Minimum pension liability	(14)	(462)	(41)	(735)

Comprehensive income	$10,052	$17,021	$68,580	$90,301

The net unrealized gain (loss) on derivative financial instruments is primarily attributable to changes in the fair market value of the Company's liability under its interest rate swaps that are accounted for as cash flow hedges. The fair market value of these swaps changes primarily as a result of changes in interest rates.

Accumulated other comprehensive income, net of tax as applicable, consisted of the following:

	As of July 2, 2011	October 2, 2010
	(In thousands)	
Foreign currency translation adjustments	$115,112	$104,844
Unrealized holding losses on derivative financial instruments	(31,438)	(38,962)
Unrecognized net actuarial loss and unrecognized transition cost related to pension plans	(11,706)	(11,665)
Total	$71,968	$54,217

Note 10. Business Segment, Geographic and Customer Information

ASC Topic 280, Segment Reporting, establishes standards for reporting information about operating segments, products and services, geographic areas of operations and major customers. Operating segments are defined as components of an enterprise for which separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company operates in one reportable segment, Electronic Manufacturing Services.

Information by geographic segment, determined based on the country in which a product is manufactured, was as follows:

	Three Months Ended		Nine Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
	(In thousands)			
Net sales				
Domestic	$312,245	$350,497	$899,769	$997,594
Mexico	301,919	310,824	952,742	933,466
China	448,527	464,099	1,319,075	1,326,354
Other international	611,509	499,750	1,734,123	1,373,509
Total	$1,674,200	$1,625,170	$4,905,709	$4,630,923
Number of customers representing more than 10% of net sales	1	2	1	1
Operating income				
Domestic	$(2,711)	$(26,872)	$(14,210)	$(77,626)
International	55,618	88,612	172,706	224,262
Total	$52,907	$61,740	$158,496	$146,636

Note 11. Stock-Based Compensation

Stock compensation expense by function and type of instrument was as follows:

	Three Months Ended		Nine Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
	(In thousands)			
Cost of sales	$1,773	$487	$3,825	$4,593
Selling, general and administrative	4,208	2,215	9,998	7,910
Research and development	75	(335)	157	(132)
Restructuring	914	—	914	—
Total	$6,970	$2,367	$14,894	$12,371

	Three Months Ended		Nine Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
	(In thousands)			
Stock options	$5,497	$3,488	$10,908	$10,180
Restricted stock units	1,473	(1,121)	3,986	2,191
Total	$6,970	$2,367	$14,894	$12,371

As of July 2, 2011, an aggregate of 15.9 million shares were authorized for future issuance and 3.0 million shares of common stock were available for grant under the Company's stock plans, which include stock options and restricted stock awards and units.

Stock Options

Assumptions used to estimate the fair value of stock options granted were as follows:

	Three Months Ended		Nine Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Volatility	90.6 %	81.2 %	85.0 %	81.3 %
Risk-free interest rate	1.6 %	2.4 %	1.7 %	2.4 %
Dividend yield	— %	— %	— %	— %
Expected life of options (years)	4.0	5.0	4.7	5.0

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Stock option activity was as follows:

	Number of Shares (In thousands)	Weighted-Average Exercise Price ($)	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value of In-The-Money Options ($) (In thousands)
Outstanding, October 2, 2010	11,078	14.39	7.44	35,417
Granted	788	11.23		
Exercised/Cancelled/Forfeited/Expired	(388)	19.17		
Outstanding, January 1, 2011	11,478	14.01	7.38	35,587
Granted	861	15.90		
Exercised/Cancelled/Forfeited/Expired	(743)	12.95		
Outstanding, April 2, 2011	11,596	14.22	7.32	28,698
Granted	90	10.14		
Exercised/Cancelled/Forfeited/Expired	(658)	19.89		
Outstanding, July 2, 2011	11,028	13.85	7.12	21,190
Vested and expected to vest, July 2, 2011	10,068	14.34	6.97	18,756
Exercisable, July 2, 2011	6,546	17.36	6.11	9,817

The weighted-average grant date fair value of stock options granted during the three and nine months ended July 2, 2011 was $6.56 and $8.87, respectively. The weighted-average grant date fair value of stock options granted during the three and nine months ended July 3, 2010 was $11.06 and $6.53, respectively. The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value of in-the-money options that would have been received by the option holders had all option holders exercised their options at the Company's closing stock price on the date indicated.

As of July 2, 2011, unrecognized compensation expense related to stock options was $23.3 million, and is expected to be recognized over a weighted average period of 3.6 years.

