SANMINA-SCI CORP
Form 10-Q/A
May 16, 2003

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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 10-Q/A

(Mark One)

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

**For the quarterly period ended March 29, 2003**

**or**

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

**For the transition period from to**

**Commission File Number 0-21272**

# Sanmina-SCI Corporation

*(Exact name of registrant as specified in its charter)*

| | |
|---|---|
| **Delaware**<br>*(State or other jurisdiction of incorporation or organization)* | **77-0228183**<br>*(I.R.S. Employer Identification Number)* |
| **2700 N. First St., San Jose, CA**<br>*(Address of principal executive offices)* | **95134**<br>*(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. þ Yes o No

Indicate by check mark whether the registrant is an accelerated filer (as defined in rule 12b-2 of the Exchange Act). þ Yes o No

As of May 8, 2003, there were 510,029,687 shares outstanding of the issuer s common stock, $0.01 par value per share.

The Registrant is filing this Form 10-Q/A to include the Supplemental Guarantors Condensed Consolidating Financial Information required to be included in Note 10 to the Notes to Condensed Consolidated Financial Statements ( Guarantor Financial Information ) and the Certifications of Principal Executive Officer and Principal Financial Officer required to be included herein and in Exhibits 99.1 and 99.2 hereto. The Registrant has filed a notice on Form 12b-25 regarding the omission of these items from the prior filing. There are no other changes from the Form 10-Q filed on May 14, 2003; however, this Form 10-Q/A is being filed in its entirety for clarity and completeness.

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## SANMINA-SCI CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | March 29, 2003 | March 30, 2002 | March 29, 2003 | March 30, 2002 |
| | (In thousands, except per share data)(Unaudited) | | | |
| Net sales | $2,443,553 | $2,411,241 | $4,980,514 | $3,541,702 |
| Cost of sales | 2,338,830 | 2,309,059 | 4,766,834 | 3,386,412 |
| Gross profit | 104,723 | 102,182 | 213,680 | 155,290 |
| Operating expenses: | | | | |
| Selling, general and administrative | 77,225 | 78,607 | 160,517 | 130,595 |
| Amortization of goodwill and intangibles | 1,628 | 1,251 | 3,237 | 2,729 |
| Integration costs | 3,963 | | 6,359 | |
| Restructuring costs | 39,949 | 51,897 | 74,042 | 114,588 |
| Total operating expenses | 122,765 | 131,755 | 244,155 | 247,912 |
| Operating (loss) income | (18,042) | (29,573) | (30,475) | (92,622) |
| Interest income | 7,505 | 9,396 | 10,826 | 19,701 |
| Interest expense | (40,384) | (27,743) | (61,861) | (48,400) |
| Other income (expense) | 3,427 | (3,770) | 22,809 | (2,489) |
| Other income (expense), net | (29,452) | (22,117) | (28,226) | (31,188) |
| Income (loss) before provision for income taxes | (47,494) | (51,690) | (58,701) | (123,810) |
| Provision (benefit) for income taxes | (15,673) | (12,376) | (19,371) | (39,273) |
| Net income (loss) | $ (31,821) | $ (39,314) | $ (39,330) | $ (84,537) |
| Earnings (loss) per share: | | | | |
| Basic | $ (0.06) | $ (0.08) | $ (0.08) | $ (0.19) |
| Diluted | (0.06) | (0.08) | (0.08) | (0.19) |
| Shares used in computing per share amounts: | | | | |
| Basic | 509,735 | 521,762 | 509,651 | 448,323 |
| Diluted | 509,735 | 521,762 | 509,651 | 448,323 |

See accompanying notes.

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**SANMINA-SCI CORPORATION**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

| | March 29, 2003 | September 28, 2002 |
|---|---|---|
| | (unaudited) | (Derived from audited financials) |
| | (In thousands) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 1,333,661 | $ 1,064,534 |
| Short-term investments | 61,221 | 99,140 |
| Accounts receivable, net | 1,509,512 | 1,394,515 |
| Inventories | 1,092,057 | 1,123,016 |
| Deferred income taxes | 317,139 | 312,184 |
| Prepaid expenses and other | 130,104 | 165,649 |
| Total current assets | 4,443,694 | 4,159,038 |
| Property, plant and equipment, net | 1,082,083 | 1,084,454 |
| Long-term investments | 18,492 | 73,955 |
| Goodwill | 2,150,699 | 2,101,650 |
| Deposits and other | 124,545 | 98,960 |
| Total assets | $ 7,819,513 | $ 7,518,057 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Current portion of long-term debt | $ 10,312 | $ 265,899 |
| Accounts payable | 1,330,248 | 1,279,451 |
| Accrued liabilities and other | 407,371 | 366,500 |
| Accrued payroll and related benefits | 147,877 | 142,139 |
| Total current liabilities | 1,895,808 | 2,053,989 |
| Long-term liabilities: | | |
| Long-term debt, net of current portion | 2,440,164 | 1,975,331 |
| Deferred income tax liability | 21,536 | 17,184 |
| Other liabilities | 61,302 | 56,838 |
| Total long-term liabilities | 2,523,002 | 2,049,353 |
| Stockholders equity: | | |
| Common stock | 5,290 | 5,254 |
| Additional paid-in capital | 5,684,064 | 5,675,401 |
| Treasury stock | (188,948) | (190,261) |
| Accumulated other comprehensive income (loss) | 5,001 | (10,305) |
| Retained earnings (deficit) | (2,104,704) | (2,065,374) |
| Total stockholders equity | 3,400,703 | 3,414,715 |
| | $ 7,819,513 | $ 7,518,057 |

See accompanying notes.

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**SANMINA-SCI CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Six Months Ended | |
|---|---|---|
| | **March 29, 2003** | **March 30, 2002** |
| | (In thousands) (Unaudited) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | $ (39,330) | $ (84,537) |
| Adjustments to reconcile net income (loss) to cash provided by operating activities: | | |
| Restructuring costs | 37,006 | 61,423 |
| Depreciation and amortization | 119,755 | 128,584 |
| Deferred income taxes | (603) | (140,838) |
| Provision (benefit) for doubtful accounts | (3,194) | 3,887 |
| Loss on disposal of property and equipment | 20,093 | 5,990 |
| Loss from investment in 50% or less owned companies | 3,244 | 1,138 |
| Gain from repurchase of convertible notes | (25,607) | |
| Other, net | (2,419) | (1,697) |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Accounts receivable | (92,431) | 5,688 |
| Net payments on asset securitization program | | (211,013) |
| Inventories | 98,384 | 504,669 |
| Prepaid expenses, deposits and other | 9,572 | 5,618 |
| Income tax accounts | 79,569 | 8,202 |
| Accounts payable and accrued liabilities | 54,960 | (131,091) |
| Cash provided by operating activities | 258,999 | 156,023 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of short-term investments | (36,827) | (490,736) |
| Proceeds from maturity of short-term investments | 74,164 | 949,712 |
| Purchases of long-term investments | (500) | |
| Purchases of property and equipment, net of acquisitions | (35,420) | (46,016) |
| Proceeds from sale of assets | 9,684 | 2,579 |
| Cash paid for businesses acquired, net of cash acquired | (211,426) | (111,465) |
| Cash provided by (used for) investing activities | (200,325) | 304,074 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repurchase of convertible notes | (171,306) | |
| Payments of long-term debt | (30,122) | (1,249,116) |
| Proceeds from long-term debt, net of issuance costs | 1,002,798 | |
| Proceeds from (payments of) notes and credit facilities, net | (604,648) | 823,969 |
| Payments on long term liabilities, net | | (1,525) |
| Proceeds from sale of common stock, net of issuance costs | 8,323 | 18,278 |
| Repurchase of common stock | | (44,578) |
| Cash provided by (used for) financing activities | 205,045 | (452,972) |
| Effect of exchange rate changes | 5,408 | (275) |

| | | |
|---|---|---|
| Increase in cash and cash equivalents | 269,127 | 6,850 |
| Cash and cash equivalents at beginning of period | 1,064,534 | 567,649 |
| Cash and cash equivalents at end of period | $1,333,661 | $ 574,499 |

See accompanying notes.

**SANMINA-SCI CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**

**Note 1 Basis of Presentation**

The accompanying condensed consolidated financial statements of Sanmina-SCI Corporation ( Sanmina-SCI ) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules or regulations. The interim financial statements are unaudited, but reflect all normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation.

The results of operations for the six months ended March 29, 2003 are not necessarily indicative of the results that may be expected for the year ending September 27, 2003. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto for the year ended September 28, 2002, included in Sanmina-SCI s annual report on Form 10-K. The consolidated financial statements for fiscal 2002 include the operating results of SCI from December 3, 2001, the close of the accounting period nearest to the acquisition date of December 6, 2001.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 from those estimates.

Sanmina-SCI s fiscal year ends on the Saturday nearest September 30. All general references to years relate to fiscal years unless otherwise noted.

**Note 2 Summary of Significant Accounting Policies**

*Principles of Consolidation* The consolidated financial statements include the accounts of Sanmina-SCI and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated.

*Foreign Currency Translation* For foreign subsidiaries using the local currency as their functional currency, assets and liabilities are translated at exchange rates in effect at the balance sheet date and income and expenses are translated at average exchange rates. The effects of these translation adjustments are reported as a separate component of stockholders equity. Remeasurement adjustments for non-functional currency monetary assets and liabilities are included in other income (expense) net in the accompanying consolidated statements of operations.

