SANMINA CORP
Form 10-Q
January 29, 2016

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 January 2, 2016
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 [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 January 25, 2016, there were 77,183,780 shares outstanding of the issuer's common stock, $0.01 par value per share.

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CONDENSED CONSOLIDATED BALANCE SHEETS

	As of January 2, 2016 (Unaudited) (In thousands)	October 3, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$398,447	$412,253
Accounts receivable, net of allowances of $13,470 and $13,439 as of January 2, 2016 and October 3, 2015, respectively	930,460	936,952
Inventories	896,123	918,728
Prepaid expenses and other current assets	55,409	55,047
Total current assets	2,280,439	2,322,980
Property, plant and equipment, net	585,771	590,844
Deferred tax assets	484,987	497,605
Other	80,029	81,835
Total assets	$3,431,226	$3,493,264
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,014,031	$1,035,323
Accrued liabilities	105,118	111,416
Accrued payroll and related benefits	103,306	120,402
Short-term debt, including current portion of long-term debt	89,416	113,416
Total current liabilities	1,311,871	1,380,557
Long-term liabilities:		
Long-term debt	424,100	423,949
Other	168,001	168,287
Total long-term liabilities	592,101	592,236
Commitments and contingencies (Note 5)		
Stockholders' equity	1,527,254	1,520,471
Total liabilities and stockholders' equity	$3,431,226	$3,493,264

See accompanying notes to condensed consolidated financial statements.

SANMINA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended	
	January 2, 2016	December 27, 2014
	(Unaudited)	
	(In thousands, except per share data)	
Net sales	$1,534,714	$1,671,162
Cost of sales	1,411,076	1,544,816
Gross profit	123,638	126,346
Operating expenses:		
Selling, general and administrative	57,693	59,418
Research and development	9,647	8,069
Restructuring costs	553	3,000
Amortization of intangible assets	692	425
Asset impairments	1,000	1,954
Total operating expenses	69,585	72,866
Operating income	54,053	53,480
Interest income	148	289
Interest expense	(5,878)	(6,437)
Other expense, net	(218)	(1,528)
Interest and other, net	(5,948)	(7,676)
Income before income taxes	48,105	45,804
Provision for income taxes	20,967	23,148
Net income	$27,138	$22,656
Net income per share:		
Basic	$0.35	$0.27
Diluted	$0.33	$0.26
Weighted average shares used in computing per share amounts:		
Basic	77,921	82,548
Diluted	81,205	86,682

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended	
	January 2, 2016	December 27, 2014
	(Unaudited)	
	(In thousands)	
Net income	$27,138	$22,656
Other comprehensive income (loss), net of tax:		
Change in foreign currency translation adjustments	(891)	(4,860)
Derivative financial instruments:		
Change in net unrealized amount	364	(1,398)
Amount reclassified into net income	(295)	1,441
Defined benefit plans:		
Changes in unrecognized net actuarial loss and unrecognized transition cost	375	275
Amortization of actuarial losses and transition costs	422	336
Total other comprehensive loss	(25)	(4,206)
Comprehensive income	$27,113	$18,450

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended	
	January 2, 2016	December 27, 2014
	(Unaudited)	
	(In thousands)	
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net income	$27,138	$22,656
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	25,751	24,656
Stock-based compensation expense	4,052	5,717
Deferred income taxes	12,326	10,739
Other, net	1,270	4,427
Changes in operating assets and liabilities:		
Accounts receivable	5,848	3,937
Inventories	22,508	(17,036)
Prepaid expenses and other assets	429	2,794
Accounts payable	(12,557)	(55,212)
Accrued liabilities	(24,105)	(8,847)
Cash provided by (used in) operating activities	62,660	(6,169)
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(28,910)	(28,708)
Proceeds from sales of property, plant and equipment	202	932
Cash used in investing activities	(28,708)	(27,776)
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Repayments of long-term debt	—	(105,250)
Repayments of short-term borrowings	—	(10,221)
Proceeds from revolving credit facility borrowings	770,500	617,500
Repayments of revolving credit facility borrowings	(794,500)	(557,500)
Proceeds from termination of interest rate swap	—	3,258
Net proceeds from stock issuances	4,310	10,690
Repurchases of common stock	(28,694)	—
Cash used in financing activities	(48,384)	(41,523)
Effect of exchange rate changes	626	10
Decrease in cash and cash equivalents	(13,806)	(75,458)
Cash and cash equivalents at beginning of period	412,253	466,607
Cash and cash equivalents at end of period	$398,447	$391,149
Cash paid during the period for:		
Interest, net of capitalized interest	$8,957	$9,050
Income taxes, net of refunds	$9,339	$3,461

See accompanying notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited 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 U.S. 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 adjustments, consisting only of normal recurring adjustments, that are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended October 3, 2015, included in the Company's 2015 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 unaudited condensed consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates.