Restricted Stock Units

The Company grants restricted stock units to executive officers, directors and certain management employees. These units vest over periods ranging from one to four years and are automatically exchanged for shares of common stock at the vesting date. Compensation expense associated with these units is recognized ratably over the vesting period.

As of July 2, 2011, unrecognized compensation expense related to restricted stock units was $15.5 million, and is expected to be recognized over a weighted average period of 2.4 years.

Activity with respect to the Company's non-vested restricted stock units was as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value ($)	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ($)
	(In thousands)			(In thousands)
Outstanding, October 2, 2010	938	9.78	2.12	10,200
Granted	784	11.23		
Vested/Cancelled	(38)	13.30		
Outstanding, January 1, 2011	1,684	10.41	2.13	18,744
Granted	445	15.91		
Vested/Cancelled	(44)	17.77		
Outstanding, April 2, 2011	2,085	11.43	2.04	21,901
Granted	25	10.56		
Vested/Cancelled	(280)	10.40		
Outstanding, July 2, 2011	1,830	11.57	1.82	17,040
Expected to vest, July 2, 2011	1,236	11.90	1.82	11,510

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”). These statements relate to our expectations for future events and time periods. All statements other than statements of historical fact are statements that could be deemed to be forward-looking statements, including any statements regarding trends in future revenues or results of operations, gross margin or operating margin, expenses, earnings or losses from operations, synergies or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning developments, performance or industry ranking; any statements regarding future economic conditions or performance; any statements regarding pending investigations, claims or disputes; any statements regarding the financial impact of customer bankruptcies; any statements regarding timing of closing of, future cash outlays for and benefits of acquisitions; any statements concerning the adequacy of our liquidity; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. Generally, the words “anticipate,” “believe,” “plan,” “expect,” “future,” “intend,” “may,” “will,” “should,” “estimate,” “predict,” “potential,” “conti expressions identify forward-looking statements. Our forward-looking statements are based on current expectations, forecasts and assumptions and are subject to the risks and uncertainties contained in or incorporated from Part II, Item 1A of this report. As a result, actual results could vary materially from those suggested by the 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 report with the Securities and Exchange Commission.

Overview

We are a leading independent global provider of customized, integrated electronics manufacturing services, or EMS. Our revenue is generated from sales of our services primarily to original equipment manufacturers, or OEMs, in the communications; industrial, defense and medical; enterprise computing and storage; and multimedia markets.

Our strategy is to leverage our comprehensive service offering, vertically integrated manufacturing services, advanced technologies and global capabilities to further penetrate diverse end markets that we believe offer significant growth opportunities and have complex products that require higher value-added services. We believe this strategy differentiates us from our competitors and will drive more sustainable revenue growth and provide opportunities for us to ultimately achieve operating margins that exceed industry standards.

There are many challenges to successfully executing our strategy. For example, we compete with a number of companies in each of our key end markets. These include companies that are much larger than we are and smaller companies that focus on a particular niche. Although we believe we are well-positioned in each of our key end markets and are continuing to differentiate ourselves from our competitors, competition remains intense. Additionally, growing and leveraging our components manufacturing services to drive vertical integration and improve our operating margins continues to be challenging due to excess capacity and operational inefficiencies. Lastly, revenue from defense and aerospace and optical customers has decreased throughout 2011 and is expected to decrease further in our upcoming quarter. This creates pressure on our operating margins since our defense and aerospace business is typically one of our higher-margin businesses and a high level of infrastructure exists for optical products. We continue to address these challenges on both a short-term and long-term basis.

In late 2008, the business environment became challenging due to adverse global economic conditions. These conditions slowed global economic growth and resulted in recessions in many countries, including the U.S., Europe and certain countries in Asia. These conditions materially and adversely impacted our financial condition and results of operations for 2009. Global economic conditions improved throughout 2010, resulting in a substantial increase in our business volume. Our revenue increased on a quarterly basis throughout 2010. Although revenue was down sequentially in each of the first two quarters of 2011, revenue levels increased in the third quarter of 2011 and were up 5.9% for the nine months ended July 2, 2011 compared to the same period in 2010. Additionally, the third quarter of 2011 was our seventh consecutive profitable quarter, resulting primarily from increased business volume, continuing improvements in our components business, and the realization of benefits from our previous restructuring actions. Although our results of operations have not been impacted significantly by the recent natural disaster and related nuclear plant situation in Japan, there can be no assurance that future periods will not be significantly impacted. Our quarterly results of operations tend to fluctuate and may not be indicative of results to be expected for any future periods.