*Cash and Cash Equivalents* Sanmina-SCI considers all highly liquid investments with an original maturity of six months or less to be cash equivalents. At March 29, 2003, cash and cash equivalents includes $112.6 million of restricted cash and cash equivalents, primarily related to accounts collateralizing letters of credit.

Supplemental cash flow information for the six month periods ended March 29, 2003 and March 30, 2003 is as follows:

| | March 29, 2003 | March 30, 2002 |
|---|---|---|
| Cash paid (refunded) during the period for: | | |
| Interest | $ 26,155 | $ 52,000 |
| Income taxes | $ (103,377) | $ (43,426) |
| Stock issued for acquisitions, net of acquisition costs | $ | $ 4,389,991 |
| Acquisition of property, plant and equipment with long-term investments | $ 52,850 | $ |

**SANMINA-SCI CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Exit Costs* We recognize restructuring charges related to our plans to exit certain activities resulting from the identification of duplicative and excess manufacturing and administrative facilities that we choose to close or consolidate. In connection with our exit activities, we record restructuring charges for employee termination costs, long-lived asset impairments, costs related to leased facilities to be abandoned or subleased, and other exit-related costs. These charges were incurred pursuant to formal plans developed by management and accounted for in accordance with SFAS No. 146, Accounting for Costs Associated with Exit and Disposal Activities, Emerging Issues Task Force, or EITF, Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) and EITF 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination. Fixed assets that are written off or impaired as a result of restructuring plans are typically sold or scrapped. The remaining carrying value of such assets was not material at March 29, 2003 or September 28, 2002.

*Goodwill and Intangibles* Costs in excess of the fair value of tangible and identifiable intangible assets acquired and liabilities assumed in a purchase business combination are recorded as goodwill. SFAS No. 142, Goodwill and Other Intangible Assets, requires that companies no longer amortize goodwill, but instead test for impairment at least annually using a two-step approach. Sanmina-SCI adopted SFAS No. 142 in the first quarter of fiscal 2002 and no longer amortizes goodwill. Sanmina-SCI evaluates goodwill, at a minimum, on an annual basis and whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit s carrying amount, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using a combination of the income, or discounted cash flows, approach and the market approach, which utilizes comparable companies data. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired and a second step is performed to measure the amount of impairment loss, if any. During the fourth quarter of fiscal 2002, we recorded an impairment loss of approximately $2.7 billion in connection with the annual impairment test.

Sanmina-SCI has determined that there are two reportable units: international and domestic. Goodwill information for each reportable unit is as follows (in thousands):

| | As of September 28, 2002 | Additions to Goodwill | Adjustment to Goodwill | As of March 29, 2003 |
|---|---|---|---|---|
| Segments: | | | | |
| Domestic | $1,213,205 | $ 4,179 | $(16,943) | $1,200,441 |
| International | 888,445 | 72,182 | (10,369) | 950,258 |
| Total | $2,101,650 | $76,361 | $(27,312) | $2,150,699 |

Sanmina-SCI has certain identifiable intangible assets that are subject to amortization. Intangible assets are included in Deposits and other in the condensed consolidated balance sheet. The components of intangible assets are as follows (in thousands):

| | March 29, 2003 | | | September 28, 2002 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Amortized Intangibles | $78,476 | $34,536 | $43,940 | $78,476 | $31,299 | $47,177 |

Intangible asset amortization expense for six months ended March 29, 2003 and March 30, 2002 was approximately $3.2 million and $ 2.7 million, respectively.

**SANMINA-SCI CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Estimated annual amortization expense is as follows (in thousands):

| Fiscal years: | |
|---|---|
| 2003 (remainder) | $ 3,175 |
| 2004 | 6,412 |
| 2005 | 6,412 |
| 2006 | 5,326 |
| 2007 | 5,112 |
| 2008 | 5,112 |
| Thereafter | 12,391 |
| | $43,940 |

*Revenue Recognition.* Sanmina-SCI generally recognizes revenue at the point of shipment to its customers, under the contractual terms which in general are FOB shipping point or when services have been performed. Sanmina-SCI also derives revenues from sales of certain inventory, including raw materials, to customers who reschedule, amend or cancel purchase orders after Sanmina-SCI has procured inventory to fulfill their purchase orders. Title to the product or the inventory transfers upon shipment and the customer s assumption of the risks and rewards of ownership of the product. In some cases, Sanmina-SCI will recognize revenue upon receipt of shipment by the customer or at its designated location. Except in specific circumstances, there are no formal customer acceptance requirements or further Sanmina-SCI obligations to the product or the inventory subsequent to shipment. In specific circumstances in which there are such customer acceptance requirements or further Sanmina-SCI obligations, revenue is recognized at the point of formal acceptance and upon completion of obligations. Where appropriate, provisions are made for estimated warranty costs and sales returns.

*Warranty Reserves* Sanmina-SCI establishes a warranty provision on shipped products based on individual manufacturing contract requirements and past warranty experience. Each period end the balance is reviewed to ensure its adequacy. Accrued warranty reserves at March 29, 2003 and September 28, 2002 were less than one percent of total current liabilities.

*Earnings Per Share* Basic earnings (loss) per share is computed by dividing net income or loss by the weighted average number of shares of common stock outstanding during the period. Diluted earnings or loss per share includes dilutive common stock equivalents using the treasury stock method, and assumes that the convertible debt instruments were converted into common stock, if dilutive. For the quarters ended March 29, 2003 and March 30, 2002, 32,069,611 and 40,457,519 potentially dilutive shares from the conversion of the convertible subordinated debt and after-tax interest expense of $9.1 million and $12.9 million, respectively, were not included in the computation of diluted earnings per share because to do so would be anti-dilutive. All stock options are anti-dilutive for the six months ended March 29, 2003 and March 30, 2002 due to the net losses for the periods.

*Stock-Based Compensation* SFAS No. 123, as amended by SFAS No. 148, permits companies to (i) recognize as expense the fair value of stock-based awards, or (ii) continue to apply the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and related interpretations ( APB 25 ), and provide pro forma net income and earnings per share disclosures for employee stock compensation as if the fair-value-based method defined in SFAS No. 123 had been applied. Sanmina-SCI continues to apply the provisions of APB 25 and provide the pro forma disclosures with respect to its stock-based compensation plans in accordance with the provisions of SFAS Nos. 123 and 148.

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**SANMINA-SCI CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Sanmina-SCI uses the Black-Scholes option-pricing model to determine the pro forma impact under SFAS Nos. 123 and 148 on the company s net income (loss) and earnings (loss) per share. The model utilizes certain information, such as the interest rate on a risk-free security maturing generally at the same time as the option being valued, and requires certain assumptions, such as the expected amount of time an option will be outstanding until it is exercised or it expires, to calculate the fair value of stock options granted. The assumptions used for the three months and six months ended March 29, 2003 and March 30, 2002 are presented below:

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| **Stock Options** | **March 29, 2003** | **March 30, 2002** | **March 29, 2003** | **March 30, 2002** |
| Volatility | 75% | 95% | 75% | 95% |
| Risk-free interest rate | 2.17% | 3.34% | 2.17% | 3.33% |
| Dividend yield | 0% | 0% | 0% | 0% |
| Expected lives (management and directors) beyond vesting | 0.94 years | 1.07 years | 0.94 years | 1.07 years |
| Expected lives (employees) beyond vesting | 0.63 years | 0.64 years | 0.63 years | 0.64 years |

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| **Employee Stock Purchase Plan** | **March 29, 2003** | **March 30, 2002** | **March 29, 2003** | **March 30, 2002** |
| Volatility | 75% | 95% | 86% | 95% |
| Risk-free interest rate | 1.22% | 3.34% | 2.40% | 3.34% |
| Dividend yield | 0% | 0% | 0% | 0% |
| Expected lives beyond vesting | 0.50 years | 0.49 years | 0.50 years | 0.49 years |

Sanmina-SCI has several stock option plans which are described in the Company s annual report on Form 10-K. Sanmina-SCI accounts for its stock option plans and employee stock purchase plan under APB Opinion No. 25 and related interpretations. Had compensation cost for all plans been determined consistent with SFAS Nos. 123 and 148, Sanmina-SCI s net income (loss) and net income (loss) per share would have been the following pro forma amounts:

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | **March 29, 2003** | **March 30, 2002** | **March 29, 2003** | **March 30, 2002** |
| Net income (loss): | | | | |
| As reported | $(31,821) | $(39,314) | $(39,330) | $ (84,537) |
| Stock-based employee compensation expense determined under fair value method, net of tax | (11,541) | (17,284) | (24,878) | (38,033) |
| Pro forma | $(43,362) | $(56,598) | $(64,208) | $(122,570) |
| Basic earnings (loss) per share: | | | | |
| As reported | $ (0.06) | $ (0.08) | $ (0.08) | $ (0.19) |

| | | | | |
|---|---|---|---|---|
| Pro forma | $ (0.09) | $ (0.11) | $ (0.13) | $ (0.27) |
| Diluted earnings (loss) per share: | | | | |
| As reported | $ (0.06) | $ (0.08) | $ (0.08) | $ (0.19) |
| Pro forma | $ (0.09) | $ (0.11) | $ (0.13) | $ (0.27) |

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**SANMINA-SCI CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Recent Accounting Pronouncements* In October 2001, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 143, Accounting for Asset Retirement Obligations, to be effective for all fiscal years beginning after June 15, 2002, with early adoption permitted. SFAS 143 establishes accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. It also provides accounting guidance for legal obligations associated with the retirement of tangible long-lived assets. Sanmina-SCI adopted SFAS 143 in the first quarter of fiscal 2003, and there was no significant impact on its financial position, results of operations and cash flows.

