

SANMINA CORP  
Form 10-Q  
January 30, 2015

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-Q  
(Mark one)

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

For the quarterly period ended December 27, 2014  
or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 0-21272  
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  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  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  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Edgar Filing: SANMINA CORP - Form 10-Q

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

As of January 23, 2015, there were 83,176,376 shares outstanding of the issuer's common stock, \$0.01 par value per share.

---

---

SANMINA CORPORATION

INDEX

	Page
	<u>3</u>
Item 1.	<u>3</u>
	<u>4</u>
	<u>5</u>
	<u>6</u>
	<u>7</u>
Item 2.	<u>18</u>
Item 3.	<u>25</u>
Item 4.	<u>26</u>
Item 1.	<u>27</u>
Item 1A.	<u>28</u>
Item 6.	<u>37</u>
<u>Signatures</u>	<u>38</u>

## SANMINA CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

	As of December 27, 2014 (Unaudited) (In thousands)	September 27, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$391,149	\$466,607
Accounts receivable, net of allowances of \$10,068 and \$10,278 as of December 27, 2014 and September 27, 2014, respectively	972,958	979,475
Inventories	907,735	893,178
Prepaid expenses and other current assets	109,664	111,714
Total current assets	2,381,506	2,450,974
Property, plant and equipment, net	564,557	563,016
Other	279,669	299,099
Total assets	\$3,225,732	\$3,313,089
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$1,080,435	\$1,139,845
Accrued liabilities	110,000	110,357
Accrued payroll and related benefits	118,467	126,541
Short-term debt, including current portion of long-term debt	63,416	157,394
Total current liabilities	1,372,318	1,534,137
Long-term liabilities:		
Long-term debt	426,866	386,681
Other	144,936	145,516
Total long-term liabilities	571,802	532,197
Commitments and contingencies (Note 6)		
Stockholders' equity	1,281,612	1,246,755
Total liabilities and stockholders' equity	\$3,225,732	\$3,313,089

See accompanying notes to condensed consolidated financial statements.

## SANMINA CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended	
	December 27, 2014	December 28, 2013
	(Unaudited)	
	(In thousands, except per share data)	
Net sales	\$1,671,162	\$1,447,498
Cost of sales	1,544,816	1,336,713
Gross profit	126,346	110,785
Operating expenses:		
Selling, general and administrative	59,418	59,182
Research and development	8,069	7,905
Restructuring costs	3,000	3,704
Amortization of intangible assets	425	474
Asset impairments	1,954	—
Total operating expenses	72,866	71,265
Operating income	53,480	39,520
Interest income	289	806
Interest expense	(6,437)	(7,473)
Other income (expense), net	(1,528)	878
Interest and other, net	(7,676)	(5,789)
Income before income taxes	45,804	33,731
Provision for income taxes	23,148	10,630
Net income	\$22,656	\$23,101
Net income per share:		
Basic	\$0.27	\$0.28
Diluted	\$0.26	\$0.26
Weighted average shares used in computing per share amounts:		
Basic	82,548	83,766
Diluted	86,682	87,259

See accompanying notes to condensed consolidated financial statements.

## SANMINA CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended	
	December 27, 2014	December 28, 2013
	(Unaudited)	
	(In thousands)	
Net income	\$22,656	\$23,101
Other comprehensive income (loss), net of tax:		
Change in foreign currency translation adjustments	(4,860 )	(1,824 )
Derivative financial instruments:		
Change in net unrealized amount	(1,398 )	386
Amount reclassified into net income	1,441	(37 )
Defined benefit plans:		
Changes in unrecognized net actuarial loss and unrecognized transition cost	275	(154 )
Amortization of actuarial losses and transition costs	336	419
Total other comprehensive loss	(4,206 )	(1,210 )
Comprehensive income	\$18,450	\$21,891

See accompanying notes to condensed consolidated financial statements.

## SANMINA CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended	
	December 27, 2014 (Unaudited) (In thousands)	December 28, 2013
<b>CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>		
Net income	\$22,656	\$23,101
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	24,656	23,360
Stock-based compensation expense	5,717	4,275
Benefit from doubtful accounts, product returns and other sales adjustments	(210)	(539)
Deferred income taxes	10,739	872
Loss on extinguishment of debt	2,913	—
Gain on sales of assets, net	(159)	(163)
Asset impairments	1,954	—
Other, net	(71)	(3)
Changes in operating assets and liabilities:		
Accounts receivable	3,937	28,771
Inventories	(17,036)	(4,156)
Prepaid expenses and other assets	2,794	(5,576)
Accounts payable	(55,212)	(37,135)
Accrued liabilities and other long-term liabilities	(8,847)	5,436
Cash provided by (used in ) operating activities	(6,169)	38,243
<b>CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(28,708)	(13,607)
Proceeds from sales of property, plant and equipment	932	164
Cash paid for business combinations	—	(57,660)
Cash used in investing activities	(27,776)	(71,103)
<b>CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:</b>		
Repayments of long-term debt	(105,250)	—
Proceeds from short-term borrowings	—	21,447
Repayments of short-term borrowings	(10,221)	(19,926)
Proceeds from revolving credit facility borrowings	617,500	185,000
Repayments of revolving credit facility borrowings	(557,500)	(125,000)
Proceeds from termination of interest rate swap	3,258	—
Net proceeds from stock issuances	11,851	1,128
Repurchases of common stock	(1,161)	(25,623)
Cash provided by (used in) financing activities	(41,523)	37,026
Effect of exchange rate changes	10	10
Increase (decrease) in cash and cash equivalents	(75,458)	4,176
Cash and cash equivalents at beginning of period	466,607	402,875

Edgar Filing: SANMINA CORP - Form 10-Q

Cash and cash equivalents at end of period	\$391,149	\$407,051
Cash paid during the period for:		
Interest, net of capitalized interest	\$9,050	\$9,259
Income taxes, net of refunds	\$3,461	\$3,075

See accompanying notes to condensed consolidated financial statements.

6

---



## SANMINA CORPORATION

## 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 normal recurring and non-recurring adjustments that are, in the opinion of management, necessary for a fair presentation. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended September 27, 2014, included in the Company's 2014 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 2015 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 2014 was a 52-week year and fiscal 2015 will be a 53-week year, with the extra week in the fourth fiscal quarter. All references to years relate to fiscal years unless otherwise noted.

## Recent accounting pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (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 guidance will be effective for fiscal 2018, including interim periods within that reporting period, using one of two prescribed retrospective methods, and no early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption of ASU 2014-09 on its consolidated financial statements and related disclosures. 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 December 27, 2014 (In thousands)	September 27, 2014
Raw materials	\$541,024	\$628,860

Edgar Filing: SANMINA CORP - Form 10-Q

Work-in-process	174,688	102,618
Finished goods	192,023	161,700
Total	\$907,735	\$893,178

7

---

### 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 December 27, 2014, the aggregate carrying amount of the Company's long-term debt instruments approximated fair value as estimated based on quoted prices.

#### Assets/Liabilities Measured at Fair Value on a Recurring Basis

The Company's primary financial assets and financial liabilities consist of:

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

Assets and liabilities measured at fair value on a recurring basis were not material as of December 27, 2014 or September 27, 2014.

#### 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 in 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 December 27, 2014 or September 27, 2014.

#### 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. Fair value is generally estimated using independent third party valuations based on market comparables. The carrying value of the Company's assets held-for-sale was \$8.8 million and \$11.6 million as of December 27, 2014 and September 27, 2014, respectively, and is included in prepaid expenses and other current assets on the unaudited condensed consolidated balance sheets. The Company recorded an impairment charge of \$2.0 million during the first quarter of 2015 related to assets held-for-sale.

### Note 4. Derivative Financial Instruments

The Company is exposed to certain risks related to its ongoing business operations.

As of September 27, 2014, the Company had an outstanding interest rate swap with a notional amount of \$100 million that was not designated as a hedging instrument for accounting purposes. The swap was terminated in the first quarter of 2015 upon extinguishment of the underlying debt. The Company received a cash payment of \$3.3 million upon termination of the swap. As of December 27, 2014, the Company does not have any interest rate swaps.

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, 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	
	December 27, 2014	September 27, 2014
Derivatives Designated as Accounting Hedges:		
Notional amount (in thousands)	\$117,863	\$ 114,157
Number of contracts	44	42
Derivatives Not Designated as Accounting Hedges:		
Notional amount (in thousands)	\$245,818	\$ 255,828
Number of contracts	41	41

The Company enters into short-term foreign currency forward contracts to hedge 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 income (expense), net, in the unaudited condensed consolidated statements of income. The amount of gain (loss) associated with these forward contracts were not material for the first quarters of 2015 and 2014. 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, (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 may be up to twelve months in duration and are accounted for as cash flow hedges.

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 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 OCI on derivative

(effective portion), the amounts of gain (loss) reclassified from AOCI into income (effective portion) and the amount of ineffectiveness on a quarterly basis were immaterial in all periods presented herein. As of December 27, 2014, AOCI related to foreign currency forward contracts was not material.