A relatively small number of customers have historically generated a significant portion of our net sales. Sales to our ten largest customers represented 50.2% and 49.2% of our net sales for the three and nine months ended July 2, 2011, respectively.

Sales to our ten largest customers represented 50.0% and 50.3% of our net sales for the three and nine months ended July 3, 2010, respectively. Additionally, one customer represented more than 10% of our net sales during the three months ended July 2, 2011, two customers represented more than 10% of our net sales during the three months ended July 3, 2010, and one customer represented more than 10% of our net sales for the nine months ended July 2, 2011 and July 3, 2010.

We perform a significant portion of our manufacturing in international locations. Sales derived from products manufactured in international operations during the three months ended July 2, 2011 and July 3, 2010 were 81.3% and 78.4%, respectively, of our total net sales. During the nine months ended July 2, 2011 and July 3, 2010, 81.7% and 78.5%, respectively, of our total net sales were derived from non-U.S. operations. This stems from a desire on the part of many of our customers to source production in lower cost locations such as Asia and Latin America. We expect this trend to continue.

Historically, we have had substantial recurring sales from existing customers. We typically enter into supply agreements with our major OEM customers. These agreements generally have terms ranging from three to five years and cover the manufacture of a range of products. These agreements generally do not obligate the customer to purchase minimum quantities of products. In some circumstances, our supply agreements with customers provide for cost reductions during the term of the agreement such that revenue and margin attributable to these contracts may reduce over their terms.

Critical Accounting Policies and Estimates

Management's discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. We review the accounting policies used in reporting our financial results on a regular basis. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, net sales and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate the process used to develop estimates for certain reserves and contingent liabilities, including those related to product returns, accounts receivable, inventories, investments, intangible assets, income taxes, warranty obligations, environmental matters, restructuring, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that we believe are reasonable for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Our actual results may differ materially from these estimates.

For a complete description of our critical accounting policies and estimates, refer to our 2010 Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 24, 2010.

Results of Operations

Key operating results

	Three Months Ended		Nine Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
	(In thousands)			
Net sales	$1,674,200	$1,625,170	$4,905,709	$4,630,923
Gross profit	$131,601	$124,115	$376,479	$351,279
Operating income	$52,907	$61,740	$158,496	$146,636
Net income	$9,405	$21,563	$50,829	$91,036

Net income includes restructuring and integration costs of $6.3 million and $6.2 million for the three months ended July 2, 2011 and July 3, 2010, respectively, and $15.9 million and $13.4 million for the nine months ended July 2, 2011 and July 3, 2010, respectively. Net income for the three and nine months ended July 2, 2011 includes a loss on extinguishment of debt of $16.1 million. Net income for the nine months ended July 3, 2010 includes other income of $35.6 million in connection with a legal settlement.

Net Sales

Net sales increased from $1.6 billion in the third quarter of 2010 to $1.7 billion in the third quarter of 2011, an increase of 3.0%. Net sales increased from $4.6 billion for the nine months ended July 3, 2010 to $4.9 billion for the nine months ended July 2, 2011, an increase of 5.9%. Sales by end market were as follows (dollars in thousands):

	Three Months Ended					Nine Months Ended				
	July 2, 2011	July 3, 2010	Increase/(Decrease)			July 2, 2011	July 3, 2010	Increase/(Decrease)		
Communications	$804,080	$682,941	$121,139	17.7	%	$2,342,270	$1,712,875	$629,395	36.7	%
Industrial, defense and medical	401,011	401,074	(63	)—	%	1,210,225	1,198,495	11,730	1.0	%
Enterprise computing and storage	235,113	254,983	(19,870	)(7.8	)%	671,327	842,391	(171,064	)(20.3	)%
Multimedia	233,996	286,172	(52,176	)(18.2	)%	681,887	877,162	(195,275	)(22.3	)%
Total	$1,674,200	$1,625,170	$49,030	3.0	%	$4,905,709	$4,630,923	$274,786	5.9	%

The increase in our communications end market is primarily attributable to increased demand from existing customers, both for established programs and new program wins for new technologies introduced by our customers. Despite a significant decrease in demand from defense customers, sales in our industrial defense and medical end market have been relatively flat due to stronger demand from industrial and medical customers. Sales to customers in our enterprise computing and storage end market decreased as a result of certain customer programs going end-of-life, the effect of which was not completely offset by new programs. Sales to customers in our multimedia market decreased primarily as a result of reduced demand from one program.