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which establishes a single accounting model for the impairment or disposal of long-lived assets, including discontinued operations. SFAS 144 supersedes SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of and APB Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions for the Disposal of a Segment of a Business. The provisions of SFAS 144 are effective in fiscal years beginning after December 15, 2001, with early adoption permitted and, in general, are to be applied prospectively. Sanmina-SCI adopted SFAS 144 on September 29, 2002, with no resulting impact on its financial position, results of operations, and cash flows.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit and Disposal Activities. This statement revises the rules as to how companies account for exit and disposal activities under EITF 94-3, Liability Recognition for Certain Employee Termination Benefits and other Costs to Exit an Activity. Commitment to a plan to exit an activity or dispose of long-lived assets will no longer be sufficient to record a charge for most anticipated costs. Instead, companies will record exit or disposal costs when they are incurred and can be measured at fair value, and they will subsequently adjust the recorded liability for changes in estimated cash flows. The provisions of SFAS No. 146 are effective prospectively for exit or disposal activities initiated after December 31, 2002. Companies may not restate previously issued financial statements for the effect of the provisions of SFAS No. 146 and liabilities that a company previously recorded under EITF 94-3 are grandfathered. We do not expect SFAS No. 146 to have a significant impact on our financial position, results of operations and cash flows.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123. SFAS No. 148 amends SFAS No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Sanmina-SCI is required to follow the prescribed format and provide the additional disclosures required by SFAS No. 148 in its annual financial statements for the year ending September 27, 2003 and must also provide the disclosures in its quarterly reports containing condensed financial statements for interim periods beginning with the current quarterly period (see Note 8). The adoption of SFAS No. 148 will not have an effect on Sanmina-SCI s financial position or results of operations as we currently do not intend to adopt the fair value method of accounting for stock-based employee compensation pursuant to SFAS No. 148.

In November 2002, the FASB issued Interpretation 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. The Interpretation elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under the guarantee and must disclose that information in its interim and annual financial statements. The provisions

**SANMINA-SCI CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

related to recognizing a liability at inception of the guarantee for the fair value of the guarantor s obligations does not apply to product warranties or to guarantees accounted for as derivatives. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. Management believes that the adoption of Interpretation 45 will not have a material impact on Sanmina-SCI s financial position or results of operations.

In January 2003, the FASB issued Interpretation 46, *Consolidation of Variable Interest Entities*. In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. Interpretation 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity s activities or entitled to receive a majority of the entity s residual returns or both. The consolidation requirements of Interpretation 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. Sanmina-SCI believes that the adoption of Interpretation 46 will not have a material impact on its financial position or results of operations.

*Reclassifications* Sanmina-SCI has reclassified certain prior period information to conform to the current period s presentation.

**Note 3 Business Combinations**

In January 2003, Sanmina-SCI entered into an agreement with IBM under which IBM agreed to outsource the manufacturing of a portion of its low and midrange servers, workstations and ThinkPad notebooks to Sanmina-SCI and Sanmina-SCI agreed to acquire IBM s related manufacturing facilities in Greenock, Scotland and Guadalajara, Mexico. The transaction closed in February 2003 for a cash purchase price of $169.4 million. The purchase price was allocated to the fair value of the net assets acquired, including primarily inventory ($57.2 million), buildings and equipment ($50.4 million) and goodwill ($60.3 million). This goodwill is partially deductible for tax purposes. The purchase price allocation is based on management s estimate of the fair value for purchase accounting purposes at the date of acquisition. The purchase price allocation is subject to revision as management obtains additional information regarding the acquired business, and any corresponding adjustment will be reflected in goodwill. In addition, the asset purchase agreement provides for a physical inventory of the assets acquired within 90 days of the closing date, which could result in minor revisions to the purchase price. Sanmina-SCI expects that the physical inventory will be concluded in the third quarter of fiscal 2003. Sanmina-SCI s results of operations for fiscal 2003 include the results of this business from the date of acquisition. Pro forma results of operations have not been presented for the IBM transaction because the effect of the acquisition was not material.

During the first half of fiscal 2003 Sanmina-SCI also completed other acquisitions for an aggregate purchase price of $42.0 million, including an Israeli medical systems manufacturing operation and a wireless communication equipment assembly facility in Texas. Pro forma results of operations have not been presented for these transactions because the effects of the acquisitions were not material either on an individual or aggregate basis. Goodwill resulting from these acquisitions was approximately $10.4 million. The majority of this goodwill is deductible for tax purposes. The purchase price allocations for these transactions are based on management s estimate of the fair value for purchase accounting purposes at the date of acquisition. We do not expect significant revisions to the purchase price allocations for the acquired businesses.

**SANMINA-SCI CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 4 Restructuring Costs**

**SFAS No. 146**

Costs associated with restructuring activities initiated on or after January 1, 2003, other than those activities related to purchase business combinations, are accounted for in accordance with SFAS No. 146. Accordingly, costs associated with such plans are recorded as restructuring costs in the consolidated statements of operations when a liability is incurred. Below is a summary of the activity related to restructuring costs recorded pursuant to SFAS No. 146 for the second quarter of fiscal 2003.

| | One-Time Employee Termination Benefits | Lease and Contract Termination Costs | Other Restructuring Costs | Impairment of Fixed Assets | Total |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| | Cash | Cash | Cash | Non-cash | |
| Balance at December 28, 2002 | $ | $ | $ | $ | $ |
| Charges to operations | 805 | 448 | 76 | 2,099 | 3,428 |
| Charges utilized | (203) | (433) | (76) | (2,099) | (2,811) |
| Balance at March 29, 2003 | $ 602 | $ 15 | $ | $ | $ 617 |

In the second quarter of fiscal 2003, we approved actions pursuant to SFAS No. 146 to close and consolidate four of our manufacturing facilities in the United States and Europe as a result of the ongoing slowdown in the electronics industry. In the second quarter of fiscal 2003, we recorded charges to operations of $805,000 for termination benefits related to the involuntary termination of 307 employees, and we utilized charges of approximately $203,000 as a result of terminating 161 employees. During this period we also recorded charges to operations of $448,000 for the termination of non-cancelable leases, lease payments for permanently vacated properties and other contract termination costs, and we utilized charges of $433,000 related to these charges. We also incurred other restructuring charges to operations of $76,000 in the second quarter of fiscal 2003, primarily for costs to prepare facilities for closure. We also incurred charges to operations of $2.1 million in the second quarter of fiscal 2003 for the impairment of excess equipment at the vacated facilities. We expect the closing of the plants discussed above as well as other activities related to these exit plans to be completed by the first half of fiscal 2004.

***EITF 94-3***

Costs associated with restructuring activities initiated prior to January 1, 2003, other than those activities related to purchase business combinations, are accounted for in accordance with EITF 94-3. Accordingly, costs associated with such plans are recorded as restructuring costs in the consolidated statements of operations. Below is a summary of the activity related to restructuring costs recorded

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pursuant to EITF 94-3 for the periods in which activity pursuant to our ongoing restructuring plans has taken place through the first half of fiscal 2003.

| | Employee Severance and Related Expenses | Restructuring and Other Expenses | Shutdown and Consolidation Costs of Duplicate Facilities | Write-off Impaired or Redundant Fixed Assets | Total |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| | Cash | Cash | Cash | Non-cash | |
| Balance at September 30, 2000. | $ 14,742 | $ 832 | $ | $ | $ 15,574 |
| Charges to operations | 12,628 | 4,064 | 42,487 | 99,953 | 159,132 |
| Charges utilized | (19,639) | (4,057) | (5,942) | (99,953) | (129,591) |
| Balance at September 29, 2001. | 7,731 | 839 | 36,545 | | 45,115 |
| Charges to operations | 31,100 | 10,101 | 31,009 | 99,585 | 171,795 |
| Charges utilized | (28,487) | (10,161) | (31,667) | (99,585) | (169,900) |
| Balance at September 28, 2002. | 10,344 | 779 | 35,887 | | 47,010 |
| Charges to operations | 11,362 | | 11,513 | 11,218 | 34,093 |
| Charges utilized | (3,314) | (779) | (12,992) | (11,218) | (28,303) |
| Balance at December 28, 2002. | 18,392 | | 34,408 | | 52,800 |
| Charges to operations | 2,845 | | 9,987 | 23,689 | 36,521 |
| Charges utilized | (4,559) | | (17,049) | (23,689) | (45,297) |
| Balance at March 29, 2003 | $ 16,678 | $ | $ 27,346 | $ | $ 44,024 |

***Fiscal 2002 Plans***

*September 2002 Restructuring.* In September 2002, we approved a plan pursuant to EITF 94-3 to close and consolidate certain of our manufacturing facilities in North America, Europe and Asia as a result of the ongoing slowdown in the industry. In fiscal 2002, we recorded charges to operations of $3.1 million for planned employee severance expenses related to the involuntary termination of 540 employees, and we utilized charges of approximately $1.7 million as a result of terminating 144 employees. In fiscal 2002 we also recorded charges to operations of $4.2 million for the shutdown of duplicative facilities related to non-cancelable lease payments for permanently vacated properties and associated costs, and we utilized charges of $110,000 related to the shutdown of these facilities. We also incurred charges to operations of $38.3 million in fiscal 2002 related to asset write-offs for excess equipment and leasehold improvements at facilities that were permanently vacated. In the first half of fiscal 2003, we recorded charges to operations of $5.3 million for severance expenses related to the expected termination of 261 employees, and $8.5 million for non-cancelable lease payments and related costs for the shutdown of duplicative facilities. In the first half of fiscal 2003 we also incurred charges to operations of $31.1 million related to the impairment of buildings and excess equipment and leasehold improvements at permanently vacated facilities. We utilized $3.1 million of accrued severance charges and $10.3 million of accrued facilities related charges in the first half of fiscal 2003. As of March 29, 2003, 804 employees have been terminated under this exit plan. We expect the closing of the plants discussed above as well as other activities related to this exit plan to be completed in the first half of fiscal 2004.