## Note 5. Debt

Long-term debt consisted of the following:

	As of December 27, 2014	September 27, 2014
	(In thousands)	
Secured debt	\$40,000	\$40,000
Senior notes due 2019 ("2019 Notes")	—	100,000
Senior secured notes due 2019 ("Secured Notes")	375,000	375,000
Non-interest bearing notes payable	15,282	15,097
Fair value adjustment (1)	—	3,757
Total long-term debt	\$430,282	\$533,854
Less: Current Portion		
2019 Notes called for redemption in fourth quarter of 2014	—	100,000
Fair value adjustment related to remaining 2019 Notes	—	3,757
Secured debt (refinanced in the first quarter of 2015)	—	40,000
Current portion of non-interest bearing notes payable	3,416	3,416
Long-term debt	\$426,866	\$386,681

(1) Represents fair value hedge accounting balance related to interest rate swaps. See Note 4 for discussion.

During the first quarter of 2015, the Company redeemed the remaining \$100 million of its 2019 Notes at par plus a redemption premium and accrued interest. In connection with this redemption, the Company recorded a net loss on extinguishment of debt of \$2.9 million, consisting of redemption premiums of \$5.3 million and a write-off of unamortized debt issuance costs of \$1.4 million, partially offset by a \$3.8 million credit for the fair value hedge adjustment related to the extinguished 2019 Notes.

In addition, the Company entered into an amendment (the "Amendment") of the Loan Agreement (the "Loan Agreement") between the Company and MUFG Union Bank, N.A. (formerly known as Union Bank, N.A. (the "Bank")) dated July 19, 2012. The Amendment extends the maturity date of the Company's secured debt from July 19, 2015 to December 19, 2017. At the Company's request and upon approval of the Bank, such maturity date may be extended up to two times for a period of one year for each extension. Principal, together with accrued and unpaid interest, is due on the maturity date. The Company has the right to prepay loans under the Loan Agreement in whole or in part at any time without penalty. The Amendment also provides for a 0.75% reduction in the interest rate charged for the loan made under the Loan Agreement (bears interest at LIBOR plus a spread or the bank's prime rate plus a spread). As amended, the Loan Agreement requires the Company to comply with a consolidated fixed charge coverage ratio, determined in accordance with the Loan Agreement, of at least 1.25 to 1.00 in the event of a credit ratings agency downgrade of the Company or certain trigger periods relating to liquidity under the Company's existing revolving credit facility. None of these conditions existed at December 27, 2014.

## Short-term debt

The Company has a \$300 million secured asset-backed revolving credit facility. Borrowings under this facility bear interest, at the Company's option, at a rate equal to LIBOR or a base rate equal to Bank of America, N.A.'s announced prime rate, in each case plus a spread. The facility expires on March 16, 2017. As of December 27, 2014, \$60.0 million of borrowings and \$22.1 million of letters of credit were outstanding under this facility.

As of December 27, 2014, certain foreign subsidiaries of the Company had a total of \$74.0 million of short-term borrowing facilities, under which no borrowings were outstanding. An aggregate of \$25.0 million of such facilities expire during the second quarter of 2015 and most of the remainder of such facilities expire during the fourth quarter of 2015.

## Debt covenants

The Company's debt agreements do not contain financial covenants currently applicable to the Company, but do include a number of restrictive covenants, including 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 December 27, 2014.

## Note 6. Commitments and Contingencies

**Commitments.** During the fourth quarter of 2014, the Company entered into a lease agreement with an option to purchase the leased facility for \$25.3 million (Canadian dollars) in the third quarter of 2015. The Company exercised the purchase option during the first quarter of 2015.

**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 December 27, 2014 and September 27, 2014, the Company had reserves of \$21.2 million and \$24.8 million, respectively, for environmental matters, 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.

On October 6, 2014, one of the Company's customers, GT Advanced Technologies, filed a petition for reorganization under bankruptcy law. The Company performed an analysis as of September 27, 2014 to quantify its potential exposure and administrative and reclamation claim priority. As a result of the analysis, the Company determined that certain accounts receivable may not be collectible and therefore deferred recognition of revenue in the amount of \$1.9 million in the fourth quarter of 2014. Based on new information that became available and events that occurred subsequent to the Company's filing of its 2014 financial statements, the Company determined that certain inventory balances may not be recoverable and provided a reserve for such inventories in the amount of \$3.9 million in the first quarter of 2015. One of the Company's most significant credit risks is the ultimate realization of accounts receivable. This risk is 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.

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 air and water, the management and disposal of hazardous substances and wastes, the cleanup of contaminated sites, the materials used in products, and the recycling, treatment and disposal of materials. As of December 27, 2014, the Company has been named in a lawsuit and several administrative orders alleging certain of its current and former sites contributed to groundwater contamination.

**Warranty Reserve.** The following table presents information with respect to warranty reserves, which are included in accrued liabilities on the unaudited condensed consolidated balance sheets:

As of	
December 27,	December 28,
2014	2013
(In thousands)	



Edgar Filing: SANMINA CORP - Form 10-Q

Beginning balance — end of prior year	\$13,726		\$15,136	
Charges for the period, net of recoveries	30		1,516	
Utilization of accrual	(1,420	)	(1,764	)
Ending balance — current quarter	\$12,336		\$14,888	

#### Note 7. Restructuring

Due to substantial completion of all actions under restructuring plans and immateriality of the remaining accrual balance related to such plans, these plans have been combined for disclosure purposes. In connection with these plans, the Company expects to incur restructuring costs in future periods primarily for vacant facilities and former sites for which the Company is or may be responsible for environmental remediation. Costs incurred with respect to vacant facilities consist primarily of costs to maintain vacant facilities that are leased or owned until such leases expire or such facilities can be sold. As of December 27, 2014 and September 27, 2014, the Company had reserves of \$6.8 million and \$6.5 million, respectively. Such reserves are included in accrued liabilities on the condensed consolidated balance sheets.

#### Note 8. Income Tax

The Company estimates its annual effective income tax rate at the end of each quarterly period. The estimate takes into account the geographic mix of expected pre-tax income (loss), expected total annual pre-tax income (loss), enacted changes in tax laws, 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, the provision for income taxes may vary.

The provision for income taxes for the first quarter of 2015 and 2014 was \$23.1 million and \$10.6 million, respectively. The increase was primarily due to an increase in pre-tax income, changes in the jurisdictional mix of where income was earned and discrete events including changes in tax law in certain foreign jurisdictions.

The Company conducts business globally and, as a result, files income tax returns in the United States federal jurisdiction and various state and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities throughout the world.

In 2014, a foreign tax authority completed its audit of the Company's 2006 tax return and issued an assessment challenging certain of the Company's tax positions, most notably intercompany transfer pricing. The Company disagrees with the assessment and is vigorously contesting it through the appropriate administrative procedures. In accordance with the accounting requirements for uncertain tax positions, the Company has concluded that it will more likely than not prevail in all positions based upon their technical merits. The final outcome of this audit cannot be reliably predicted and could materially affect the Company's financial statements if not resolved in a manner consistent with the Company's tax positions.

The Company is currently being audited by the Internal Revenue Service for fiscal years 2008 through 2010. To the extent the final tax liabilities are different from the amounts accrued, this would result in a decrease in unrecognized net operating losses and would not have an impact on the Company's results of operations.

Additionally, the Company is being audited by various state tax agencies and certain foreign countries. To the extent the final tax liabilities are different from the amounts accrued, the increases or decreases would be recorded as income tax expense or benefit in the consolidated statements of income. Although the Company believes that resolution of these audits will not have a material adverse impact on the Company's results of operations, the outcome is subject to uncertainty.

In each of the past three years, the Company has released a portion of its valuation allowance attributable to certain deferred tax assets in the U.S. and foreign jurisdictions. These releases have ranged from \$21.5 million to \$158.7 million. As of September 27, 2014, the Company had a valuation allowance of \$663.2 million. To the extent the Company continues to consistently earn, as well as reliably project, income in the appropriate jurisdictions, it is possible that the valuation allowance will be further reduced at such time when such positive evidence can be substantiated. Additional strong and predictable earnings may be sufficient to warrant an additional release of the

valuation allowance in 2015, although such positive evidence would need to be weighed against any negative evidence existing at that time.

## Note 9. Stockholder's Equity

Accumulated other comprehensive income

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

	As of December 27, 2014	September 27, 2014
	(In thousands)	
Foreign currency translation adjustments	\$95,230	\$100,090
Unrealized holding losses on derivative financial instruments	(532 )	(575 )
Unrecognized net actuarial loss and transition cost for benefit plans	(15,988 )	(16,599 )
Total	\$78,710	\$82,916

## Stock repurchase program

In 2013, the Company's Board of Directors authorized the Company to repurchase up to \$100 million of the Company's common stock in the open market or in negotiated transactions off the market. The Board of Directors subsequently approved a second \$100 million stock repurchase plan in September 2014. These authorizations have no expiration date. The Company did not repurchase any shares of its common stock in the open market during the first quarter of 2015. As of December 27, 2014, \$125 million remains available under these authorizations.

In addition to the authorizations discussed above, the Company repurchased 47,000 shares of its common stock for \$1.2 million, in settlement of employee tax withholding obligations due upon the vesting of restricted stock units during the first quarter of 2015.