Gross Margin

Gross margin increased from 7.6% for the three months ended July 3, 2010 to 7.9% for the three months ended July 2, 2011, and from 7.6% for the nine months ended July 3, 2010 to 7.7% for the nine months ended July 2, 2011. The increase for both the three and nine months ended July 2, 2011 was primarily the result of profit contribution from increased business volume and improved performance in components manufacturing services.

We expect gross margins to continue to fluctuate based on overall production and shipment volumes and changes in the mix of products demanded by our major customers. Fluctuations in our gross margins may also be caused by a number of other factors, some of which are outside of our control, including (a) greater competition in the EMS industry and pricing pressures from OEMs due to greater focus on cost reduction; (b) provisions for excess and obsolete inventory that we are not able to charge back to a customer or sales of inventories previously written down; (c) changes in operational efficiencies; (d) pricing pressure on electronic components resulting from economic conditions in the electronics industry; and (e) our ability to transition manufacturing and assembly operations to lower cost regions in an efficient manner.

Operating Expenses

Selling, general and administrative

Selling, general and administrative expenses increased from $65.4 million, or 4.0% of net sales, in the third quarter of 2010 to $67.0 million, or 4.0% of net sales, in the third quarter of 2011. For the nine month period, selling, general and administrative expenses decreased from $191.4 million, or 4.1% of net sales, in 2010 to $187.7 million, or 3.8% of net sales, in 2011. The increase for the three months ended July 2, 2011 was primarily due to increased personnel costs resulting from increased headcount, partially offset by lower bad debt and acquisition related costs. The decrease for the nine months ended July 2, 2011 was primarily due to reduced incentive compensation and bad debt expense, partially offset by higher personnel costs resulting from increased headcount.

Research and Development

Research and development expenses increased from $3.1 million, or 0.2% of net sales, in the third quarter of 2010 to $5.8 million, or 0.3% of net sales, in the third quarter of 2011. Research and development expenses increased from $9.4 million, or 0.2% of net sales, for the nine months ended July 3, 2010 to $14.9 million, or 0.3% of net sales, for the nine months ended July 2, 2011. The increase for both the three and nine month periods was primarily attributable to investments in new projects in multiple business units.

Restructuring

Costs associated with restructuring activities are accounted for in accordance with ASC Topic 420, Exit or Disposal Cost Obligations, or ASC Topic 712, Compensation - Nonretirement Postemployment Benefits, as applicable. Pursuant to ASC Topic 712, restructuring costs related to employee severance are recorded when probable and estimable. For restructuring costs other than employee severance accounted for under ASC Topic 712, a liability is recognized in accordance with ASC Topic 420 only when incurred.

During 2011, we changed our management structure and expect to incur employee severance and benefits costs of $2.2 million in cash and stock compensation expense. As of July 2, 2011, $0.8 million of cash remains payable and is expected to be paid by May 5, 2013.

Restructuring Plans — 2010 and prior

We initiated a restructuring plan in 2010 as a result of a business combination. Pursuant to this plan, we expect to incur costs up to $15.0 million to consolidate certain facilities and eliminate redundant employees, of which $9.8 million has been incurred to date. The amount of costs ultimately incurred will depend on our ability to recover ongoing lease costs for vacant facilities by subleasing such facilities to third parties.

Due to completion of all actions under restructuring plans initiated prior to 2011 and immateriality of the remaining accrual balance related to such plans, these plans have been combined for disclosure purposes. We expect to incur restructuring costs in future periods associated primarily with vacant facilities until such time as those facilities have been sold or leased to third parties.

Below is a summary of restructuring costs associated with facility closures and other consolidation efforts that were initiated prior to 2011:

	Employee Termination Severance and Related Benefits	Leases and Facilities Shutdown and Consolidation Costs	Total
	(In thousands)		
Balance at October 2, 2010	$5,430	$1,102	$6,532
Charges to operations	970	3,498	4,468
Charges utilized	(2,596)	(2,054)	(4,650)
Balance at January 1, 2011	3,804	2,546	6,350
Charges to operations	359	3,844	4,203
Charges utilized	(1,396)	(4,821)	(6,217)
Balance at April 2, 2011	2,767	1,569	4,336
Charges to operations	544	3,621	4,165
Charges utilized	(1,153)	(4,271)	(5,424)
Balance at July 2, 2011	$2,158	$919	$3,077

Costs incurred with respect to facilities consist primarily of 1) costs to maintain vacant facilities that are owned until such facilities can be sold and 2) the portion of our lease payments that have not been recovered due to the absence of sublease income for vacant leased properties. We expect to pay the majority of accrued restructuring costs by September 2012.

