SANMINA CORP
Form 10-Q
July 30, 2013

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 29, 2013
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 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 (§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:

Large accelerated filer [ ]	Accelerated filer [x]	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 22, 2013, there were 83,630,995 shares outstanding of the issuer's common stock, $0.01 par value per share.

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CONDENSED CONSOLIDATED BALANCE SHEETS

	As of June 29, 2013 (Unaudited)	September 29, 2012
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$416,394	$409,618
Accounts receivable, net of allowances of $12,032 for both periods	898,625	1,001,543
Inventories	796,759	826,539
Prepaid expenses and other current assets	76,880	88,599
Total current assets	2,188,658	2,326,299
Property, plant and equipment, net	543,884	569,365
Other	246,504	272,122
Total assets	$2,979,046	$3,167,786
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$899,256	$937,737
Accrued liabilities	120,180	104,741
Accrued payroll and related benefits	117,269	117,074
Short-term debt	113,865	59,995
Total current liabilities	1,250,570	1,219,547
Long-term liabilities:		
Long-term debt	561,155	837,364
Other	128,141	147,094
Total long-term liabilities	689,296	984,458
Commitments and contingencies (Note 6)		
Stockholders' equity	1,039,180	963,781
Total liabilities and stockholders' equity	$2,979,046	$3,167,786

See accompanying notes.

SANMINA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Nine Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
	(Unaudited)			
	(In thousands, except per share data)			
Net sales	$1,489,214	$1,549,302	$4,411,801	$4,514,750
Cost of sales	1,374,963	1,444,050	4,100,318	4,194,125
Gross profit	114,251	105,252	311,483	320,625
Operating expenses:				
Selling, general and administrative	62,120	60,965	180,942	183,046
Research and development	6,761	5,587	18,176	15,643
Restructuring and integration costs	9,391	3,932	20,263	13,472
Amortization of intangible assets	474	672	1,422	2,395
Asset impairments	—	—	1,100	2,077
Gain on sales of long-lived assets	(176)	(1,298)	(23,361)	(1,298)
Total operating expenses	78,570	69,858	198,542	215,335
Operating income	35,681	35,394	112,941	105,290
Interest income	391	369	835	1,095
Interest expense	(8,944)	(16,131)	(32,444)	(58,361)
Other expense, net	(38)	(6,835)	(16,437)	(13,194)
Interest and other, net	(8,591)	(22,597)	(48,046)	(70,460)
Income before income taxes	27,090	12,797	64,895	34,830
Provision for income taxes	8,352	3,849	24,345	18,746
Net income	$18,738	$8,948	$40,550	$16,084
Net income per share:				
Basic	$0.23	$0.11	$0.49	$0.20
Diluted	$0.22	$0.11	$0.48	$0.19
Weighted average shares used in computing per share amounts:				
Basic	83,082	81,519	82,515	81,213
Diluted	85,602	83,566	84,819	83,469

See accompanying notes.

SANMINA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended		Nine Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
	(Unaudited) (In thousands)			
Net income	$18,738	$8,948	$40,550	$16,084
Other comprehensive income (loss):				
Foreign currency translation adjustments	(3,545)	(3,317)	(3,883)	(3,499)
Net unrealized gain on derivative financial instruments, net of tax	500	2,793	20,617	7,785
Changes in unrecognized net actuarial loss and unrecognized transition cost, net of tax	(101)	(196)	(424)	(251)
Comprehensive income	$15,592	$8,228	$56,860	$20,119