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**SANMINA-SCI CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*October 2001 Restructuring.* In October 2001, we approved a plan pursuant to EITF 94-3 to close and consolidate certain of our manufacturing facilities throughout North America and Europe as a result of the continued slowdown in the industry and economy worldwide. In fiscal 2002, we recorded net charges to operations of $23.6 million for the expected involuntary termination of 2,762 employees associated with these plant closures, and utilized charges of approximately $17.7 million. We also incurred net charges to operations of $32.3 million in fiscal 2002 for the shutdown of duplicate facilities associated with non-cancelable lease payments for permanently vacated properties, and we utilized approximately $25.7 million of these charges in fiscal 2002. We also incurred charges to operations of $54.0 million in fiscal 2002 related to the write-offs of fixed assets consisting of excess equipment and leasehold improvements to facilities that were permanently vacated, all of which were utilized in fiscal 2002. In the first half of fiscal 2003, we recorded charges to operations of $8.9 million for severance costs related to the expected involuntary termination of 2,233 employees, and $13.0 million for non-cancelable lease payments and other costs related to the shutdown of duplicate facilities. We utilized accrued severance charges of $3.5 million and accrued facilities related charges of $11.8 million during the first half of fiscal 2003. We also incurred charges of $3.8 million during the first half of fiscal 2003 related to write-offs of fixed assets consisting of excess equipment and leasehold improvements to facilities that were permanently vacated. As of March 29, 2003, 4,579 employees have been terminated under this exit plan. We expect the closing of the plants discussed above as well as employee terminations and other related activities to be completed in the second half of fiscal 2003.

***Fiscal 2001 Plans***

*Segerström Restructuring.* In March 2001, we acquired Segerström in a pooling of interests business combination and announced our restructuring plan. During fiscal 2001 and 2002, we recorded net charges to operations of $5.7 million for the involuntary termination of 470 employee positions, and utilized $4.8 million of these charges. During those periods we also recorded charges to operations of $5.2 million related to the consolidation of duplicate facilities, of which $1.3 million was utilized. In the first half of fiscal 2003, we utilized $400,000 with respect to employee severance and $300,000 with respect to shutdown of duplicate facilities.

*July 2001 Restructuring.* In July 2001, we approved a plan to close and merge manufacturing facilities throughout North America and Europe as a result of the ongoing slowdown in the EMS industry. During fiscal 2001 and 2002, we recorded charges to operations of $24.0 million for severance costs for involuntary employee terminations, of which $21.8 million was utilized. During those periods we recorded net charges to operations of $45.2 million for lease payments for permanently vacated properties and other costs related to the shutdown of facilities, of which $23.1 million was utilized. Also during fiscal 2001 and fiscal 2002, we recorded and utilized $7.3 million of asset related write-offs of equipment and leasehold improvements to permanently vacated properties. During the first half of fiscal 2003, we utilized $866,000 of accrued severance costs related to the termination of 12 employees, $7.6 million of accrued costs related to the shutdown of facilities and $779,000 of other accrued restructuring costs. Manufacturing activities at the plants affected by this plan ceased in the fourth quarter of fiscal 2002; however, the leases of the related facilities expire between 2003 and 2010, therefore the remaining accrual will be reduced over time as the lease payments, net of sublease income, are made.

***EITF 95-3***

Costs associated with restructuring activities related to a purchase business combination are accounted for in accordance with EITF 95-3. Accordingly, costs associated with such plans are recorded as a liability assumed as of the consummation date of the purchase business combination and included in the cost of

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

the acquired entity. Below is a summary of the activity related to restructuring costs recorded pursuant to EITF 95-3 for fiscal 2002 and the first half of fiscal 2003:

| | Employee Severance and Related Expenses | Shutdown and Consolidation Costs of Duplicate Facilities | Write-off Impaired or Redundant Fixed Assets | Total |
|---|---|---|---|---|
| | | (In thousands) | | |
| | Cash | Cash | Non-cash | |
| Balance at September 29, 2001 | $ | $ | $ | $ |
| Additions to restructuring accrual | 104,161 | 36,078 | 23,724 | 163,963 |
| Accrual utilized | (64,207) | (12,519) | (19,643) | (96,369) |
| Balance at September 28, 2002 | 39,954 | 23,559 | 4,081 | 67,594 |
| Additions to restructuring accrual | 18,975 | 6,000 | | 24,975 |
| Accrual utilized | (13,393) | (6,006) | (4,081) | (23,480) |
| Reversal of accrual | (23,968) | (1,007) | | (24,975) |
| Balance at December 28, 2002 | 21,568 | 22,546 | | 44,114 |
| Additions to restructuring accrual | 4,111 | 1,224 | 3,251 | 8,586 |
| Accrual utilized | (9,304) | (2,999) | (3,251) | (15,554) |
| Balance at March 29, 2003 | $ 16,375 | $ 20,771 | $ | $ 37,146 |

The following sections separately present the charges to the restructuring liability and charges utilized that are set forth in the above table on an aggregate basis.

*Other Acquisition-Related Restructuring Actions.* As part of an insignificant business acquisition completed in December 2002, we closed the acquired manufacturing facility in Texas as of the acquisition date and transferred the business to an existing Sanmina-SCI plant. In the second quarter of fiscal 2003 we recorded total charges to the restructuring liability of $2.4 million relating the closure of this plant. The charge consisted of $311,000 for salary related costs for employees participating in the closure of the plant and $2.1 million for excess equipment that will be disposed of. All charges were utilized during the second quarter of fiscal 2003.

*SCI Acquisition Restructuring.* In December 2001, we merged with SCI in a purchase business combination. As part of the acquisition of SCI, we recorded an assumed liability, based on SCI management s plan prior to the acquisition in accordance with EITF 94-3, for expected involuntary employee termination costs of approximately $7.4 million for 158 employee positions. As of September 28, 2002, we had utilized approximately $5.5 million of these charges in connection with the termination of 100 employees during the period. In fiscal 2002, we also incurred charges of $2.3 million related to plant consolidations and closures, of which $354,000 was paid during fiscal 2002. In the first half of fiscal 2003, we utilized the remaining $1.9 million of accrued severance, and utilized the remaining $1.9 million of accrued costs related to plant consolidations and closures. We do not expect any further activity under this exit plan.

As part of the acquisition of SCI, we also recorded charges to the restructuring liability of $96.8 million during fiscal 2002 consisting of planned involuntary employee termination costs for 7,143 employees. We utilized $58.7 million in charges with respect to the termination of 6,446 employees during fiscal 2002. During fiscal 2002 we also incurred net charges to the restructuring liability of $33.8 million for restructuring costs related to lease payments for permanently vacated properties and other costs, and utilized approximately $12.1 million of these charges. We incurred charges to restructuring liability of $23.7 million of asset related write-offs consisting of excess equipment and leasehold improvements to

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

facilities that were permanently vacated, of which $19.6 million were utilized in fiscal 2002. In the first half of fiscal 2003, we recorded restructuring charges of $22.8 million for severance costs related to the involuntary termination of 777 employees, and utilized $20.5 million for 1,639 employee terminations. We reversed a total of $24.0 million of accrued severance costs, approximately $18.4 million of which was due to lower than anticipated settlement costs at a major European manufacturing site, and approximately $5.6 million of which related to two plants that were not closed as initially planned due to a change in business requirements. As of March 29, 2003, 8,085 employees had been terminated under this exit plan. In the first half of fiscal 2003, we also recorded restructuring charges of $7.2 million for lease payments for permanently vacated properties and other costs, and we utilized approximately $7.0 million of these charges during the first half of 2003. We also reversed $1.0 million due to lower than estimated costs at various sites. During the quarter ended March 29, 2003, we also recorded costs of $1.2 million for the impairment of excess equipment at closed plants. We expect the closing and consolidation of the plants discussed above as well as involuntary employee terminations to be completed in the second half of fiscal 2003.