## 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 evaluated regularly by the chief operating decision maker or decision making group in deciding how to allocate resources and in assessing performance.

The Company's operations are managed as two businesses: Integrated Manufacturing Solutions (IMS) and Components, Products and Services (CPS). The Company's CPS business consists of multiple operating segments which do not meet the quantitative threshold for being presented as reportable segments. Therefore, financial information for these operating segments is presented in a single category entitled "CPS" and the Company has only one reportable segment - IMS.

The following table presents revenue and a non-GAAP measure of segment gross profit used by management to allocate resources and assess performance of operating segments:

	Three Months Ended	
	December 27, 2014	December 28, 2013
	(In thousands)	
Gross sales:		
IMS	\$1,376,834	\$1,149,710
CPS	352,337	349,223
Intersegment revenue	(58,009 )	(51,435 )
Net sales	\$1,671,162	\$1,447,498
Gross profit:		
IMS	\$100,907	\$81,023
CPS	31,567	31,637
Total	132,474	112,660
Unallocated items (1)	(6,128 )	(1,875 )
Total	\$126,346	\$110,785

(1) For purposes of evaluating segment performance, management excludes certain items from its measures of gross profit. These items include stock-based compensation expense, amortization of intangible assets, charges or credits resulting from distressed customers and similar items that either occur infrequently or are of a non-operational nature.

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

	Three Months Ended	
	December 27, 2014	December 28, 2013
	(In thousands)	
Net sales		
United States	\$240,287	\$269,921
Mexico	531,454	333,275
China	412,807	371,054
Other international	486,614	473,248
Total	\$1,671,162	\$1,447,498
Percentage of net sales represented by ten largest customers	50.0 %	49.2 %
Number of customers representing 10% or more of net sales	—	1

## Note 11. Earnings Per Share

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

	Three Months Ended	
	December 27, 2014	December 28, 2013
	(In thousands, except per share data)	
Numerator:		
Net income	\$22,656	\$23,101
Denominator:		
Weighted average common shares outstanding	82,548	83,766
Effect of dilutive stock options and restricted stock units	4,134	3,493
Denominator for diluted earnings per share	86,682	87,259
Net income per share:		
—Basic	\$0.27	\$0.28
—Diluted	\$0.26	\$0.26

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 under ASC Topic 260, Earnings per Share, due to application of the treasury stock method:

	Three Months Ended	
	December 27, 2014	December 28, 2013
	(In thousands)	
Potentially dilutive securities:		
Employee stock options	399	3,220
Restricted stock units	73	48
Total	472	3,268

## Note 12. Stock-Based Compensation

Stock-based compensation expense was attributable to:

	Three Months Ended	
	December 27, 2014	December 28, 2013
	(In thousands)	
Stock options	\$3,203	\$2,472
Restricted stock units	2,514	1,803
Total	\$5,717	\$4,275

Stock-based compensation expense was recognized as follows:

	Three Months Ended	
	December 27, 2014	December 28, 2013
	(In thousands)	
Cost of sales	\$1,576	\$1,201
Selling, general and administrative	4,103	3,072
Research and development	38	2
Total	\$5,717	\$4,275

As of December 27, 2014, an aggregate of 12.3 million shares were authorized for future issuance under the Company's stock plans, of which 10.4 million of such shares were issuable upon exercise of outstanding options and delivery of shares upon vesting of restricted stock units and 1.9 million shares of common stock were available for future grant.

### Stock Options

Stock option activity was as follows:

	Number of Shares	Weighted- Average Exercise Price (\$)	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value of In-The-Money Options (\$) (In thousands)
Outstanding as of September 27, 2014	8,181	12.90	5.30	93,767
Granted	486	24.65		
Exercised/Cancelled/Forfeited/Expired	(1,048	) 17.21		
Outstanding as of December 27, 2014	7,619	13.06	5.52	81,973
Vested and expected to vest as of December 27, 2014	7,445	12.99	5.44	80,587
Exercisable as of December 27, 2014	5,920	12.59	4.70	66,321

The weighted-average grant date fair value of stock options granted during the first quarter of 2015 was \$12.75 per share. 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 December 27, 2014, unrecognized compensation expense of \$12.6 million is expected to be recognized over a weighted average period of 2.0 years.

### Restricted Stock Units

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

Number of Shares	Weighted- Average Grant Date Fair Value (\$)	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value (\$)
---------------------	--	--	---

Edgar Filing: SANMINA CORP - Form 10-Q

	(In thousands)		(Years)	(In thousands)
Outstanding as of September 27, 2014	2,341	13.29	2.01	56,064
Granted	547	24.54		
Vested/Forfeited/Cancelled	(156	) 11.83		
Outstanding as of December 27, 2014	2,732	15.62	2.08	64,655
Expected to vest as of December 27, 2014	1,710	15.11	1.91	40,481

As of December 27, 2014, unrecognized compensation expense of \$20.4 million is expected to be recognized over a weighted average period of 2.0 years. Additionally, as of December 27, 2014, unrecognized compensation expense related to



performance-based restricted stock units for which achievement of the performance criteria is not considered probable was \$13.1 million.

Note 13. Acquisitions

First Quarter of 2014

On December 18, 2013, the Company acquired a manufacturing operation in the oil and gas industry. The Company also entered into a master supply agreement with the acquiree in connection with this acquisition. The acquisition increased the Company's precision machining, assembly, integration and test capabilities for the oil and gas industry. The acquisition did not significantly affect the Company's results of operations for the first quarters of 2014 or 2015. Cash consideration paid by the Company for this acquisition was \$57.7 million.

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

This quarterly report on Form 10-Q 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 and the anticipated benefits of such plans, strategies and objectives; any statements regarding future economic conditions or performance; any statements regarding pending investigations, claims or disputes; any statements regarding the expected restructuring costs; any statements regarding our expectations for future interest expense; any statements about future repurchases of stock; any statements about the expected proceeds from real property sales; any statements concerning the adequacy of our current liquidity and the availability of additional sources of 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," "potential," "continue" and similar 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 integrated manufacturing solutions, components, products and repair, logistics and after-market services. Our revenue is generated from sales of our services primarily to original equipment manufacturers (OEMs) in the communications networks, computing and storage, multimedia, industrial and semiconductor systems, defense and aerospace, medical, energy and clean technology and automotive industries.

Our operations are managed as two businesses:

- 1) Integrated Manufacturing Solutions (IMS). IMS is a reportable segment consisting of printed circuit board assembly and test, final system assembly and test, and direct-order-fulfillment.
- 2) Components, Products and Services (CPS). Components include interconnect systems (printed circuit board fabrication, backplane and cable assemblies) and mechanical systems (enclosures, precision machining and plastic injection molding); Products include memory and solid state drive products from our Viking Technology division, defense and aerospace products from SCI Technology, storage products from our Newisys division and optical and RF (Radio Frequency) modules; and Services include design, engineering, logistics and repair services.

All references to years, in this section, refer to our fiscal years ending on the last Saturday of each year closest to September 30. Fiscal 2014 was a 52-week year and fiscal 2015 will be a 53-week year, with the extra week in the fourth fiscal quarter.

Our strategy is to leverage our comprehensive service offerings, advanced technologies, and global capabilities to further penetrate diverse end markets that we believe offer significant growth opportunities and that have complex products that require higher value-added services. We believe this strategy differentiates us from our competitors and will help 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 seek to differentiate ourselves from our competitors, competition remains intense and profitably growing our revenues has been challenging. Additionally, further growing and leveraging our CPS business to improve our operating margins continues to be an integral part of our strategy.

A relatively small number of customers have historically generated a significant portion of our net sales. Sales to our ten largest customers typically represent approximately 50% of our net sales. A single customer represented 10% or more of our net sales for the first quarter of 2014. No single customer represented 10% or more of our net sales for the first quarter of 2015.

We typically generate approximately 80% of our net sales from products manufactured in our foreign operations. The concentration of foreign operations has resulted primarily from a desire on the part of many of our customers to require production in lower cost locations such as Asia, Latin America and Eastern Europe. We expect this to continue.

Historically, we have had substantial recurring sales to 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. Under these agreements, a customer typically agrees to purchase its requirements for specific products in particular geographic areas from us. However, these agreements generally do not obligate the customer to purchase minimum quantities of products and, in some cases, provide for cost reductions objectives during the term of the agreement, which can have the effect of reducing our revenue and profitability.

#### Critical Accounting Policies and Estimates

Management's discussion and analysis of our financial condition and results of operations are based upon our unaudited 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 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, litigation and other contingencies. 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 2014 Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 13, 2014.