See accompanying notes.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	June 29, 2013	June 30, 2012
	(Unaudited) (In thousands)	
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net income	$40,550	$16,084
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	72,593	75,074
Stock-based compensation expense	13,376	13,120
Benefit from (provision for) doubtful accounts, product returns and other sales adjustments	3	(1,303)
Deferred income taxes	(530)	1,945
Loss from extinguishments of debt	1,401	10,697
Gain on sales of assets, net	(23,278)	(1,744)
Asset impairments	2,082	2,899
Loss from dedesignation of interest rate swap	14,903	—
Other, net	173	(152)
Changes in operating assets and liabilities:		
Accounts receivable	101,035	(3,342)
Inventories	28,882	62,035
Prepaid expenses and other assets	13,577	(15,524)
Accounts payable	(37,719)	(81,156)
Accrued liabilities and other long-term liabilities	794	15,709
Cash provided by operating activities	227,842	94,342
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(53,545)	(56,076)
Proceeds from sales of property, plant and equipment	28,974	4,713
Cash paid in connection with previous business combinations	—	(5,719)
Cash used in investing activities	(24,571)	(57,082)
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Change in restricted cash	3,270	4,380
Repayments of long-term debt	(257,410)	(256,770)
Debt issuance costs	—	(2,685)
Proceeds from short-term borrowings	185,284	44,000
Repayments of short-term borrowings	(166,415)	(74,200)
Proceeds from revolving credit facility borrowings	1,016,520	178,000
Repayments of revolving credit facility borrowings	(981,520)	(178,000)
Net proceeds from stock issuances	6,689	1,995
Payments to acquire treasury stock	(1,525)	—
Cash used in financing activities	(195,107)	(283,280)
Effect of exchange rate changes	(1,388)	594

Increase (decrease) in cash and cash equivalents	6,776	(245,426)
Cash and cash equivalents at beginning of period	409,618	640,288
Cash and cash equivalents at end of period	$416,394	$394,862
Cash paid during the period for:		
Interest, net of capitalized interest	$32,009	$51,563
Income taxes, net of refunds	$13,553	$10,376

See accompanying notes.

SANMINA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

The accompanying condensed consolidated financial statements of Sanmina 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 September 29, 2012, included in the Company's 2012 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 June 29, 2013 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 2013 and 2012 are each 52-week years. All references to years relate to fiscal years unless otherwise noted.

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") No. 2013-2, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income". ASU No. 2013-2 requires disclosure of amounts reclassified out of accumulated other comprehensive income by component. The adoption of ASU 2013-2 will not materially impact the Company's financial statements and will be effective beginning in 2014.

Note 2. Inventories

Components of inventories were as follows:

	As of June 29, 2013	September 29, 2012
	(In thousands)	
Raw materials	$528,090	$584,821
Work-in-process	105,012	96,757
Finished goods	163,657	144,961
Total	$796,759	$826,539

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 June 29, 2013, the carrying amount and estimated fair value of the Company's long-term debt instruments were $540.0 million and $555.0 million, respectively. Fair value was estimated based on quoted prices (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 June 29, 2013 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 and Interest Rate Swaps	Total
	Level 1	Level 1	Level 2	Level 2	
	(In thousands)				
Balance Sheet Classification:					
Cash and cash equivalents	$436	$18,539	$—	$—	$18,975
Prepaid expenses and other current assets	$—	$—	$6	$1,917	$1,923
Other assets	$—	$—	$21,155	$—	$21,155
Accrued liabilities (1)	$—	$—	$(242)	$(16,076)	$(16,318)

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

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The following table presents information as of September 29, 2012 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	$3,384	$—	$—	$3,819
Prepaid expenses and other current assets	$—	$—	$77	$1,770	$1,847
Other assets	$—	$—	$39,954	$—	$39,954
Accrued liabilities (1)	$—	$—	$(175)	$(2,913)	$(3,088)
Other long-term liabilities (1)	$—	$—	$(23,126)	$—	$(23,126)

(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. As of June 29, 2013 and September 29, 2012, assets and liabilities associated with these plans were approximately $11.0 million and $10.0 million, respectively, and are recorded as other non-current assets and other long-term liabilities on the condensed consolidated balance sheets.

The Company values derivatives using observable Level 2 market inputs 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 June 29, 2013 or September 29, 2012.

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

Assets held-for-sale, consisting of land and buildings, 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 previously 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 $9.1 million and $10.2 million as of June 29, 2013 and September 29, 2012, respectively, and is included in prepaid expenses and other current assets on the condensed consolidated balance sheets. The Company recorded an impairment charge of $1.1 million during the nine months ended June 29, 2013 related to assets held-for-sale.

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 used to manage interest rate risk associated with borrowings under the Company's long-term debt arrangements.