***Ongoing Restructuring Activities***

We continue to rationalize manufacturing facilities and headcount to better scale capacity to current market and operating conditions. In connection therewith, we will incur additional restructuring charges in the second half of fiscal year 2003 and fiscal 2004 pursuant to our phase two restructuring plan which was approved by management in the fourth quarter of fiscal 2002. We expect to incur up to approximately $250.0 million of restructuring costs pursuant to this plan, of which approximately $50.0 million was incurred in the fourth quarter of fiscal 2002 and approximately $50.8 million was incurred in the first half of fiscal 2003. We expect that approximately 55% of the costs will be cash and 45% will be non-cash.

**Note 5 Comprehensive Income**

SFAS No. 130 Reporting Comprehensive Income establishes standards for reporting and display of comprehensive income and its components. SFAS No. 130 requires companies to report comprehensive income that includes unrealized holding gains and losses and other items that have previously been excluded from net income and reflected instead in stockholders equity. Comprehensive income (loss) for Sanmina-SCI consists of net income (loss) plus the effect of unrealized holding gains or losses on investments classified as available-for-sale and foreign currency translation adjustments, net of tax effects. Comprehensive income (loss) adjustments were $7.3 million and $(2.9) million, for the three months ended March 29, 2003 and March 30, 2002, respectively and $10.3 million and $(7.7) million, for the six months ended March 29, 2003 and March 30, 2002, respectively. Comprehensive income (loss) for the three months ended March 29, 2003 and March 30, 2002 was $(24.5) million and $(42.2) million, respectively and for the six months ended March 29, 2003 and March 30, 2002 was $(29.1) million and $(92.3) million, respectively. As of March 29, 2003, the cumulative unrealized holding gain on investments and cumulative foreign currency translation adjustments were $0.1 million and $4.9 million, respectively. As of September 28, 2002, the cumulative unrealized holding gain on investments and cumulative foreign currency translation adjustments was $0.7 million and $(11.0) million, respectively.

**Note 6 Inventories**

Inventories are stated at the lower of cost (first-in, first-out method) or market. Cost includes labor, material and manufacturing overhead. Provisions when required are made to reduce excess inventories to

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

their estimated net realizable values. It is possible that estimates of net realizable values can change in the near term. The components of inventories, net of provisions, are as follows (in thousands):

| | As of | |
|---|---|---|
| | **March 29, 2003** | **September 28, 2002** |
| Raw materials | $ 719,646 | $ 742,351 |
| Work-in-process | 193,965 | 235,497 |
| Finished goods | 178,446 | 145,168 |
| | $1,092,057 | $1,123,016 |

**Note 7 Long-Term Debt**

*Refinancing* On December 23, 2002, Sanmina-SCI issued $750.0 million of 10.375% Senior Secured Notes due January 15, 2010 (the 10.375% Notes ) in a private placement to qualified investors, as part of a refinancing transaction pursuant to which Sanmina-SCI also entered into a $275.0 million senior secured credit facility (the Credit Facility ). A portion of the net proceeds of the 10.375% Notes and Credit Facility was used to repay all outstanding amounts under our three-year revolving credit facility and to repurchase all outstanding receivables sold under our receivables securitization facility. These transactions are referred to collectively as the Refinancing.

The 10.375% Notes are fully and unconditionally guaranteed by substantially all of Sanmina-SCI s United States subsidiaries and are secured by a second priority security interest in the same collateral securing our obligations under the credit facility which includes substantially all of the personal property assets of Sanmina-SCI and its United States subsidiaries located in the United States, a pledge of the capital stock of substantially all of Sanmina-SCI s United States subsidiaries, a pledge of 65% of the capital stock of certain of Sanmina-SCI s first-tier foreign subsidiaries, and mortgages on certain domestic real estate. Sanmina-SCI may redeem the 10.375% Notes, in whole or in part, at anytime beginning on January 15, 2007 at a redemption price initially of 105.188%, declining to 102.594% on January 15, 2008 and 100.000% on January 15, 2009. Sanmina-SCI may also redeem the 10.375% Notes, in whole or in part, at any time prior to January 15, 2007 at a redemption price equal to the principal amount plus accrued interest to the redemption date plus a make-whole premium specified in the indenture. In the event of a change of control of Sanmina-SCI, Sanmina-SCI will be required to offer to repurchase the 10.375% Notes at a repurchase price of 101% of the principal amount plus accrued interest to the repurchase date. The indenture includes covenants that, among other things, limit in certain respects Sanmina-SCI and its restricted subsidiaries from incurring debt, making investments and other restricted payments, paying dividends on capital stock, redeeming capital stock or subordinated obligations and creating liens. In the event that Sanmina-SCI obtains the investment grade rating specified in the indenture and certain other conditions are met, the collateral securing the 10.375% Notes will be permanently released, and Sanmina-SCI will no longer required to comply with certain of the indenture covenants specified above for as long as Sanmina-SCI retains the investment grade rating specified in the indenture.

The Credit Facility currently bears interest at an annual rate equal to a reserve adjusted eurodollar rate plus 4.0% (the reserve adjusted eurodollar rate was 1.29% at March 29, 2003). The principal amount of the Credit Facility is repayable in quarterly installments of $687,500 from March 31, 2003 through December 31, 2005, $13.75 million from March 31, 2006 through December 31, 2006, and $52.94 million from March 31, 2007 through December 23, 2007, plus interest. The Credit Facility is guaranteed by substantially all of Sanmina-SCI s United States subsidiaries (the Guarantors ) and is secured by a first priority security interest in substantially all of the personal property assets of Sanmina-SCI and the

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Guarantors, a pledge of the capital stock of the Guarantors, a pledge of 65% of the capital stock of certain of Sanmina-SCI s first-tier foreign subsidiaries and mortgages on certain domestic real estate. The Credit Facility is prepayable at Sanmina-SCI s option at 103% through December 22, 2003, 102% from December 23, 2003 through December 22, 2004, 101% from December 23, 2004 through December 22, 2005, and 100% thereafter. The Credit Facility provides for various operational and financial covenants, including limitations on incurring indebtedness and creating liens, restrictions on the payment of dividends and other restricted payments, restrictions on sales of assets, restrictions on acquisitions, maintenance of a minimum interest coverage ratio and a maximum secured leverage ratio and limits on capital expenditures.

Sanmina-SCI entered into an interest rate swap to hedge its mix of short-term and long-term interest rate exposures resulting from certain of Sanmina-SCI s outstanding debt obligations. During the first quarter of fiscal 2003, Sanmina-SCI entered into an interest rate swap transaction related to the 10.375% Notes pursuant to which we pay a variable rate and receive a fixed rate. The interest rate swap has a total notional amount of $525.0 million. Under the swap agreement, Sanmina-SCI pays an interest rate equal to the six-month LIBOR rate plus 6.125%, determined semi-annually in arrears. In exchange, Sanmina-SCI receives a fixed interest rate of 10.375%. The swap agreement effectively replaces the fixed interest rate that Sanmina-SCI pays on $525.0 million principal amount of its 10.375% Notes with a variable interest rate. The swap was designated as fair value hedge under SFAS No. 133. Management believes that the interest rate swap meets the criteria established by SFAS No. 133 for short cut accounting; therefore, there is no gain or loss related to the interest rate swap recognized in the statement of operations.

*Revolving Credit Agreements* In December 2001, Sanmina-SCI entered into two separate facilities consisting of a $250.0 million 364-day credit facility and a $500.0 million three-year credit facility with a syndicate of banks. As of September 28, 2002, $400.0 million was outstanding under these credit facilities. The 364-day credit facility terminated in accordance with its terms on December 4, 2002. The balance outstanding under the three-year credit facility was repaid and the facility was terminated in December 2002 in connection with the Refinancing.

*Asset Securitization* We were a party to an asset securitization agreement that gave us the option to periodically transfer undivided percentage ownership interests, of up to $200.0 million, in a revolving pool of eligible trade receivables to conduit and bank purchasers. The net accounts receivables sold under the program at September 28, 2002 were included in the accounts receivable balance and the associated debt was recorded as current portion of long-term debt on the consolidated balance sheet. The asset securitization agreement was terminated, and the accounts receivable sold thereunder were repurchased, in December 2002 in connection with the Refinancing.

*Repurchase of convertible debt* During the six months ended March 29, 2003, Sanmina-SCI repurchased, through unsolicited privately negotiated transactions, $50.0 million aggregate principal amount of the 3% Convertible Subordinated Notes due 2007 of SCI Systems, Inc., one of our wholly-owned subsidiaries, $27.5 million aggregate principal amount of the 4 1/4% Convertible Subordinated Notes due 2004, and $200.6 million aggregate principal amount at maturity (having an accreted value of $99.4 million) of the Zero Coupon Convertible Subordinated Debentures due 2020, resulting in a net gain of $25.6 million, which is reflected as other income in the accompanying statement of operations.

**Note 8 Business Segment and Customer Information**

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, established standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to stockholders. It also established standards for related disclosures about products and services, geographic areas and major customers. Operating segments are defined as components of an enterprise about which separate financial

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information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

Sanmina-SCI s chief operating decision maker is the Chief Operating Officer. Based on the evaluation of financial information by the Chief Operating Officer, Sanmina-SCI operates in two segments, domestic (United States of America) and international operations. Revenues are attributable to the country in which the product is manufactured. Each segment manufactures, tests and services a full spectrum of complex printed circuit boards, custom backplane interconnect devices, and electronic assembly services. The chief operating decision maker evaluates performance based upon each segment s operating income. Operating income is defined as income before interest income (expense), other income (expense) and income taxes.