Gain on Sales of Long-lived Assets

For the three and nine months ended July 2, 2011, we recorded gains on sales of long-lived assets of $1.4 million and $3.5 million, respectively. For the three and nine months ended July 3, 2010, we recorded gains on sales of long-lived assets of $13.8 million. These gains were primarily related to the sale of certain properties held-for-sale.

Interest Expense

Interest expense decreased to $24.8 million for the three months ended July 2, 2011, from $27.1 million for the three months ended July 3, 2010, and to $77.8 million for the nine months ended July 2, 2011, from $80.5 million for the nine months ended July 3, 2010. The decrease for both periods was primarily attributable to a net reduction of $80 million in our long-term debt and the favorable impact of replacing $580 million of fixed-rate debt with $500 million of lower variable rate debt.

Other Income (Expense), net

The following table presents the major components of other income (expense), net:

	Three Months Ended		Nine Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
	(In thousands)			
Foreign exchange gains (losses)	$759	$(2,353)	$3,148	$(2,170)
Loss on extinguishment of debt (see Note 5) (1)	(16,098)	(369)	(16,098)	(1,197)
Litigation settlement	—	—	—	35,556
Other, net	572	676	1,461	5,540
Total other income (expense), net	$(14,767)	$(2,046)	$(11,489)	$37,729

We reduce our exposure to currency fluctuations through the use of foreign currency hedging instruments; however, hedges are established based on forecasts of foreign currency transactions. To the extent actual amounts differ from forecasted amounts, we will have exposure to currency fluctuations, resulting in foreign exchange gains or losses.

(1) Amount is $2.2 million less than that reported in our earnings release due to a correction identified after the earnings release.

Provision for Income Taxes

We estimate our annual effective tax rate at the end of each quarterly period. Our estimate takes into account the geographic mix of our expected pre-tax income (loss), expected total annual pre-tax income (loss), implementation of tax planning strategies and possible outcomes of audits and other uncertain tax positions. To the extent there are fluctuations in any of these variables during a period, our provision for income taxes may vary.

Our provision for income taxes was an expense of $19.9 million for the nine months ended July 2, 2011, compared to an expense of $14.4 million for the nine months ended July 3, 2010. Despite lower pre-tax income in 2011, our year-to-date tax provision is higher than the amount for the comparable period in 2010 primarily as a result of favorable resolution of an uncertain tax position in 2010.

Liquidity and Capital Resources

	Nine Months Ended	
	July 2, 2011	July 3, 2010
	(In thousands)	
Net cash provided by (used in):		
Operating activities	$155,861	$(44,436)
Investing activities	(73,703)	(28,006)
Financing activities	(90,401)	(165,642)
Effect of exchange rate changes on cash and cash equivalents	(1,753)	3,502
Decrease in cash and cash equivalents	$(9,996)	$(234,582)

Key liquidity performance measures

	Three Months Ended			
	July 2, 2011	April 2, 2011	January 1, 2011	October 2, 2010
Days sales outstanding (1)	54	56	55	52
Inventory turns (2)	7.2	7.0	7.3	7.3
Accounts payable days (3)	54	53	52	55
Cash cycle days (4)	51	55	52	47

(1) Days sales outstanding (a measure of how quickly we collect our accounts receivable), or DSO, is calculated as the ratio of average accounts receivable, net, to average daily net sales for the quarter.

(2) Inventory turns (annualized) are calculated as the ratio of four times our cost of sales for the quarter to average inventory.

(3) Accounts payable days (a measure of how quickly we pay our suppliers) is calculated as the ratio of 365 days divided by accounts payable turns, in which accounts payable turns is calculated as the ratio of four times our cost of sales for the quarter to average accounts payable.

(4) Cash cycle days is calculated as the ratio of 365 days to inventory turns, plus days sales outstanding minus accounts payable days.

Cash and cash equivalents were $582.8 million at July 2, 2011 and $592.8 million at October 2, 2010. Our cash levels vary during any given quarter depending on the timing of collections from customers and payments to suppliers, borrowings under credit facilities and other factors. Our working capital was $1.4 billion as of July 2, 2011 and $1.3 billion as of October 2, 2010.

Net cash provided by (used in) operating activities was $155.9 million and $(44.4) million for the nine months ended July 2, 2011 and July 3, 2010, respectively. For the nine months ended July 2, 2011, cash flows from operating activities consist of: 1) net inflows of $152.7 million from net income adjusted to exclude non-cash items such as depreciation and amortization, stock-based compensation expense, etc., and 2) net inflows of $3.2 million from changes in net operating assets, which are comprised of accounts receivable, inventories, prepaid expenses and other assets, accounts payable, and accrued liabilities and other long-term liabilities.