Results of operations for the first quarter of 2016 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 2015 was a 53-week year, with the extra week in the fourth fiscal quarter, and fiscal 2016 will be a 52-week year. All references to years relate to fiscal years unless otherwise noted.

Recent Accounting Pronouncements

In September 2015, the FASB issued ASU 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments (Topic 805)". This ASU requires the Company to recognize adjustments to provisional amounts identified during the measurement period in the reporting period in which the adjustments are determined. Additionally, the Company is required to disclose the amount recorded in current-period earnings that would have been recorded in previous reporting periods if the adjustment to provisional amounts had been recognized as of the acquisition date. The new standard is effective for the Company at the beginning of fiscal 2017.

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory (Topic 330)". This ASU requires measurement of inventory at the lower of cost and net realizable value. Net realizable value is defined as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Currently, inventory is generally measured at the lower of cost or market, except for excess and obsolete inventories which are carried at their estimated net realizable values. This new standard is effective for the Company in fiscal 2018, including interim periods within that reporting period. The Company is currently evaluating the impact of adopting this new accounting standard.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which supersedes the revenue recognition requirements in “Revenue Recognition (Topic 605).” This ASU requires an entity to recognize revenue when goods are transferred or services are provided to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires disclosures enabling users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for the Company in fiscal 2019, including interim periods within that reporting period, using one of two prescribed transition methods. The Company is currently participating in an EMS industry forum that has been created to evaluate the impact of adoption of ASU 2014-09 on entities within such industry. The Company has not yet selected a transition method, nor has it determined the effect of the standard on its ongoing financial reporting.

Note 2. Inventories

Components of inventories were as follows:

	As of January 2, 2016	October 3, 2015
	(In thousands)	
Raw materials	$615,145	$624,514
Work-in-process	103,100	120,131
Finished goods	177,878	174,083
Total	$896,123	$918,728

Note 3. Financial Instruments

Fair Value Measurements

Fair Value of Financial Instruments

The fair values of cash equivalents, accounts receivable, accounts payable and short-term debt approximate carrying value due to the short term duration of these instruments.

Fair Value Option for Long-term Debt

As of January 2, 2016, the aggregate carrying amount of the Company's long-term debt instruments approximated fair value as estimated based primarily on quoted prices. The Company has elected not to record its long-term debt instruments at fair value.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company's primary financial assets and liabilities measured at fair value on a recurring basis are deferred compensation plan assets, foreign exchange contracts, defined benefit plan assets and contingent consideration. Deferred compensation plan assets, foreign exchange contracts and contingent consideration were not material as of January 2, 2016 or October 3, 2015. Defined benefit plan assets are measured at fair value in the fourth quarter of each year.

Offsetting Derivative Assets and Liabilities

The Company has entered into master netting arrangements with each of its derivative counterparties that allows net settlement of derivative assets and liabilities under certain conditions, such as multiple transactions with the same currency maturing on the same date. The Company presents its derivative assets and derivative liabilities on a gross basis on the unaudited condensed consolidated balance sheets. The amount that the Company had the right to offset under these netting arrangements was not material as of January 2, 2016 or October 3, 2015.

Derivative Instruments

The Company is exposed to certain risks related to its ongoing business operations. The primary risk managed by using derivative instruments is 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 non-functional currencies. The Company's primary foreign currency cash flows are in certain Asian and European countries, Brazil, Israel and Mexico.

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

	As of January 2, 2016	October 3, 2015
Derivatives Designated as Accounting Hedges:		
Notional amount (in thousands)	$83,509	$76,465
Number of contracts	44	41
Derivatives Not Designated as Accounting Hedges:		
Notional amount (in thousands)	$261,111	$230,084
Number of contracts	46	46

The Company 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, (2) forecasted non-functional currency labor and overhead expenses, (3) forecasted non-functional currency operating expenses, and (4) anticipated capital expenditures denominated in a currency other than the functional currency of the entity making the expenditures. These contracts are accounted for as cash flow hedges and are generally one to two months in duration but, by policy, may be up to twelve months in duration.

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is recorded in Accumulated Other Comprehensive Income ("AOCI"), a component of equity, and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The amount of gain (loss) recognized in Other Comprehensive Income ("OCI") on derivative instruments (effective portion), the amount of gain (loss) reclassified from AOCI into income (effective portion) and the amount of ineffectiveness were not material for any period presented herein. As of January 2, 2016, AOCI related to foreign currency forward contracts was not material.

The Company also enters into short-term foreign currency forward contracts to hedge foreign currency exposures associated with certain monetary assets and liabilities denominated in non-functional currencies. These contracts have maturities of up to two months and are not designated as accounting hedges. 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 unaudited condensed consolidated statements of income. The amount of gains (losses) associated with these forward contracts were not material for any period presented herein. 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.