The following summarizes financial information by geographic segment (in thousands):

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | March 29, 2003 | March 30, 2002 | March 29, 2003 | March 30, 2002 |
| Net Sales: | | | | |
| Domestic | $ 930,408 | $1,017,260 | $1,935,054 | $1,563,113 |
| International | 1,513,145 | 1,393,981 | 3,045,460 | 1,978,589 |
| Intersegment | 394,328 | 269,998 | 766,396 | 520,435 |
| Less Intersegment | (394,328) | (269,998) | (766,396) | (520,435) |
| Total | $2,443,553 | $2,411,241 | $4,980,514 | $3,541,702 |
| Operating Income (loss): | | | | |
| Domestic | $ (33,801) | $ (36,641) | $ (75,369) | $ (79,570) |
| International | 15,759 | 7,068 | 44,894 | (13,052) |
| Total | $ (18,042) | $ (29,573) | $ (30,475) | $ (92,622) |

| | As of | |
|---|---|---|
| | March 29, 2003 | September 28, 2002 |
| Long Lived Assets (excludes goodwill and intangibles): | | |
| Domestic | $ 556,024 | $ 643,227 |
| International | 625,156 | 566,965 |
| Total | $1,181,180 | $1,210,192 |

Although Sanmina-SCI seeks to diversify its customer base, a small number of customers are responsible for a significant portion of Sanmina-SCI s net sales. During the three months ended March 29, 2003 and March 30, 2002, sales to Sanmina-SCI s ten largest customers accounted for 67.3% and 66.2%, respectively, of Sanmina-SCI s net sales. For the six months ended March 29, 2003 and March 30, 2002, sales to Sanmina-SCI s ten largest customers accounted for 66.4% and 61.4%, respectively, of Sanmina-SCI s net sales. In the three and six months ended March 29, 2003 and March 30, 2002, two of Sanmina-SCI s customers individually represented over 10.0% of net sales.

**Note 9 Commitments and Contingencies**

In fiscal 1999, we entered into an operating lease agreement for facilities in San Jose, California, which house our corporate headquarters and certain of our assembly operations. Management had determined that the lease facility met the criteria for off-balance sheet treatment and therefore we

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

accounted for the lease facility as an operating lease. The lease agreement terminated on December 19, 2002 and we purchased the land and improvements subject to the lease on that date for approximately $53.2 million, primarily with $52.9 million of investments previously held by the lender as collateral for certain obligations under the lease. The previously pledged investments were classified as long-term investments.

We and certain of our subsidiaries, namely Hadco Corporation, or Hadco, and SCI, are involved in various administrative proceedings related to environmental matters. Although we could incur significant costs relating to these matters, we believe, based on the limited information that is currently available, that the cost of any remediation that may be required at these facilities would not materially harm our business, financial condition or results of operations.

We are a party to certain other legal proceedings that have arisen in the ordinary course of our business. We believe that the resolution of these proceedings will not have a material adverse effect on our business, financial condition or results of operations.

**Note 10 Supplemental Guarantors Condensed Consolidating Financial Information**

On December 23, 2002, Sanmina-SCI issued $750.0 million of its 10.375% Notes in a private placement to qualified investors, as part of a refinancing transaction. See Note 7 for a more complete description of the 10.375% Notes.

The condensed consolidating financial statements are presented below and should be read in connection with the Consolidated Financial Statements of Sanmina-SCI. Separate financial statements of the Guarantors are not presented because (i) the Guarantors are wholly-owned and have fully and unconditionally guaranteed the 10.375% Notes on a joint and several basis, and (ii) Sanmina-SCI s management has determined such separate financial statements are not material to investors. There are no significant restrictions on the ability of Sanmina-SCI or any Guarantor to obtain funds from its subsidiaries by dividend or loan.

The following condensed consolidating financial information presents: unaudited condensed consolidating balance sheets as of March 29, 2003 and September 28, 2002, and the related unaudited condensed consolidating statements of operations for the three and six months then ended and the related unaudited condensed consolidating statement of cash flows for the six months March 29, 2003, of (a) Sanmina-SCI, the parent; (b) the guarantor subsidiaries; (c) the non-guarantor subsidiaries; (d) elimination entries necessary to consolidate Sanmina-SCI with the guarantor subsidiaries and the non-guarantor subsidiaries; and (e) Sanmina-SCI, the guarantor subsidiaries and the non-guarantor subsidiaries on a consolidated basis.

Investments in subsidiaries are accounted for on the equity method. The principal elimination entries eliminate investments in subsidiaries, intercompany balances and intercompany sales.

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**SANMINA-SCI CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Condensed Consolidating Balance Sheet**

**As of March 29, 2003**
**(unaudited)**

| | Sanmina-SCI | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Eliminations | Consolidated Total |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **Assets:** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 765,007 | $ 59,474 | $ 509,180 | $ | $ 1,333,661 |
| Short-term investments | 61,214 | | 7 | | 61,221 |
| Accounts receivable, net | 145,459 | 239,121 | 1,124,932 | | 1,509,512 |
| Accounts receivable intercompany | 592,288 | | | (592,288) | |
| Inventories | 126,344 | 260,143 | 705,570 | | 1,092,057 |
| Deferred income taxes | 85,944 | 193,645 | 37,550 | | 317,139 |
| Prepaid expenses and other | 50,755 | 36,826 | 65,283 | (22,760) | 130,104 |
| Total current assets | 1,827,011 | 789,209 | 2,442,522 | (615,048) | 4,443,694 |
| Property, plant and equipment, net | 123,612 | 346,198 | 612,273 | | 1,082,083 |
| Long term investments | 2,977 | 5,003 | 10,512 | | 18,492 |
| Goodwill | 20,912 | 1,179,529 | 950,258 | | 2,150,699 |
| Intercompany accounts | 780,295 | 427,916 | | (1,208,211) | |
| Investment in subsidiaries | 2,724,329 | 1,405,435 | | (4,129,764) | |
| Deposits and other | 57,263 | 59,888 | 77,297 | (69,903) | 124,545 |
| Total assets | $ 5,536,399 | $ 4,213,178 | $ 4,092,862 | $ (6,022,926) | $ 7,819,513 |
| **Liabilities and Stockholders Equity:** | | | | | |
| Current liabilities: | | | | | |
| Current portion of long-term debt | $ 511 | $ 1,363 | $ 8,438 | $ | $ 10,312 |
| Accounts payable | 133,674 | 331,781 | 864,793 | | 1,330,248 |
| Accounts payable intercompany | | 492,635 | 99,653 | (592,288) | |
| Accrued liabilities | 79,616 | 161,852 | 188,663 | (22,760) | 407,371 |
| Accrued payroll and related benefits | 37,779 | 30,230 | 79,868 | | 147,877 |
| Total current liabilities | 251,580 | 1,017,861 | 1,241,415 | (615,048) | 1,895,808 |
| Long-term liabilities: | | | | | |
| Long-term debt, net of current portion | 1,867,881 | 518,251 | 54,032 | | 2,440,164 |
| Intercompany accounts noncurrent | | | 1,208,211 | (1,208,211) | |
| Deferred income tax liability | 10,332 | 81,107 | | (69,903) | 21,536 |
| Other | 5,903 | 39,743 | 15,656 | | 61,302 |

| | | | | | |
|---|---|---|---|---|---|
| Total long-term liabilities | 1,884,116 | 639,101 | 1,277,899 | (1,278,114) | 2,523,002 |
| Stockholders equity: | | | | | |
| Common stock | 5,290 | 16,381 | 424,977 | (441,358) | 5,290 |
| Other stockholders equity accounts | 3,395,413 | 2,539,835 | 1,148,571 | (3,688,406) | 3,395,413 |
| Total stockholders equity | 3,400,703 | 2,556,216 | 1,573,548 | (4,129,764) | 3,400,703 |
| Total liabilities and stockholders equity | $5,536,399 | $4,213,178 | $4,092,862 | $(6,022,926) | $7,819,513 |

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**SANMINA-SCI CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Condensed Consolidating Balance Sheet**