During the nine months ended July 2, 2011, we generated $3.2 million of cash from the reduction of our net operating assets. Accounts payable increased $42.1 million, versus a $39.2 million increase in inventories. This is a result of a decrease in accounts payable days from 55 days at October 2, 2010 to 54 days at July 2, 2011. The decrease resulted primarily from a change in the composition of our accounts payable from suppliers with longer payment terms to suppliers with shorter payment terms. Despite a slight decrease in revenue in the third quarter of 2011 versus the fourth quarter of 2010, accounts receivable increased $19.9 million as a result of a longer collection cycle caused by a change in the composition of our accounts receivable from customers with shorter payment terms to customers with longer payment terms. This change resulted in our

DSO increasing from 52 days at October 2, 2010 to 54 days at July 2, 2011. The increase in accounts receivable was mitigated by an increase in accrued liabilities and a decrease in prepaid expenses and other assets. Our working capital metrics tend to fluctuate from quarter-to-quarter based on factors such as the linearity of our shipments and purchases, customer and supplier mix, and the negotiation of payment terms with customers and suppliers. These fluctuations can significantly affect our cash flows from operating activities.

Net cash used in investing activities was $73.7 million and $28.0 million for the nine months ended July 2, 2011 and July 3, 2010, respectively. During the nine months ended July 2, 2011, we used $82.8 million of cash for capital expenditures, received proceeds of $23.8 million from asset sales, and used $14.7 million of cash in connection with a previous business combination. During the nine months ended July 3, 2010, we used $44.1 million of cash for capital expenditures, received proceeds of $30.8 million from asset sales, and made business acquisition related payments of $14.7 million.

Net cash used in financing activities was $90.4 million and $165.6 million for the nine months ended July 2, 2011 and July 3, 2010, respectively. During the nine months ended July 2, 2011, we issued $500.0 million of long-term debt and received net proceeds of $489.0 million. Additionally, we repurchased $580.0 million of long-term debt for a purchase price of $589.4 million, plus third party costs of $1.3 million. During the nine months ended July 3, 2010, we repaid $219.9 million of our long-term debt, including $24.1 million acquired through an acquisition, and borrowed $50.6 million under two short-term debt facilities.

Other Liquidity Matters.

During the current quarter, we significantly improved our long-term debt profile. We issued $500 million of debt with a maturity date of 2019 and used the proceeds, together with existing cash, to redeem $380 million of debt due in 2013 and $200 million of debt in 2016. As a result, our next long-term debt maturity is in 2014 and the average life of our long-term debt was extended to 5.7 years. Additionally, our interest rate profile improved significantly as our new debt of $500 million has been converted to variable-rate debt through an interest rate swap and the debt we redeemed had fixed rates of 6.75% and 8.125%.

Our debt agreements currently contain a number of restrictive covenants, including prohibitions on incurring additional debt, making investments and other restricted payments, paying dividends and redeeming or repurchasing capital stock and debt, subject to certain exceptions. We were in compliance with these covenants as of July 2, 2011. Our debt agreements do not contain any financial maintenance covenants that are currently applicable to us. We may be required to seek waivers or amendments to certain covenants for our debt instruments if we are unable to comply with the requirements of the covenants in the future. We may not be able to obtain such waivers or amendments on terms acceptable to us or at all, and, in such case, these covenants could materially adversely impact our ability to conduct our business or carry out our restructuring plans.

Our next long-term debt maturity is in 2014. We may, however, consider early redemptions of our debt in future periods, possibly using proceeds from additional debt or equity financings. In addition to our existing covenant requirements, future debt financing may require us to comply with financial ratios and covenants. Equity financing, if required, may result in dilution to existing stockholders.

During 2010, one of our subsidiaries in China entered into a $50 million unsecured working capital loan facility. Borrowings under the facility bear interest at a rate equal to the three month LIBOR plus a spread. The loan facility expires in April 2012 and contains certain negative covenants that, upon default, permit the bank to deny any further advances or extension of credit or to terminate the loan agreement. As of July 2, 2011, $30 million had been borrowed under this facility and was outstanding and we were in compliance with all covenants.

Also during 2010, one of our subsidiaries in India entered into a $35 million working capital loan facility that contains no covenants and expires on June 30, 2012. Borrowings under the facility bear interest at a rate equal to LIBOR plus a spread. As of July 2, 2011, $30.4 million had been borrowed under this facility and was outstanding.