#### Results of Operations

##### Key Operating Results

	Three Months Ended	
	December 27, 2014	December 28, 2013
	(In thousands)	
Net sales	\$1,671,162	\$1,447,498
Gross profit	\$126,346	\$110,785
Operating income	\$53,480	\$39,520
Net income	\$22,656	\$23,101

##### Net Sales

Sales by end market were as follows (dollars in thousands):

Edgar Filing: SANMINA CORP - Form 10-Q

	Three Months Ended		Increase/(Decrease)		
	December 27, 2014	December 28, 2013			
Communications	\$684,908	\$ 658,566	\$26,342	4.0	%
Industrial, defense and medical	641,832	455,152	186,680	41.0	%
Embedded computing and storage	344,422	333,780	10,642	3.2	%
Total	\$1,671,162	\$ 1,447,498	\$223,664	15.5	%

Net sales increased from \$1.45 billion in the first quarter of 2014 to \$1.67 billion in the first quarter of 2015, an increase of 15.5%. The increase was primarily due to growth in our industrial, defense and medical market which occurred as a

result of customer program acquisitions (one near the end of the first quarter of 2014 and another in the third quarter of 2014) and increased demand from existing customers, both for established programs and new program wins. Sales to our communications end market increased primarily as a result of increased demand for optical products.

### Gross Margin

Consolidated gross margin decreased slightly to 7.6% for the first quarter of 2015, from 7.7% for the first quarter of 2014, primarily as a result of a \$3.9 million charge associated with a distressed customer in the first quarter of 2015. IMS gross margin increased to 7.3% for the first quarter of 2015 from 7.0% for the first quarter of 2014, primarily as a result of increased business volume. CPS gross margin decreased slightly to 9.0% for the first quarter of 2015, from 9.1% for the first quarter of 2014.

We expect gross margins 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:

- Changes in customer demand and sales volumes for our vertically integrated system components and subassemblies;
- Changes in the overall volume of our business, which affect the level of capacity utilization;
- Changes in the mix of high and low margin products demanded by our customers;
- Parts shortages and operational disruption caused by natural disasters;
- Greater competition in the EMS industry and pricing pressures from OEMs due to greater focus on cost reduction;
- Provisions for excess and obsolete inventory, including provisions associated with distressed customers;
- Level of operational efficiency;
- Wage inflation and rising materials costs; and
- Our ability to transition manufacturing and assembly operations to lower cost regions in an efficient manner.

### Operating Expenses

Operating expenses increased \$1.6 million, from \$71.3 million, or 4.9% of net sales, in the first quarter of 2014 to \$72.9 million, or 4.4% of net sales, in the first quarter of 2015. The increase was due primarily to a \$2.0 million asset impairment charge related to a decline in the fair value of a certain real property being marketed for sale.

### Interest Expense

Interest expense decreased \$1.0 million for the first quarter of 2015, compared to the first quarter of 2014 primarily as a result of a \$132.2 million reduction of long-term debt from the end of 2013 to the end of the first quarter of 2015.

### Other Income (Expense), net

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

	Three Months Ended	
	December 27, 2014	December 28, 2013
	(In thousands)	
Foreign exchange gains	\$199	\$47
Loss on extinguishment of debt	(2,913)	—
Other, net	1,186	831
Total	\$(1,528)	\$878

On October 8, 2014, we redeemed the remaining \$100 million outstanding of our senior notes due 2019 ("2019 Notes") at par plus a redemption premium and accrued interest and recorded a net loss on extinguishment of debt of \$2.9 million, consisting of redemption premiums of \$5.3 million and a write-off of unamortized debt issuance costs of \$1.4 million, partially offset by a \$3.8 million credit for the fair value hedge adjustment associated with the extinguished 2019 Notes.

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

#### Provision for Income Taxes

We estimate our annual effective income tax rate at the end of each quarterly period. The estimate takes into account the geographic mix of expected pre-tax income (loss), expected total annual pre-tax income (loss), enacted changes in tax laws, 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, the provision for income taxes may vary.

The provision for income taxes for the first quarters of 2015 and 2014 was \$23.1 million and \$10.6 million, respectively. The increase was primarily due to an increase in pre-tax income, changes in the jurisdictional mix of where income was earned and discrete events including changes in tax law in certain foreign jurisdictions.

We conduct business globally and, as a result, file income tax returns in the United States federal jurisdiction and various state and foreign jurisdictions. In the normal course of business, we are subject to examination by taxing authorities throughout the world.

In 2014, a foreign tax authority completed its audit of our 2006 tax return and issued an assessment challenging certain of our tax positions, most notably intercompany transfer pricing. We disagree with the assessment and are vigorously contesting it through the appropriate administrative procedures. In accordance with the accounting requirements for uncertain tax positions, we have concluded that we will more likely than not prevail in all positions based upon their technical merits. The final outcome of this audit cannot be reliably predicted and could materially affect our financial statements if not resolved in a manner consistent with our tax positions.

We are currently being audited by the Internal Revenue Service for fiscal years 2008 through 2010. To the extent the final tax liabilities are different from the amounts accrued, this would result in a decrease in unrecognized net operating losses and would not have an impact on our results of operations.

Additionally, we are being audited by various state tax agencies and certain foreign countries. To the extent the final tax liabilities are different from the amounts accrued, the increases or decreases would be recorded as income tax expense or benefit in the consolidated statements of income. Although we believe that resolution of these audits will not have a material adverse impact on our results of operations, the outcome is subject to uncertainty.

In each of the past three years, we have released a portion of our valuation allowance attributable to certain deferred tax assets in the U.S. and foreign jurisdictions. These releases have ranged from \$21.5 million to \$158.7 million. As of September 27, 2014, we had a valuation allowance of \$663.2 million. To the extent we continue to consistently earn, as well as reliably project, income in the appropriate jurisdictions, it is possible that the valuation allowance will be further reduced at such time when such positive evidence can be substantiated. Additional strong and predictable earnings may be sufficient to warrant an additional release of the valuation allowance in 2015, although such positive evidence would need to be weighed against any negative evidence existing at that time.



## Liquidity and Capital Resources

	Three Months Ended	
	December 27, 2014	December 28, 2013
	(In thousands)	
Net cash provided by (used in):		
Operating activities	\$(6,169 )	\$38,243
Investing activities	(27,776 )	(71,103 )
Financing activities	(41,523 )	37,026
Effect of exchange rate changes on cash and cash equivalents	10	10
Increase (decrease) in cash and cash equivalents	\$(75,458 )	\$4,176

## Key Liquidity Performance Measures

	Three Months Ended	
	December 27, 2014	September 27, 2014
Days sales outstanding (1)	53	52
Inventory turns (2)	6.9	7.0
Days inventory on hand (3)	53	52
Accounts payable days (4)	66	65
Cash cycle days (5)	40	39

(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) Days inventory on hand is calculated as the ratio of average inventory for the quarter to average daily cost of sales for the quarter.

(4) Accounts payable days (a measure of how quickly we pay our suppliers), or "DPO", 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.

(5) Cash cycle days is calculated as days inventory on hand plus days sales outstanding minus accounts payable days.

Cash and cash equivalents were \$391.1 million at December 27, 2014 and \$466.6 million at September 27, 2014. 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 repurchases of debt and capital stock, and other factors. Our working capital was approximately \$1.0 billion as of December 27, 2014 and \$0.9 billion as of September 27, 2014.

Net cash provided by (used in) operating activities was \$(6.2) million and \$38.2 million for the first quarter of 2015 and 2014, respectively. Cash flows from operating activities consist of: (1) net income adjusted to exclude non-cash items such as depreciation and amortization, stock-based compensation expense and losses from debt extinguishment; and (2) changes in net operating assets, which are comprised of accounts receivable, inventories, prepaid expenses and other assets, accounts payable, accrued liabilities and other long-term liabilities.

During the first quarter of 2015, we generated \$68.2 million of cash from net income, excluding non-cash items, and used \$74.4 million of cash because of an increase in net operating assets, which resulted primarily from a decrease in accounts payable of \$55.2 million and an increase in inventory of \$17.0 million. Our DPO and days inventory on hand each increased by one day. 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 \$27.8 million and \$71.1 million for the first quarter of 2015 and 2014, respectively. During the first quarter of 2015, we used \$28.7 million of cash for capital expenditures and received proceeds of \$0.9 million primarily from the sale of certain property. During the first quarter of 2014, we used \$13.6 million of cash for capital expenditures and paid \$57.7 million in connection with a customer program acquisition.

Net cash provided by (used in) financing activities was \$(41.5) million and \$37.0 million for the first quarter of 2015 and 2014, respectively. During the first quarter of 2015, we received \$49.8 million of net proceeds from short-term borrowings, received \$3.3 million from termination of an interest rate swap, received \$11.9 million of proceeds from issuances of common stock pursuant to stock option exercises and redeemed \$100 million of long-term debt for \$105.3 million. During the first quarter of 2014, we received \$61.5 million of net proceeds from short-term borrowings, received \$1.1 million of proceeds from issuances of common stock pursuant to stock option exercises and paid \$25.6 million for repurchases of common stock, including \$0.4 million of cash used for common stock repurchases to fund employee tax withholding obligations.

#### Other Liquidity Matters

Our Board of Directors has authorized us to repurchase up to \$200 million of our common stock. The timing of repurchases made will depend upon capital needs to support the growth of our business, market conditions and other factors. Although the stock repurchases are intended to increase stockholder value, purchases of shares made under this program will reduce our liquidity. We did not repurchase any shares of our common stock in the open market during the first quarter of 2015. As of December 27, 2014, \$125 million remains available under these authorizations.