**As of September 28, 2002**

| | Sanmina-SCI | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Eliminations | Consolidated Total |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **Assets:** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 454,792 | $ 134,570 | $ 475,172 | $ | $ 1,064,534 |
| Short-term investments | 99,140 | | | | 99,140 |
| Accounts receivable, net | 10,138 | 69,974 | 1,314,403 | | 1,394,515 |
| Accounts receivable intercompany | | 326,380 | | (326,380) | |
| Inventories | 147,195 | 324,025 | 651,796 | | 1,123,016 |
| Deferred income taxes | 85,944 | 193,645 | 32,595 | | 312,184 |
| Prepaid expenses and other | 42,742 | 26,901 | 100,646 | (4,640) | 165,649 |
| Total current assets | 839,951 | 1,075,495 | 2,574,612 | (331,020) | 4,159,038 |
| Property, plant and equipment, net | 160,660 | 347,196 | 576,598 | | 1,084,454 |
| Long-term investments | 53,918 | 4,992 | 15,045 | | 73,955 |
| Goodwill | 20,831 | 1,192,374 | 888,445 | | 2,101,650 |
| Intercompany accounts | 1,499,912 | | | (1,499,912) | |
| Investment in subsidiaries | 2,659,139 | 1,367,079 | | (4,026,218) | |
| Deposits and other | 32,357 | 58,179 | 82,679 | (74,255) | 98,960 |
| Total assets | $ 5,266,768 | $ 4,045,315 | $ 4,137,379 | $ (5,931,405) | $ 7,518,057 |
| **Liabilities and Stockholders Equity:** | | | | | |
| Current liabilities: | | | | | |
| Current portion of long-term debt | $ 26,339 | $ 343 | $ 239,217 | $ | $ 265,899 |
| Accounts payable | 129,688 | 391,677 | 758,086 | | 1,279,451 |
| Accounts payable intercompany | 237,058 | | 89,322 | (326,380) | |
| Accrued liabilities | 48,573 | 158,009 | 164,558 | (4,640) | 366,500 |
| Accrued payroll and related benefits | 34,552 | 32,123 | 75,464 | | 142,139 |
| Total current liabilities | 476,210 | 582,152 | 1,326,647 | (331,020) | 2,053,989 |
| Long-term liabilities Long-term debt, net of current portion | 1,356,485 | 567,382 | 51,464 | | 1,975,331 |
| Intercompany accounts noncurrent | | 271,383 | 1,228,529 | (1,499,912) | |
| Deferred income tax liability | 10,332 | 81,107 | | (74,255) | 17,184 |
| Other | 9,026 | 35,694 | 12,118 | | 56,838 |
| Total long-term liabilities | 1,375,843 | 955,566 | 1,292,111 | (1,574,167) | 2,049,353 |
| Stockholders equity: | | | | | |
| Common stock | 5,254 | 16,055 | 404,495 | (420,550) | 5,254 |
| Other stockholders equity accounts | 3,409,461 | 2,491,542 | 1,114,126 | (3,605,668) | 3,409,461 |

| | | | | | |
|---|---|---|---|---|---|
| Total stockholders equity | 3,414,715 | 2,507,597 | 1,518,621 | (4,026,218) | 3,414,715 |
| Total liabilities and stockholders equity | $5,266,768 | $4,045,315 | $4,137,379 | $(5,931,405) | $7,518,057 |

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**SANMINA-SCI CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Condensed Consolidating Statement of Operations**

**For the Three Months Ended March 29, 2003**
**(unaudited)**

| | Sanmina-SCI | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Eliminations | Consolidated Total |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Net sales | $196,943 | $967,226 | $1,664,828 | $(385,444) | $2,443,553 |
| Cost of sales | 196,160 | 919,119 | 1,608,995 | (385,444) | 2,338,830 |
| Gross profit | 783 | 48,107 | 55,833 | | 104,723 |
| Operating expenses: | | | | | |
| Selling, general and administrative | 29,870 | 23,105 | 24,250 | | 77,225 |
| Amortization of intangibles | 325 | 1,303 | 0 | | 1,628 |
| Integration costs | | 2,224 | 1,739 | | 3,963 |
| Restructuring costs | 20,288 | 3,763 | 15,898 | | 39,949 |
| Total operating expenses | 50,483 | 30,395 | 41,887 | | 122,765 |
| Operating income (loss) | (49,700) | 17,712 | 13,946 | | (18,042) |
| Interest income | 2,695 | 3,648 | 1,162 | | 7,505 |
| Interest expense | (31,936) | (4,764) | (3,684) | | (40,384) |
| Intercompany interest income (expense) | 4,803 | 4,106 | (8,909) | | |
| Other income (expense) | (3,771) | 3,770 | 3,428 | | 3,427 |
| Other income (expense), net | (28,209) | 6,760 | (8,003) | | (29,452) |
| Income (loss) before provision (benefit) for income taxes and equity in loss of subsidiaries | (77,909) | 24,472 | 5,943 | | (47,494) |
| Provision (benefit) for income taxes | (28,067) | 8,833 | 3,561 | | (15,673) |
| Equity in income (loss) of subsidiaries | 18,021 | 7,607 | | (25,628) | |
| Net loss | $ (31,821) | $ 23,246 | $ 2,382 | $ (25,628) | $ (31,821) |

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**SANMINA-SCI CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Condensed Consolidating Statement of Operations**

**For the Three Months Ended March 30, 2002**
**(Unaudited)**

| | Sanmina-SCI | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Eliminations | Consolidated Total |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Net sales | $200,164 | $1,255,057 | $1,362,629 | $(406,609) | $2,411,241 |
| Cost of sales | 192,965 | 1,190,801 | 1,331,902 | (406,609) | 2,309,059 |
| Gross profit | 7,199 | 64,256 | 30,727 | | 102,182 |
| Operating expenses: | | | | | |
| Selling, general and administrative | 28,805 | 32,806 | 16,996 | | 78,607 |
| Amortization of intangibles | | 1,251 | | | 1,251 |
| Restructuring costs | 10,135 | 38,053 | 3,709 | | 51,897 |
| Total operating expenses | 38,940 | 72,110 | 20,705 | | 131,755 |
| Operating income (loss) | (31,741) | (7,854) | 10,022 | | (29,573) |
| Interest income | 6,522 | 735 | 2,139 | | 9,396 |
| Interest expense | (20,400) | (4,784) | (2,559) | | (27,743) |
| Intercompany interest income (expense) | 1,492 | 14,353 | (15,845) | | |
| Other Income (expense) | 8,161 | 1,983 | (13,914) | | (3,770) |
| Other Income (expense), net | (4,225) | 12,287 | (30,179) | | (22,117) |
| Income (loss) before provision (benefit) for income taxes and equity in loss of subsidiaries | (35,966) | 4,433 | (20,157) | | (51,690) |
| Provision (benefit) for income taxes | (13,668) | 1,685 | (393) | | (12,376) |
| Equity in loss of subsidiaries | (17,016) | (20,549) | | 37,565 | |
| Net loss | $ (39,314) | $ (17,801) | $ (19,764) | $ 37,565 | $ (39,314) |

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**SANMINA-SCI CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Condensed Consolidating Statement of Operations**

**For the Six Months Ended March 29, 2003**
**(unaudited)**

| | Sanmina-SCI | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Eliminations | Consolidated Total |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Net sales | $ 381,444 | $2,020,763 | $3,336,447 | $(758,140) | $4,980,514 |
| Cost of sales | 380,764 | 1,936,607 | 3,207,603 | (758,140) | 4,766,834 |
| Gross profit | 680 | 84,156 | 128,844 | | 213,680 |
| Operating expenses: | | | | | |
| Selling, general and administrative | 56,167 | 52,715 | 51,635 | | 160,517 |
| Amortization of intangibles | 650 | 2,587 | | | 3,237 |
| Integration costs | | 4,240 | 2,119 | | 6,359 |
| Restructuring costs | 38,049 | 4,891 | 31,102 | | 74,042 |
| Total operating expenses | 94,866 | 64,433 | 84,856 | | 244,155 |
| **Operating income (loss)** | **(94,186)** | **19,723** | **43,988** | | **(30,475)** |
| Interest income | 3,607 | 4,466 | 2,753 | | 10,826 |
| Interest expense | (44,364) | (9,814) | (7,683) | | (61,861) |
| Intercompany interest income (expense) | 7,473 | 7,062 | (14,535) | | |
| Other income (expense) | 2,197 | 11,196 | 9,416 | | 22,809 |
| Other income (expense), net | (31,087) | 12,910 | (10,049) | | (28,226) |
| Income (loss) before provision (benefit) for income taxes and equity in loss of subsidiaries | (125,273) | 32,633 | 33,939 | | (58,701) |
| Provision (benefit) for income taxes | (45,139) | 11,794 | 13,974 | | (19,371) |
| Equity in income (loss) of subsidiaries | 40,804 | 24,679 | | (65,483) | |
| Net loss | $ (39,330) | $ 45,518 | $ 19,965 | $ (65,483) | $ (39,330) |

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**SANMINA-SCI CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Condensed Consolidating Statement of Operations**

**For the Six Months Ended March 30, 2002**
**(unaudited)**

| | Sanmina-SCI | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Eliminations | Consolidated Total |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Net sales | $374,074 | $1,703,225 | $1,980,190 | $(515,787) | $3,541,702 |
| Cost of sales | 361,732 | 1,617,930 | 1,922,537 | (515,787) | 3,386,412 |
| Gross profit | 12,342 | 85,295 | 57,653 | | 155,290 |
| Operating expenses: | | | | | |
| Selling, general and administrative | 39,453 | 46,473 | 44,669 | | 130,595 |
| Amortization of intangibles | | 2,729 | | | 2,729 |
| Restructuring costs | 19,979 | 68,974 | 25,635 | | 114,588 |
| Total operating expenses | 59,432 | 118,176 | 70,304 | | 247,912 |
| Operating income (loss) | (47,090) | (32,881) | (12,651) | | (92,622) |
| Interest income | 17,259 | 1,436 | 1,006 | | 19,701 |
| Interest expense | (31,138) | (10,735) | (6,527) | | (48,400) |
| Intercompany interest income (expense) | 3,618 | 14,353 | (17,971) | | |
| Other income (expense) | 7,087 | 2,449 | (12,025) | | (2,489) |
| Other income (expense), net | (3,174) | 7,503 | (35,517) | | (31,188) |
| Income (loss) before provision (benefit) for income taxes and equity in loss of subsidiaries | (50,264) | (25,378) | (48,168) | | (123,810) |
| Provision (benefit) for income taxes | (19,100) | (9,644) | (10,529) | | (39,273) |
| Equity in loss of subsidiaries | (53,373) | (30,149) | | 83,522 | |
| Net loss | $ (84,537) | $ (45,883) | $ (37,639) | $ 83,522 | $ (84,537) |