As of July 2, 2011, we have a liability of $53.8 million for uncertain tax positions. Our estimate of our liability for uncertain tax positions is based on a number of subjective assessments, including the likelihood of a tax obligation being assessed, the amount of taxes (including interest and penalties), that would ultimately be payable, and our ability to settle any such obligations on favorable terms. Therefore, the amount of future cash flows associated with uncertain tax positions may be significantly higher or lower than our recorded liability.

In connection with our acquisition of BreconRidge Corporation, we paid $15.5 million of purchase consideration in 2011 and expect to pay $2.0 million of purchase consideration in November 2011.

We have entered into, and continue to enter into, various transactions that periodically require collateral. These obligations have historically arisen from customs, import/export, VAT, utility services, debt financing, foreign exchange contracts and interest rate swaps. We have collateralized, and may from time to time collateralize, such obligations as a result of counterparty requirements or for economic reasons. As of July 2, 2011, we had collateral of $16.5 million in the form of cash against certain of our collateralized obligations. Cash used for collateral reduces our cash available for other purposes.

Our liquidity needs are largely dependent on changes in our working capital, including inventory requirements, the extension of trade credit by our suppliers, the degree of alignment of payment terms from our suppliers to payment terms granted to our customers, and restrictions on our ability to move cash between subsidiaries and repatriate cash to the U.S., investments in facilities and equipment, repayments of obligations under outstanding indebtedness and repurchases of our outstanding debt. Our primary sources of liquidity include 1) cash of $582.8 million; 2) our $235 million credit facility, of which we were eligible to borrow $165.0 million as of July 2, 2011 based on the levels of eligible accounts receivable and inventories at that date; 3) short-term borrowing facilities of $85.0 million, of which $24.6 million was available as of July 2, 2011; and 4) cash generated from operations.

We believe our existing cash resources and other sources of liquidity, together with cash generated from operations, will be sufficient to meet our working capital requirements for the next 12 months. Should our working capital requirements increase significantly over the next 12 months or we experience increases in delinquent or uncollectible accounts receivable, our cash provided by operations would be adversely impacted.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our primary exposure to market risk for changes in interest rates relates to certain of our outstanding debt obligations. Currently, we do not use derivative financial instruments in our investment portfolio. As of July 2, 2011, we had no short-term investments.

As of July 2, 2011, we had $1.2 billion of long-term debt, of which $400.0 million bears interest at a fixed rate, $257.4 million of variable rate debt has been converted to fixed rate through the use of interest rate swaps and $500.0 million of fixed rate debt has been converted to variable rate debt through the use of an interest rate swap. Accordingly, our exposure to interest rates is limited to variable rate long-term debt of $500.0 million and $60.4 million of variable-rate short-term borrowings outstanding as of July 2, 2011. The effect of an immediate 10% change in interest rates would not have a significant impact on our results of operations.

Foreign Currency Exchange Risk

We transact business in foreign countries. Our foreign exchange policy requires that we take certain steps to limit our foreign exchange exposures related to certain assets and liabilities and forecasted cash flows. However, our policy does not require us to hedge all foreign exchange exposures. Further, foreign currency hedges are based on forecasted transactions, the amount of which may differ from that actually incurred. As a result, we experience foreign exchange gains and losses in our results of operations.

Our primary foreign currency cash flows are in certain Asian and European countries, Israel and Mexico. We enter into short-term foreign currency forward contracts to hedge currency exposures associated with certain monetary assets and liabilities denominated in foreign currencies. These contracts typically have maturities of up to two months and are not designated as part of a hedging relationship in accordance with ASC 815. All outstanding foreign currency forward contracts are marked-to-market at the end of the period with unrealized gains and losses included in other income (expense), net, in the condensed consolidated statements of income. As of July 2, 2011, we had outstanding foreign currency forward contracts to exchange various foreign currencies for U.S. dollars in the aggregate notional amount of $356.9 million.

We also utilize foreign currency forward contracts to hedge certain operational (“cash flow”) exposures resulting from changes in foreign currency exchange rates. Such exposures result from 1) forecasted sales denominated in currencies other than those used to pay for materials and labor and 2) anticipated capital expenditures denominated in a currency other than the functional currency of the entity making the expenditures. In addition, the Company also hedges capital expenditures related to certain plant expansions in Asia. These contracts are up to twelve months in duration and are accounted for as cash flow hedges under ASC 815. The effective portion of changes in the fair value of the contracts is recorded in stockholders' equity as a separate component of accumulated other comprehensive income and is recognized in the condensed consolidated statement of income when the hedged item affects earnings. We had forward contracts related to cash flow hedges in various foreign currencies in the aggregate notional amount of $121.4 million as of July 2, 2011. The net impact of an immediate 10% change in exchange rates would not be material to our condensed consolidated financial statements, provided we accurately forecast our foreign currency exposure. If such forecasts are materially inaccurate, we could incur significant gains or losses.