The Loan Agreement covering our \$40 million debt secured by our corporate campus contains a financial covenant that is only applicable to us in the event of a credit ratings agency downgrade or if certain trigger periods relating to liquidity under our existing revolving credit facility occur. None of these conditions existed as of December 27, 2014. Therefore, our debt agreements do not contain financial covenants currently applicable to us, but do include a number of restrictive covenants, including 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. These covenants could constrain our ability to grow our business through acquisition or engage in other transactions which the covenants could otherwise restrict, including refinancing our existing debt. In addition, such agreements include covenants requiring, among other things, that we file quarterly and annual financial statements with the SEC, comply with all laws, pay all taxes and maintain casualty insurance. If we are not able to comply with all of these covenants, for any reason, some or all of our outstanding debt could become immediately due and payable and the incurrence of additional debt under our asset-backed revolving credit facility would not be allowed, any of which could have a material adverse effect on our liquidity and ability to conduct our business. As of December 27, 2014, we were in compliance with these covenants.

In the ordinary course of business, we are or may become party to legal proceedings, claims and other contingencies, including environmental and employee matters and examinations by government agencies. As of December 27, 2014, we had accrued liabilities of \$21.2 million related to such matters. We cannot accurately predict the outcome of these matters or the amount or timing of cash flows that may be required to defend ourselves or to settle such matters or that these accruals will be sufficient to fully satisfy our contingent liabilities.

As of December 27, 2014, we had a liability of \$86.9 million for uncertain tax positions. Our estimate of liabilities 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 and we are unable to reliably estimate when cash settlement may occur.

Our liquidity needs are largely dependent on changes in our working capital, including the extension of trade credit by our suppliers, investments in manufacturing inventory, facilities and equipment, repayments of obligations under outstanding indebtedness and repurchases of common stock. Our primary sources of liquidity as of December 27, 2014 included (1) cash of \$391.1 million; (2) our \$300 million asset-backed revolving credit facility, under which \$217.9 million, net of outstanding letters of credit, was available as of December 27, 2014; (3) foreign short-term borrowing facilities of \$74 million, all of which was available as of December 27, 2014 (an aggregate of \$25.0 million of such facilities expire during the second quarter of 2015 and most of the remainder of such facilities expire during the fourth quarter of 2015); and (4) cash generated from operations. In addition, we are actively marketing a portfolio of surplus real estate with an aggregate list price of approximately \$65 million. Proceeds from the sales of properties in this portfolio will provide additional liquidity. However, there can be no assurance as to the amounts that may actually be raised or the exact timing of any such receipts.

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 demand for our services change significantly over the next 12 months or should we experience increases in delinquent or uncollectible accounts receivable, our cash provided by operations could be adversely impacted.

As of December 27, 2014, 57% of our cash balance was held in the United States. Should we choose or need to remit cash to the United States from our foreign locations, we may incur tax obligations which would reduce the amount of cash ultimately available to the United States. We believe that cash held in the United States, together with cash available under our United States credit facility and cash from foreign subsidiaries that could be remitted to the United States without tax consequences, will be sufficient to meet our United States liquidity needs for at least the next twelve months.

#### Off-Balance Sheet Arrangements and Contractual Obligations

As of December 27, 2014, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC, that have or are reasonably likely to have a current or future effect on our financial condition, changes in our financial condition, revenues, or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to investors. During the fourth quarter of 2014, we entered into a lease agreement with an option to purchase the leased facility for \$25.3 million (Canadian dollars) in the third quarter of 2015. We exercised the purchase option during the first quarter of 2015. In addition, in December 2014, we amended the Loan Agreement covering our \$40 million loan secured by our corporate campus headquarters in order to extend its maturity date from July 2015 to December 2017, to reduce the interest rate payable thereunder and to provide for a financial covenant that is triggered if certain liquidity conditions occur. There have been no other material changes to our contractual obligations or commitments during the first quarter of 2015.

### 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 December 27, 2014, we had no short-term investments and only \$40 million of long-term debt that bears interest at a floating rate. As such, an immediate 10 percent change in interest rates would not have a significant impact on our results of operations.

#### Foreign Currency Exchange Risk

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

Our primary foreign currency cash flows are in certain Asian and European countries, Israel, Brazil and Mexico. We enter into short-term foreign currency forward contracts to hedge currency exposures associated with certain monetary assets and liabilities denominated in non-functional currencies. These contracts typically have maturities of up to two months and are not designated as part of a hedging relationship for accounting purposes. 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 unaudited condensed consolidated statements of income. As of December 27, 2014, we had outstanding foreign currency forward contracts to exchange various foreign currencies for U.S. dollars in the aggregate notional amount of \$245.8 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, (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. 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 recognized in earnings 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 \$117.9 million as of December 27, 2014.

The net impact of an immediate 10 percent change in exchange rates would not be material to our unaudited condensed consolidated financial statements, provided we accurately forecast and estimate 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 defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended December 27, 2014 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, have been detected. Nonetheless, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 27, 2014, (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

Reference is made to the legal proceedings disclosed in Part I, Item 3 of Sanmina's Annual Report on Form 10-K for the year ended September 27, 2014.

In addition, from time to time, we may become involved in 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.

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



Item 1A. Risk Factors

Adverse changes in the key end markets we target could harm our business by reducing our sales.

We provide products and services to companies that serve the communications networks, computing and storage, multimedia, industrial and semiconductor capital equipment, defense and aerospace, medical, energy and clean technology and automotive industries. Adverse changes in any of these markets could reduce demand for our customers' products or make these customers more sensitive to the cost of our products and services, either of which could reduce our sales, gross margins and net income. A number of factors could affect any of these industries in general, or our customers in particular, and lead to reductions in net sales, thus harming our business. These factors include:

- Intense competition among our customers and their competitors, leading to reductions in prices for their products and pricing pressures on us;
- Short product life cycles of our customers' products leading to continuing new requirements and specifications and product obsolescence, either of which could cause us to lose business;
- Failure of our customers' products to gain widespread commercial acceptance which could decrease the volume of orders customers place with us; and
- Recessionary periods in our customers' markets which decrease orders from affected customers.

We realize a substantial portion of our revenues from communications equipment customers. This market is highly competitive, particularly in the area of price. Should any of our larger customers in this market fail to effectively compete with their competitors, they could reduce their orders to us or experience liquidity difficulties, either of which could have the effect of reducing our revenue and net income, perhaps substantially. Revenue from our multimedia business, which is driven primarily by sales of set-top boxes, could decline as more content is delivered over the internet or through alternative methods and not through set-top boxes, particularly in the U.S. or Europe. In addition, in the case of our defense business, United States budget actions could cause a reduction or delay in orders placed by the government or defense contractors for products manufactured by SCI, our defense and aerospace division. Since such products carry higher margins than many of our other products and services, such a decrease could disproportionately reduce our gross margin and profitability. There can be no assurance that we will not experience declines in demand in these or other areas in the future.

Our customers could experience credit problems, which could reduce our future revenues and net income.

Some companies in the industries for which we provide products have previously experienced significant financial difficulty, with a few of the participants filing for bankruptcy. Such financial difficulty, if experienced by one or more of our customers, may negatively affect our business due to the decreased demand from these financially distressed customers, the lengthening of customer payment terms, the potential inability of these companies to make full payment on amounts owed to us or to purchase inventory we acquired to support their businesses. Customer bankruptcies also entail the risk of potential recovery by the bankruptcy estate of amounts previously paid to us that are deemed a preference under bankruptcy laws.

We are subject to risks arising from our international operations.

The substantial majority of our net sales are generated through our non-U.S. operations. As a result, we are affected by economic, political and other conditions in the foreign countries in which we do business, including:

- The imposition of government controls;

Compliance with United States and foreign laws concerning trade (including the International Traffic in Arms Regulations (“ITAR”), the Export Administration Regulations (“EAR”) and the Foreign Corrupt Practices Act (“FCPA”);  
Difficulties in obtaining or complying with export license requirements;  
Changes in tariffs;  
Rising labor costs;  
Compliance with foreign labor laws, which generally provide for increased notice, severance and consultation requirements compared to U.S. laws;  
Labor unrest, including strikes, and difficulties in staffing;  
Security concerns;  
Political instability and/or regional military tension or hostilities;  
Inflexible employee contracts or labor laws in the event of business downturns;  
Coordinating communications among and managing international operations;

- Fluctuations in currency exchange rates;
- Currency controls;
- Changes in tax and trade laws that increase our local costs;
- Exposure to heightened corruption risks;
- Aggressive or lax enforcement of local laws by governmental authorities;
- Adverse rulings in regards to tax audits; and
- Misappropriation of intellectual property.

Our operations in certain foreign locations receive favorable income tax treatment in the form of tax holidays or other incentives. In the event that such tax holidays or other incentives are not extended, are repealed, or we no longer qualify for such programs, our taxes may increase, which could reduce our net income.

Additionally, a portion of our worldwide cash reserves are generated by, and therefore held in, foreign jurisdictions. Some jurisdictions restrict the amount of cash that can be transferred to the United States or impose taxes and penalties on such transfers of cash. To the extent we have excess cash in foreign locations that could be used in, or is needed by, our United States operations, we may incur significant taxes to repatriate these funds.