Note 4. Debt

Long-term debt consisted of the following:

	As of January 2, 2016	October 3, 2015
	(In thousands)	
Secured debt	$40,000	$40,000
Senior secured notes due 2019 ("Secured Notes")	375,000	375,000
Non-interest bearing notes payable	12,516	12,365
Total long-term debt	427,516	427,365
Less: Current Portion		

Current portion of non-interest bearing notes payable	3,416	3,416
Long-term debt	$424,100	$423,949

Short-term debt

The Company has a $375 million secured revolving credit facility (the "Cash Flow Revolver") that may be increased by an additional $125 million upon obtaining additional commitments from lenders then party to the Cash Flow Revolver or new lenders. The Cash Flow Revolver expires on May 20, 2020, but may be terminated by the lenders as early as March 4, 2019 if certain conditions exist. As of January 2, 2016, $86.0 million of borrowings and $21.9 million of letters of credit were outstanding under the Cash Flow Revolver.

As of January 2, 2016, certain foreign subsidiaries of the Company had a total of $74.1 million of short-term borrowing facilities, under which no borrowings were outstanding. These facilities expire at various dates through the second quarter of 2017.

Debt covenants

The Company's Cash Flow Revolver requires the Company to comply with certain financial covenants. Additionally, the agreement covering the Company’s $40 million debt secured by the Company’s corporate campus (the “Secured Debt”) requires the Company to comply with a financial covenant if certain conditions exist, none of which existed as of January 2, 2016.

The Company's debt agreements contain a number of restrictive covenants, restrictions on incurring additional debt, making investments and other restricted payments, selling assets, paying dividends and redeeming or repurchasing capital stock and debt, subject to certain exceptions.

The Company was in compliance with these covenants as of January 2, 2016.

Note 5. Commitments and 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 January 2, 2016 and October 3, 2015, the Company had reserves of $51.5 million and $49.2 million, respectively, for environmental matters, warranty, litigation and other contingencies (excluding reserves for uncertain tax positions) which the Company believes is adequate. However, there can be no assurance that the Company's reserves will be sufficient to settle these contingencies. Such reserves are included in accrued liabilities and other long-term liabilities on the unaudited condensed consolidated balance sheets.

Legal Proceedings

Environmental Matters

The Company is subject to various federal, state, local and foreign laws, regulations and administrative orders concerning environmental protection, including those addressing the discharge of pollutants into the environment, the management and handling of hazardous substances, the cleanup of contaminated sites, the materials used in products, and the generation, recycling, treatment and disposal of hazardous waste. As of January 2, 2016, the Company has been named in a lawsuit and several administrative orders alleging certain of its current and former sites contributed to groundwater contamination.

A Canadian subsidiary of the Company is party to an order requiring such subsidiary to remediate certain environmental contamination at a site owned by the subsidiary between 1999 and 2006. As of January 2, 2016, the Company believes it has reserved a sufficient amount to satisfy anticipated future remediation costs at this site.

In June 2008, the Company was named by the Orange County Water District in a suit alleging that its actions contributed to polluted groundwater managed by the plaintiff. The complaint seeks recovery of compensatory and other damages, as well as declaratory relief, for the payment of costs necessary to investigate, monitor, remediate, abate and contain contamination of groundwater within the plaintiff's control. In April 2013, all claims against the Company were dismissed. The plaintiff has appealed this dismissal and the Company expects the appeal to be heard in calendar 2016.

Other Matters

Two of the Company's subsidiaries in Brazil are parties to several administrative and judicial proceedings for claims alleging that these subsidiaries failed to comply with certain bookkeeping and tax rules for certain periods between 2001 and 2010. These claims seek payment of state value-added tax and income and excise taxes allegedly owed by the subsidiaries, as well as fines. The subsidiaries believe they have meritorious positions in these matters and intend to contest the claims,

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although there can be no assurance that these claims will not have a material adverse effect on the Company's results of operations in the future.

Refer to Part II, Item 1 for further information regarding these matters.

Other Contingencies

One of the Company's most significant risks is the ultimate realization of accounts receivable and customer inventory liabilities. This risk is partially mitigated by ongoing credit evaluations of, and frequent contact with, the Company's customers, especially its most significant customers, thus enabling it to monitor changes in business operations and respond accordingly. In the first quarter of 2015, one of the Company's customers, GT Advanced Technologies, filed a petition for reorganization under bankruptcy law. As of January 2, 2016 and October 3, 2015, the Company's accounts receivable and inventory exposure of $12.0 million for this customer was fully reserved, including $3.9 million of reserves provided in the first quarter of 2015.

Commitments - Operating Leases

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