Item 4. Controls and Procedures

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended July 2, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures will prevent all error and all fraud. Disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that their objectives are met. Further, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and the benefits of disclosure controls and procedures must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of disclosure controls and procedures can provide absolute assurance that all disclosure control issues and instances of fraud, if any, within the Company have been detected. Nonetheless, our Chief Executive Officer and Chief Financial Officer have concluded that, as of July 2, 2011, (1) our disclosure controls and procedures were designed to provide reasonable assurance of achieving their objectives, and (2) our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported as and when required, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding its required disclosure.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Please refer to Item 1 of Part II to our Quarterly Report on Form 10-Q for the quarter ended January 1, 2011.

See also Note 6 of Notes to Condensed Consolidated Financial Statements.

From time to time, we may be involved in other routine legal proceedings, as well as demands, claims and threatened litigation, that arise in the normal course of our business. The ultimate outcome of any litigation is uncertain and unfavorable outcomes could have a negative impact on our results of operations and financial condition. Regardless of outcome, litigation can have an adverse impact on us as a result of incurrence of defense costs, diversion of management resources and other factors. We record liabilities for legal proceedings when a loss becomes probable and the amount of loss can be reasonably estimated.

Item 1A. Risk Factors Affecting Operating Results

We may experience component shortages or price increases, which could cause us to delay shipments to customers and reduce our sales and net income; the natural disaster in Japan could also reduce our sales and profitability.

We are dependent on certain suppliers, including limited and sole source suppliers, to provide key components we incorporate into our products. We have experienced, and may experience in the future, delays in component deliveries, which in turn could cause delays in product shipments to customers, result in reduced revenue from and have an adverse effect on our relationship with the affected customer, and our reputation generally as a reliable service provider. In addition, component shortages, whether anticipated or not, can increase our cost of goods sold and therefore decrease our gross margin since we may be required to pay higher prices for components in short supply and redesign or reconfigure products to accommodate substitute components. Additionally, we may purchase components in advance of our requirements for those components as a result of a threatened or anticipated shortage. In this event, we may incur additional inventory carrying costs and have a heightened risk of exposure to inventory obsolescence, the cost of either of which may not be recoverable from our customers. Such costs would reduce our margins and net income. Finally, if key components become scarce, we may be required to look to second tier vendors or to procure components through brokers. Such components may be of lesser quality than those otherwise available and could cause us to incur costs to qualify such components or to replace them if they prove to be defective. In some cases, suppliers seek to obtain credit insurance for our or our subsidiaries' payment obligations as a condition to continuing to do business with us. Should such insurance not be available, our ability to continue to procure components and deliver manufactured products to our customers could be adversely impacted.

While we have not to date been significantly impacted by the March 2011 earthquake and tsunami in Japan, many of our customers are headquartered there and some of the components sourced for our customers' products are manufactured in Japan. As a result, our customers based in Japan may order reduced amounts of product from us resulting from interruptions in their own businesses and diminished demand from Japanese consumers and we may find it difficult to procure components that are currently sourced from Japanese suppliers, either of which would adversely impact our business. Such tightening of supply could prevent us from building products that require Japanese sourced components or increase our expenses as we are forced to find alternative sources of supply. Should such reduction of demand and tightening supply conditions arise and then continue over an extended period of time, our revenue, margins and net income could be reduced, perhaps significantly.
Adverse market conditions in the electronics industry could reduce our future sales and earnings per share.
We cannot accurately predict future levels of demand for our customers' electronics products. Consequently, our past operating results, earnings and cash flows may not be indicative of our future operating results, earnings and cash flows. During the past two years, adverse worldwide economic conditions led to challenging conditions in the electronics industry. A number of factors, including lower asset values, price instability, geopolitical issues, the availability and cost of credit, high unemployment and concerns about the stability and solvency of financial institutions, financial markets, businesses, and sovereign nations slowed global economic growth and resulted in recessions in many countries, including in the United States, Europe and certain countries in Asia. The conditions resulted in our customers delaying purchases or placing purchase orders for lower volumes of products than previously experienced or anticipated.

While these conditions have abated somewhat during the past year, there is still risk of an economic downturn, which could result in our customers or pot