We operate in countries that have experienced labor unrest, political instability and strife, including Brazil, China, India, Israel, Malaysia and Thailand and we have experienced work stoppages and similar disruptions in certain foreign jurisdictions. To the extent such developments prevent us from adequately staffing our plants and manufacturing and shipping products in those jurisdictions, our margins and net income could be reduced and our reputation as a reliable supplier could be negatively impacted.

We are subject to intense competition in the EMS industry which could cause us to lose sales and therefore hurt our financial performance.

The electronics manufacturing services (EMS) industry is highly competitive and the industry has experienced a surplus of manufacturing capacity. Our competitors include major global EMS providers such as Benchmark Electronics, Inc., Celestica, Inc., Flextronics International Ltd., Jabil Circuit, Inc., and Plexus Corp., as well as other companies that have a regional product, service or industry-specific focus. We also face competition from current and potential OEM customers who may elect to manufacture their own products internally rather than outsourcing to EMS providers.

Competition is based on a number of factors, including price and quality. We may not be able to offer prices as low as some of our competitors for any number of reasons, including the willingness of competitors to provide EMS services at prices we are unable or unwilling to offer. There can be no assurance that we will win new business or not lose existing business due to competitive factors, which could decrease our sales and net income.

Consolidation in the electronics industry may adversely affect our business by increasing customer buying power and increasing prices we pay for components.

Consolidation in the electronics industry among our customers, our suppliers and/or our competitors may increase, which could result in a small number of very large electronics companies offering products in multiple sectors of the electronics industry. The significant purchasing and market power of these large companies could decrease the prices paid to us by these customers. In addition, if one of our customers is acquired by another company that does not rely on us to provide EMS services, we may lose that customer's business. Similarly, consolidation among our suppliers could result in a sole or limited source for certain components used in our customers' products. Any such consolidation could cause us to be required to pay increased prices for such components, which could reduce our gross margin and profitability.

We rely on a relatively small number of customers for a substantial portion of our sales, and declines in sales to these customers could reduce our net sales and net income.

Sales to our ten largest customers represented approximately half of our net sales during 2014. We expect to continue to depend upon a relatively small number of customers for a significant percentage of our sales, particularly in the communications end market. The loss of, or a significant reduction in sales or pricing to our largest customers could substantially reduce our revenue and margins.

Recruiting and retaining our key personnel is critical to the continued growth of our business.

Our success depends upon the continued service of our key personnel, particularly our highly skilled sales and operations executives, managers and engineers with many years of experience in electronics and contracts manufacturing. While we rely on competitive pay packages in order to help attract and retain such personnel, such individuals can be difficult to identify, recruit and retain and are heavily recruited by our competitors. Should any of our key employees choose to retire or terminate their employment with us, and should we be unable to recruit new employees with the required experience, our operations and growth prospects could be negatively impacted.

Our strategy to pursue higher margin business depends in part on the success of our Components, Products and Services (CPS) business, which, if not successful, could cause our future gross margins and operating results to be lower.

A key part of our strategy is to grow our CPS business, which includes printed circuit boards, backplane and cable assemblies, mechanical systems, memory, defense and aerospace and computing products and design, engineering, logistics and repair services. A decrease in orders for these components, products and services can have a disproportionately adverse impact on our profitability since these components, products and services generally carry higher than average contribution margins. In addition, in order to grow this portion of our business profitably, we must continue to make substantial investments in the development of our product development capabilities, research and development activities, test and tooling equipment and skilled personnel, all of which reduce our operating results in the short term. The success of our CPS business also depends on our ability to increase sales of our proprietary products, convince our customers to agree to purchase our components for use in the manufacture of their products, rather than directing us to buy them from third parties, and expand the number of our customers who contract for our design, engineering, logistics and repair services. We may face challenges in achieving commercially viable yields and difficulties in manufacturing components in the quantities and to the specifications and quality standards required by our customers, as well as in qualifying our components for use in our customers' designs. Our proprietary products and design, engineering, logistics and repair services must compete with products and services offered by established vendors which focus solely on development of similar technologies or the provision of similar services. Any of these factors could cause our CPS revenue and margins to be less than expected, which could have an overall adverse and potentially disproportionate effect on our revenues and profitability.

If we are unable to maintain our technological and manufacturing process expertise, our business could be adversely affected.

Regular improvements to and refinements of our manufacturing processes are necessary to remain competitive in the marketplace. As a result, we are continually evaluating the cost-effectiveness and feasibility of new manufacturing processes. In some cases, we must make capital expenditures and incur engineering expense in order to qualify and validate any such new process in advance of booking new business that could utilize such processes. Such investments utilize cash and reduce our margins and net income. Any failure to adequately invest in manufacturing technology could reduce our competitiveness and, potentially, our future revenue and net income.

Our operating results and cash generated from operations are subject to significant uncertainties, which can cause our future sales and net income to be variable.

Our operating results can vary due to a number of significant uncertainties, including:

- Conditions in the economy as a whole and in the industries we serve;
- Fluctuations in components prices and component shortages caused by high demand, natural disaster or otherwise;

- Timing of new product development by our customers, which creates demand for our services, but which can also require us to incur start-up costs relating to new tooling and processes;
- Levels of demand in the end markets served by our customers;
- Our ability to replace declining sales from end-of-life programs with new business wins;
- Timing of orders from customers and the accuracy of their forecasts;
- Inventory levels of customers, which if high relative to their normal sales volume, could cause them to reduce their orders to us;
- Timing of expenditures in anticipation of increased sales, customer product delivery requirements and shortages of components or labor;
- Increased labor costs in the regions in which we operate;
- Mix of products ordered by and shipped to major customers, as high volume and low complexity manufacturing services typically have lower gross margins than more complex and lower volume services;

- Degree to which we are able to utilize our available manufacturing capacity;
- Customer insolvencies resulting in bad debt or inventory exposures that are in excess of our reserves;
- Our ability to efficiently move manufacturing activities to lower cost regions;
- The effects of seasonality in our business;
- Changes in our tax provision due to changes in our estimates of pre-tax income in the jurisdictions in which we operate, including our ability to utilize our deferred tax assets; and
- Political and economic developments in countries in which we have operations which could restrict our operations or increase our costs.

Variability in our operating results may also lead to variability in cash generated by operations, which can adversely affect our ability to make capital expenditures, engage in strategic transactions, redeem debt and repurchase stock and utilize our borrowing facilities.

Unanticipated changes in our tax rates or exposure to additional income tax liabilities could increase our taxes and decrease our net income.

We are subject to income, sales, value-added, withholding and other taxes in the United States and various foreign jurisdictions. Significant judgment is required in determining our worldwide provision for taxes and, in the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. Our effective tax rates and liability for other taxes could increase as a result of changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws, our cash management strategies and other factors. In addition, our tax determinations are regularly subject to audit by tax authorities. For example, we are currently undergoing audits of our tax returns for certain recent tax years in a number of jurisdictions, including the United States, Mexico and Malaysia. Developments in these or future audits could adversely affect our tax provisions, including through the disallowance or reduction of deferred tax assets or the assessment of back taxes, interest and penalties. Although we believe that our tax estimates are reasonable and our existing tax reserves are adequate, the final determination of tax audits or tax disputes may be different from what is reflected in our historical tax provisions, which could lead to an increase in our taxes payable and a decrease in our net income.

We may not have sufficient insurance coverage for potential claims and losses, which could leave us responsible for certain costs and damages.

We carry various forms of business and liability insurance in types and amounts we believe are reasonable and customary for similarly situated companies in our industry. However, we do not have insurance coverage for all of the risks and liabilities we assume in connection with our business, including failure to comply with typical customer warranties for workmanship, product liability, intellectual property infringement, product recall claims and environmental contamination. In addition, our policies generally have deductibles that could reduce the amount of our potential recoveries from insurance. As a result, not all of our potential business losses are covered under our insurance policies. Should we sustain a significant uncovered loss, our net income could be reduced.

Cybersecurity breaches and other disruptions of our IT network and systems could interrupt our operations.

We rely on internal and third party information technology networks and systems for worldwide financial reporting, inventory management, procurement, invoicing and email communications, among other functions. Despite our business continuity planning, including "redundant" data sites and network availability, our systems may be susceptible to outages due to fire, floods, power loss, telecommunications failures, terrorist attacks and similar events. In addition, despite the implementation of network security measures, our systems and those of third parties on which we rely may also be vulnerable to hacking, computer viruses, the installation of malware and similar disruptions either

by third parties or employees with access to key IT infrastructure. Hacking and malware, if not prevented, could lead to the collection and disclosure of sensitive information relating to our customers, employees or others, exposing us to legal liability and causing us to suffer reputational damage. If we or our vendors are unable to prevent such outages and breaches, our operations could be disrupted, we could incur losses, including losses relating to claims by our customers against us relating to loss of their information, the willingness of customers to do business with us may be damaged and, in the case of our defense business, we could be debarred from future participation in government programs.



We are subject to risks associated with natural disasters and global events.