Interest Rate Swaps Not Designated As Hedging Instruments

The Company has interest rate swaps with an aggregate notional amount of $257 million that were entered into in 2007 to hedge LIBOR-based variable rate interest payments expected to occur through June 15, 2014. During the first quarter of 2013, the Company determined, based on its intention of redeeming $257.4 million of its senior floating rates notes due in 2014 ("2014 Notes"), that it was no longer probable that LIBOR-based, variable rate interest payments would occur on $257 million of debt through June 15, 2014. Accordingly, the Company dedesignated its interest rate swaps in their entirety in the first quarter of 2013 and recorded a charge of $14.9 million to other expense, net, representing the portion of the value of the interest rate swaps previously recorded in accumulated other comprehensive income (AOCI) for which it was no longer probable that LIBOR-based variable rate interest payments would occur. During the second quarter of 2013, the Company redeemed its 2014 Notes in full using a combination of cash on hand and borrowings under the Company's revolving credit facility (LIBOR-based, variable rate facility). Therefore, LIBOR-based variable rate payments are only expected to occur on forecasted borrowings under the Company's revolving credit facility and only during the period of time these borrowings are expected to be outstanding. The AOCI balance as of June 29, 2013 was $0.9 million and is expected to be amortized to interest expense over the next 6 months.

Under the terms of the swap agreements, the Company pays the independent swap counterparties a fixed rate of approximately 5.6% and the swap counterparties pay the Company an interest rate equal to three-month LIBOR. As of June 29, 2013, the fair value of the interest rate swaps was $13.1 million and is included in accrued liabilities on the condensed consolidated balance sheet. The Company does not intend to liquidate the swap agreements and will therefore continue to make and receive payments under the swaps through June 15, 2014. Beginning on the date the interest rate swaps were dedesignated, changes in the fair value of the interest rate swaps will be recorded to other expense, net, in the condensed consolidated statement of income. Such amounts were not material for the three and nine months ended June 29, 2013.

Fair Value Hedge

The Company has $500 million of fixed-rate senior notes (the "2019 Notes") outstanding as of June 29, 2013 and has an interest rate swap with a single counterparty to hedge its exposure to changes in the fair value of the notes resulting from fluctuations in interest rates. The swap agreement, with a notional amount of $500 million and an expiration date of May 15, 2019, 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. Consistent with the Company's ability to call the 2019 Notes beginning in May 2014, the swap counterparty has the unilateral right to terminate the swap beginning in May 2014 and pay the Company a market termination fee. In accordance with ASC Topic 815, the interest rate swap is accounted for as a fair value hedge and 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 June 29, 2013, the fair value of the interest rate swap was $21.2 million and is included in other non-current assets and long-term debt on the 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, Brazil and Mexico.

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

	As of June 29, 2013	September 29, 2012
Derivatives Designated as Accounting Hedges:		
Notional amount (in thousands)	$101,909	$123,050
Number of contracts	43	49
Derivatives Not Designated as Accounting Hedges:		
Notional amount (in thousands)	$181,746	$292,469
Number of contracts	41	33

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 Topic 815. Accordingly, these contracts are marked-to-market at the end of each period with unrealized gains and losses recorded in other expense, net, in the condensed consolidated statements of income. For the three and nine months ended June 29, 2013, the Company recorded losses of $2.3 million and $4.1 million, respectively, associated with these forward contracts. For the three and nine months ended June 30, 2012, the Company recorded gains of $3.3 million and $7.9 million, respectively, associated with these forward contracts. From an economic perspective, the objective of the Company's hedging program is for gains and losses on forward contracts to substantially offset gains and losses on the underlying hedged items.

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 may be up to twelve months in duration and are accounted for as cash flow hedges under ASC Topic 815.

For derivative instruments that are designated and qualify as cash flow hedges, 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. Other than ineffectiveness of $14.9 million recognized in the first quarter of 2013 in connection with a dedesignation of interest rate swaps, the amount of ineffectiveness on a quarterly basis has been immaterial. As of June 29, 2013, AOCI related to foreign currency forward contracts was not material.

The following table presents the effect of cash flow hedging relationships on the Company's condensed consolidated statements of income:

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)				Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Ineffective Portion)	
	Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended		Nine Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
	(In thousands)									

Interest rate swaps - Other expense, net	$—	$—	$—	$—	$—	$—	$—	$—	$(14,903)	$—
Interest rate swaps - Interest expense	$—	$								