We conduct a significant portion of our activities, including manufacturing, administration and information technology management in areas that have experienced natural disasters, such as major earthquakes, hurricanes, floods and tsunamis. For example, in 2011, Japan experienced a major earthquake and tsunami and widespread flooding occurred in Thailand. Our insurance coverage with respect to damages to our facilities or our customers' products caused by natural disasters is limited and is subject to deductibles and coverage limits and, as a result, may not be sufficient to cover all of our losses. For example, our policies have very limited coverage for damages due to earthquake. In addition, such coverage may not continue to be available at commercially reasonable rates and terms. In the event of a major earthquake or other disaster affecting one or more of our facilities, our operations and management information systems, which control our worldwide procurement, inventory management, shipping and billing activities, could be significantly disrupted. Such events could delay or prevent product manufacturing for an extended period of time. Any extended inability to continue our operations at affected facilities following such an event could reduce our revenue.

Our supply chain is subject to risks that could increase our costs or cause us to delay shipments to customers, reducing our revenue and margins.

Our supply chain is subject to a number of risks and uncertainties. For example, 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 delivery and shortages of components, which in turn could result in increased component prices and delays in product shipments to customers, both of which could decrease our revenue and margins

Our components are manufactured using a number of commodities, including petroleum, gold, copper and other metals that are subject to frequent and unpredictable changes in price due to worldwide demand, investor interest and economic conditions. We do not hedge against the risk of these fluctuations, but rather attempt to adjust our product pricing to reflect such changes. Should significant increases in commodities prices occur and should we not be able to increase our product prices enough to offset these increased costs, our gross margins and profitability could decrease, perhaps significantly. In addition, we, along with our suppliers and customers, rely on various energy sources in our manufacturing and transportation activities. There has been significant volatility in the prices of energy during the recent past and such volatility is likely to continue in the future. Concern over climate change has led to state, federal and international legislative and regulatory initiatives aimed at reducing carbon dioxide and other greenhouse gas emissions. Such initiatives could lead to an increase in the price of energy. A sustained increase in energy prices for any reason could increase our raw material, components and transportation costs. We may not be able to increase our product prices enough to offset these increased costs, in which case our profitability could be reduced.

We rely on a variety of common carriers to transport our raw materials and components from our suppliers to us, and to transport our products to our customers. The use of common carriers is subject to a number of risks, including increased costs due to rising energy prices and labor, vehicle and insurance costs, and criminal activity resulting in losses of shipments, delivery delays resulting from labor disturbances and strikes and other factors beyond our control. While we attempt to mitigate our liability for any losses resulting from these risks through contracts with our customers, suppliers and insurance carriers, any costs or losses that cannot be mitigated could reduce our profitability, require us to manufacture replacement product or damage our relationships with our customers.

Government regulations, concerning responsible sourcing, such as the Dodd-Frank Act requirements relating to conflict minerals, are increasing. Such regulations could decrease the availability and increase the prices of components used in our customers' products, particularly if we choose (or are required by our customers) to source such components from different suppliers than we use now.

Cancellations, reductions in production quantities, delays in production by our customers and changes in customer requirements could reduce our sales and net income.

We generally do not obtain firm, long-term purchase commitments from our customers and our bookings may generally be canceled prior to the scheduled shipment date. Although the customer is generally liable for raw materials we procure on their behalf, finished goods and work-in-process at the time of cancellation, we may be unable or, for other business reasons, choose not to enforce our contractual rights. As a result, cancellations, reductions or delays of orders by customers could reduce our sales and net income, delay or eliminate recovery of our expenditures for inventory purchased in preparation for customer orders and lower our asset utilization, which could result in lower gross margins and lower net income.

32

---

We may be unable to generate sufficient liquidity to expand our operations, which may reduce the business our customers and vendors are able to do with us; we could experience losses if one or more financial institutions holding our funds or other financial counterparties were to fail.

Our liquidity is dependent on a number of factors, including profitability, business volume, inventory requirements, the extension of trade credit by our suppliers, the degree of alignment of payment terms from our suppliers with payment terms granted to our customers, investments in facilities and equipment, acquisitions, repayments of our outstanding indebtedness and availability under our asset-backed line of credit. In the event we need additional or desire additional capital to expand our business, make acquisitions, repay additional debt or repurchase stock, there can be no assurance that such additional capital will be available on acceptable terms or at all. A failure to maintain adequate liquidity could cause our stock price to fall and reduce our customers' and vendors' willingness to do business with us.

A principal source of our liquidity is our cash and cash equivalents, which are held with various financial institutions. Although we distribute such funds among a number of financial institutions that we believe to be of high quality, there can be no assurance that one or more of such institutions will not become insolvent in the future, in which case all or a portion of our uninsured funds on deposit with such institutions could be lost. Similarly, if one or more counterparties to our foreign currency hedging, insurance or other financial instruments were to fail, we could suffer losses and our hedging of risk could become less effective.

Our credit arrangements contain covenants which may adversely impact our business and the failure to comply with such covenants could cause our outstanding debt to become immediately payable.

Our debt agreements do not contain financial covenants currently applicable to us, but do include a number of restrictive covenants, including 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. Collectively, these covenants could constrain our ability to grow our business through acquisition or engage in other transactions, including refinancing our existing debt. In addition, such agreements include covenants requiring, among other things, that we file quarterly and annual financial statements with the SEC, comply with all laws, pay all taxes and maintain casualty insurance. If we are not able to comply with all of these covenants, for any reason, some or all of our outstanding debt could become immediately due and payable and the incurrence of additional debt under our asset-backed credit facility would not be allowed, any of which could have a material adverse effect on our liquidity and ability to conduct our business.

Customer requirements to transfer business may increase our costs.

Our customers sometimes require that we transfer the manufacturing of their products from one facility to another to achieve cost reductions and other objectives. These transfers have resulted in increased costs to us due to facility downtime, less than optimal utilization of our manufacturing capacity and delays and complications related to the transition of manufacturing programs to new locations. These transfers could require us to close or reduce operations at certain facilities and, as a result, we may incur in the future significant costs for the closure of facilities, employee severance and related matters. We may be required to relocate additional manufacturing operations in the future and, accordingly, we may incur additional costs that decrease our net income. Any of these factors could reduce our revenues, increase our expenses and reduce our net income.

If we manufacture or design defective products, or if our manufacturing processes do not comply with applicable statutory and regulatory requirements, we could be subject to claims, damages and fines and lose customers.

We manufacture products to our customers' specifications, and in some cases our manufacturing processes and facilities need to comply with various statutory and regulatory requirements. For example, many of the medical products that we manufacture, as well as the facilities and manufacturing processes that we use to produce them must comply with standards established by the United States Food and Drug Administration. In addition, our customers' products and the manufacturing processes that we use to produce them often are highly complex. As a result, products that we design or manufacture may at times contain design or manufacturing defects, and our manufacturing processes may be subject to errors or may not be in compliance with applicable statutory and regulatory requirements. Defects in the products we design or manufacture may result in product recalls, warranty claims by customers, including liability for repair costs, delayed shipments to customers or reduced or canceled customer orders. The failure of the products that we design or manufacture or of our manufacturing processes and facilities to comply with applicable statutory and regulatory requirements may subject us to legal fines or penalties and, in some cases, require us to shut down or incur considerable expense to correct a manufacturing program or facility. In addition, these defects may result in product liability claims against us. The magnitude

of such claims may increase as we expand our medical, automotive, defense and aerospace, and oil and gas manufacturing services because defects in these types of products can result in death or significant injury to end users of these products or environmental harm. Even if our customers are contractually responsible for defects in the design of a product, we could nonetheless be named in a product liability suit over such defects and could be required to expend significant resources to defend ourselves.

The design services that we provide can expose us to different or greater potential liabilities than those we face when providing our regular manufacturing services. For example, we have increased exposure to potential product liability claims resulting from injuries caused by defects in products we design, as well as potential claims that products we design infringe third-party intellectual property rights. Such claims could subject us to significant liability for damages and, regardless of their merits, could be time-consuming and expensive to resolve. Any such costs and damages could be significant and could reduce our net income.

We are subject to a number of U.S. governmental procurement rules and regulations, the failure to comply with which could result in damages or reduction of future revenue.

We are subject to a number of laws and regulations relating to the award, administration and performance of U.S. government contracts and subcontracts. Such laws and regulations govern, among other things, price negotiations, cost accounting standards and other aspects of performance under government contracts. These rules are complex and our performance under them is subject to audit by the Defense Contract Audit Agency and other government regulators. If an audit or investigation reveals a failure to comply with regulations or other improper activities, we may be subject to civil or criminal penalties and administrative sanctions by either the government or the prime customer, including termination of the contract, payment of fines and suspension or debarment from doing further business with the U.S. government. Any of these actions could increase our expenses, reduce our revenue and damage our reputation as a reliable government supplier.

We can experience losses due to foreign exchange rate fluctuations, which could reduce our net income.

Because we manufacture and sell a substantial portion of our products abroad, our operating costs, and in some cases, our revenue, can be negatively impacted due to fluctuations in foreign currency exchange rates, particularly in volatile currencies to which we are exposed, such as the Euro, Mexican peso, Japanese yen, Chinese Renminbi and Brazilian real. We use financial instruments, primarily short-term foreign currency forward contracts, to hedge certain forecasted foreign currency commitments arising from accounts receivable, trade accounts payable and fixed purchase obligations. However, the success of our foreign currency hedging activities depends largely upon the accuracy of our forecasts of future sales, expenses, capital expenditures and monetary assets and liabilities. As such, our foreign currency hedging program may not fully cover our exposure to exchange rate fluctuations. If our hedging activities are not successful, we may experience significant unexpected expenses from fluctuations in exchange rates, which could be significant and which could decrease our net income.

Any failure to comply with applicable environmental laws could adversely affect our business by causing us to pay significant amounts for cleanup of hazardous materials or for damages or fines.

We are subject to various federal, state, local and foreign environmental laws and regulations, including those governing the use, storage, discharge and disposal of hazardous substances and wastes in the ordinary course of our manufacturing operations. If we violate environmental laws or if we occupy or occupied in the past a site at which a predecessor company caused contamination, we may be held liable for damages and the costs of remedial actions. Although we estimate and regularly reassess our potential liability with respect to violations or alleged violations and accrue for such liability, we cannot assure you that our accruals will be sufficient. Any increase in existing reserves or establishment of new reserves for environmental liability could reduce our net income. Our failure or inability to

comply with applicable environmental laws and regulations could also limit our ability to expand facilities or could require us to acquire costly equipment or to incur other significant expenses to comply with these laws and regulations.

Primarily as a result of certain of our acquisitions, we have incurred liabilities associated with environmental contamination. These liabilities include ongoing investigation and remediation activities at a number of current and former sites. The time required to perform environmental remediation can be lengthy and there can be no assurance that the scope, and therefore cost, of these activities will not increase as a result of the discovery of new contamination or contamination on adjoining landowner's properties or the adoption of more stringent regulatory standards covering sites at which we are currently performing remediation activities.

Although liabilities for treatment and disposal activities have not materially affected our financial condition to date, we cannot assure you that past disposal activities will not result in liability that will materially affect us in the future, nor can we provide assurance that we do not have environmental exposures of which we are unaware and which could adversely affect our future operating results.

Over the years, environmental laws have become, and in the future may continue to become, more stringent, imposing greater compliance costs and increasing risks and penalties associated with violations. We operate in several environmentally sensitive locations and are subject to potentially conflicting and changing regulatory agendas of government authorities, business and environmental groups. Changes in or restrictions on discharge limits, emissions levels, permitting requirements and material storage or handling could require a higher than anticipated level of remediation activities, operating expenses and capital investment or, depending on the severity of the impact of the foregoing factors, costly plant relocation.

We may not be successful in implementing and integrating strategic transactions or in divesting assets or businesses, which could harm our operating results; goodwill and other assets, if impaired, could lead to a non-cash charge to earnings.

From time to time, we may undertake strategic transactions that give us the opportunity to access new customers and new end markets, to obtain new manufacturing and service capabilities and technologies, to enter new geographic manufacturing locations, to lower our manufacturing costs and improve our profits, and to further develop existing customer relationships. Strategic transactions involve a number of risks, uncertainties and costs, including, integrating acquired operations and businesses, incurring severance and other restructuring costs, diverting management attention, maintaining customer, supplier or other favorable business relationships of acquired operations and terminating unfavorable relationships, losing key employees, integrating the systems of acquired operations into our management information systems and satisfying the liabilities of acquired businesses, including liability for past violations of law and material environmental liabilities. Any of these risks could cause our strategic transactions not to be ultimately profitable.

In addition, we may be required to record goodwill in connection with future acquisitions. We evaluate, on a regular basis, whether events or circumstances have occurred that indicate all, or a portion, of the carrying amount of our goodwill may no longer be recoverable. Should we determine in the future that our goodwill has become impaired, an impairment charge to earnings would become necessary, which could be significant.

If we are unable to protect our intellectual property or infringe, or are alleged to infringe, upon intellectual property of others, we could be required to pay significant amounts in costs or damages.

We rely on a combination of copyright, patent, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. However, a number of our patents covering certain aspects of our manufacturing processes or products have expired or will expire in the near future. Such expirations reduce our ability to assert claims against competitors or others who use or sell similar technology. Any failure to protect our intellectual property rights could diminish or eliminate the competitive advantages that we derive from our proprietary technology.

We are also subject to the risk that current or former employees violate the terms of their proprietary information agreements with us. Should a key current or former employee use or disclose any of our or our customers' proprietary information, we could become subject to legal action by our customers or others, our key technologies could become compromised and our ability to compete could be adversely impacted.

In addition, we may become involved in administrative proceedings, lawsuits or other proceedings if others allege that we infringe on their intellectual property rights. If successful, such claims could impair our ability to collect royalties or license fees or could force us or our customers to stop producing products that use the challenged intellectual property, obtain a license to the relevant technology or redesign those products or services so as not to use the infringed technology, which could be quite costly.

We sometimes design products on a contract basis or jointly with our customers. In these situations, we may indemnify our customer against liability caused by claims that the design infringes the intellectual property rights of a third party. Such indemnification claims could require us to assume the defense of such a claim, the cost of which could be significant.



Any of these results could reduce our revenue, increase our costs and reduce our net income and could damage our reputation with our customers. In addition, any type of intellectual property lawsuit, whether initiated by us or a third party, could likely be time consuming and expensive to resolve and could divert management's time and attention.

Changes in financial accounting standards or policies have affected, and in the future may affect, our reported financial condition or results of operations; there are inherent limitations to our system of internal controls; changes in securities laws and regulations have increased, and are likely to continue to increase, our operating costs.

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States, or U.S. GAAP. Our preparation of financial statements in accordance with U.S. GAAP requires that we make estimates and assumptions that affect the recorded amounts of assets and liabilities, disclosure of those assets and liabilities as of the date of the financial statements and the recorded amounts of expenses during the reporting period. A change in the facts and circumstances surrounding those estimates could result in a change to our estimates and could impact our future operating results.

These principles are subject to interpretation by the Financial Accounting Standards Board (FASB), the SEC and various bodies formed to interpret and create accounting policies. A change in those policies can have a significant effect on our reported results and may affect our reporting of transactions which are completed before a change is announced. For example, significant changes to revenue recognition rules have been enacted and will begin to apply to us in fiscal 2018. We could incur significant costs to implement these new rules, including costs to modify our IT systems. In addition, accounting policies affecting many other aspects of our business, particularly rules relating to lease accounting, are under review or being revised. Changes to accounting rules or challenges to our interpretation or application of the rules by regulators may have a material adverse effect on our reported financial results or on the way we conduct business. In addition, the anticipated convergence of U.S. GAAP and international financial reporting standards creates uncertainty as to the financial accounting policies and practices we will need to adopt in the future.

Our system of internal and disclosure controls was designed to provide reasonable assurance of achieving their objectives. However, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been or will be detected. As a result, there can be no assurance that our system of disclosure and internal controls and procedures will be successful in preventing all errors, theft and fraud, or in informing management of all material information in a timely manner. Further, the Committee of Sponsoring Organizations (COSO) has introduced changes to the manner in which our system of internal control over financial reporting must be administered, which may increase the costs and management attention that must be devoted to documenting, maintaining and auditing our internal controls.

Finally, corporate governance, public disclosure and compliance practices continue to evolve based upon continuing legislative action, SEC rulemaking and stockholder advisory group policies. As a result, the number of rules and regulations applicable to us may increase, which could also increase our legal and financial compliance costs and the amount of time management must devote to compliance activities. Increasing regulatory burdens could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee, and qualified executive officers in light of an increase in actual or perceived workload and liability for serving in such positions.

The market price of our common stock is volatile and is impacted by factors other than our financial performance.

The stock market in recent years has experienced significant price and volume fluctuations that have affected our stock price. These fluctuations have often been unrelated to our operating performance. Factors that can cause such fluctuations include announcements by our competitors or other events affecting companies in the electronics industry, currency fluctuations, general market fluctuations and macro economic conditions, any of which may cause

the market price of our common stock to fluctuate.

36

---

Item 6. Exhibits

Exhibit Number	Description
10.29	Modification Agreement by and between Sanmina Corporation and MUFG Union Bank, N.A. dated as of December 19, 2014.
31.1	Certification of the Principal Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of the Principal Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1 (1)	Certification of the Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2 (1)	Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

---

(1) This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference in any filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

SIGNATURES

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

SANMINA CORPORATION  
(Registrant)

By: /s/ JURE SOLA  
Jure Sola  
Chief Executive Officer (Principal Executive  
Officer)

Date: January 30, 2015

By: /s/ ROBERT K. EULAU  
Robert K. Eulau  
Executive Vice President and  
Chief Financial Officer (Principal Financial  
Officer)

Date: January 30, 2015

EXHIBIT INDEX

Exhibit Number	Description
10.29	Modification Agreement by and between Sanmina Corporation and MUFG Union Bank, N.A. dated as of December 19, 2014.
31.1	Certification of the Principal Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of the Principal Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1(1)	Certification of the Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2(1)	Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

---

(1) This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference in any filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.