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**SANMINA-SCI CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Condensed Consolidating Statement of Cash Flows**

**For the Six Months Ended March 29, 2003**
**(unaudited)**

| | Sanmina-SCI | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Eliminations | Consolidated Total |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **Cash provided by operating activities** | $ (75,103) | $ (115,676) | $ 449,778 | $ | $ 258,999 |
| **Cash flows from investing activities:** | | | | | |
| Purchases of short-term investments | (36,827) | | | | (36,827) |
| Proceeds from maturities of short-term investments | 74,164 | | | | 74,164 |
| Purchases of long-term investments | (500) | | | | (500) |
| Purchases of property, plant and equipment | (10,784) | (7,830) | (16,806) | | (35,420) |
| Proceeds from sale of assets | 1,725 | 5,648 | 2,311 | | 9,684 |
| Cash paid for businesses acquired, net | | (21,430) | (189,996) | | (211,426) |
| Cash provided by (used for) investing activities | 27,778 | (23,612) | (204,491) | | (200,325) |
| **Cash flows from financing activities:** | | | | | |
| Issuance (repurchase) of convertible notes | (130,058) | (41,248) | | | (171,306) |
| Payments of long-term debt | | (85) | (30,037) | | (30,122) |
| Proceeds from the long term debt, net of issuance costs | 997,400 | | 5,398 | | 1,002,798 |
| Payments on notes and credit facilities, net | (400,650) | (200,104) | (3,894) | | (604,648) |
| Proceeds from sale of common stock, net of issuance costs | 8,323 | | | | 8,323 |
| Proceeds from (repayment of) intercompany debt | (117,475) | 305,629 | (188,154) | | |
| Cash provided by (used for) financing activities | 357,540 | 64,192 | (216,687) | | 205,045 |
| Effect of exchange rate changes | | | 5,408 | | 5,408 |
| **Increase (decrease) in cash and cash equivalents** | 310,215 | (75,096) | 34,008 | | 269,127 |
| **Cash and cash equivalents at beginning of period** | 454,792 | 134,570 | 475,172 | | 1,064,534 |
| **Cash and cash equivalents at end of period** | $ 765,007 | $ 59,474 | $ 509,180 | $ | $ 1,333,661 |

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**SANMINA-SCI CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Condensed Consolidating Statement of Cash Flows**

**For the Six Months Ended March 30, 2002**

| | Sanmina-SCI | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Eliminations | Consolidated Total |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **Cash provided by operating activities** | $ (101,186) | $ (50,517) | $ 307,726 | $ | $ 156,023 |
| **Cash flows from investing activities:** | | | | | |
| Purchases of short-term investments | (490,736) | | | | (490,736) |
| Proceeds from maturities of short-term investments | 949,712 | | | | 949,712 |
| Purchases of property, plant and equipment | (13,660) | (2,400) | (29,956) | | (46,016) |
| Proceeds from sale of assets | 1,381 | 1,198 | | | 2,579 |
| Cash paid for businesses acquired, net | | (44,242) | (67,223) | | (111,465) |
| Cash provided by (used for) investing activities | 446,697 | (45,444) | (97,179) | | 304,074 |
| **Cash flows from financing activities:** | | | | | |
| Payments of long-term debt | (201,759) | (1,020,855) | (26,502) | | (1,249,116) |
| Proceeds from notes and credit facilities, net | 800,000 | 20,633 | 3,336 | | 823,969 |
| Payments on long-term liabilities, net | | (1,525) | | | (1,525) |
| Proceeds from sale of common stock, net of issuance costs | 18,278 | | | | 18,278 |
| Repurchase of common stock | (37,851) | (6,727) | | | (44,578) |
| Proceeds from (repayment of) intercompany debt | (1,167,894) | 1,174,646 | (6,752) | | |
| Cash provided by (used for) financing activities | (589,226) | 166,172 | (29,918) | | (452,972) |
| Effect of exchange rate changes | | | (275) | | (275) |
| **Increase (decrease) in cash and cash equivalents** | (243,715) | 70,211 | 180,354 | | 6,850 |
| **Cash and cash equivalents at beginning of period** | 495,974 | 7,477 | 64,198 | | 567,649 |
| **Cash and cash equivalents at end of period** | $ 252,259 | $ 77,688 | $ 244,552 | $ | $ 574,499 |

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

*This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Actual events and/or future results of operations may differ materially from those contemplated by such forward-looking statements, as a result of the factors described herein, and in the documents incorporated herein by reference, including, in particular, those factors described under Factors Affecting Operating Results.*

**Application of Critical Accounting Policies**

Management s discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States of America. We review the accounting policies used in reporting our financial results on a regular basis. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, net sales and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate the process used to develop estimates, including those related to product returns, accounts receivable, inventories, investments, intangible assets, income taxes, warranty obligations, restructuring, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be 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 from these estimates.

We believe the following critical accounting policies affect our more significant judgments and estimates used in preparing our consolidated financial statements:

*Accounts Receivable and Other Related Allowances* We estimate product returns, warranty costs, and other adjustments related to current period net sales to establish related allowances. In making these estimates, we analyze past experience, changes in customer demand, and the overall economic climate in industries that we serve. If actual product returns, warranty claims or other adjustments differ significantly from our estimates, the amount of revenue we report would be affected. One of our most significant credit risks is the ultimate realization of our accounts receivable. This risk is mitigated by (i) sales to well established companies, (ii) ongoing credit evaluation of our customers, and (iii) frequent contact with our customers, especially our most significant customers, thus enabling us to monitor current changes in business operations and to respond accordingly. To establish our allowance for doubtful accounts, we regularly estimate the credit risk associated with accounts receivable and consider concentrations of credit risks. We evaluate credit risk related to specific customers based on the current economic environment and are not able to predict the inability of our customers to meet their financial obligations to us. We believe the allowances that we have established are adequate under the circumstances; however, a change in the economic environment or a customer s financial condition could cause our estimates of allowances, and consequently the provision for doubtful accounts, to change.

*Inventories* We state inventories at the lower of cost (first-in, first-out method) or market value. We regularly evaluate the carrying value of our inventories. Cost includes labor, material and manufacturing overhead incurred for finished goods and work-in-process. The market value of our inventories is based on the projected average selling prices of the products we manufacture, less the estimated cost to complete and distribute such products, at the time we expect to sell these products. The process of determining the estimated cost to complete and distribute products requires that we estimate the completion percentage of work in process inventories and the per unit manufacturing costs in the period that the units are expected to be completed. We estimate average selling prices for products based on current contract prices, industry information with respect to pricing trends, expected product introductions, analysis of additional industry capacity expected to be brought on-line, seasonal factors, general economic trends and other information. Estimating these average selling prices is a highly subjective process. Industry forecasts of future average selling prices have been unreliable at times, and we have difficulty accurately predicting future prices. We determine expected inventory usage based on demand forecasts received from our customers. When required, provisions are made to reduce excess inventories to their estimated net realizable values. Differences in forecasted average selling prices used in calculating adjustments based on the lower of cost and market price of the products we manufacture can have a significant effect on the estimated net realizable value of product inventories and consequently the amount of write down recorded. In addition, the ultimate realization of inventory carrying amounts is affected by our exposure related to changes in customer demand for inventory that they are not contractually obligated to purchase and raw materials held for specific customers who are experiencing financial difficulty. Inventory reserves are established based on forecasted demand, past experience with the specific customers, the ability to redistribute inventory to other programs or back to our suppliers, and the presence of contractual language obligating the customers to pay for the related inventory.

*Exit Costs* We recognize restructuring charges related to our plans to exit certain activities resulting from the identification of duplicative and excess manufacturing and administrative facilities that we choose to close or consolidate. In connection with our exit activities, we record restructuring charges for employee termination costs, long-lived asset impairments, costs related to leased facilities to be abandoned or subleased, and other exit-related costs. These charges were incurred pursuant to formal plans developed by management and accounted for in accordance with SFAS No. 146, Accounting for Costs Associated with Exit and Disposal Activities, Emerging Issues Task Force, or EITF, Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) and EITF 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination. The recognition of restructuring charges requires us to make judgments and estimates regarding the nature, timing, and amount of costs associated with the planned exit activity, including estimating sublease income and the fair value, less sales costs, of equipment to be disposed of. Management s estimates of future liabilities may change, requiring us to record additional restructuring charges or reduce the amount of liabilities already recorded. At the end of each reporting period, we evaluate the remaining accrued balances to ensure their adequacy, that no excess accruals are retained, and the utilization of the provisions are for their intended purposes in accordance with developed exit plans.

*Goodwill* Costs in excess of the fair value of tangible and identifiable intangible assets acquired and liabilities assumed in a business combination are recorded as goodwill. SFAS No. 142, Goodwill and Other Intangible Assets, requires that companies no longer amortize goodwill, but instead test for impairment at least annually using a two-step approach. We adopted SFAS No. 142 in the first quarter of fiscal 2002 and no longer amortize goodwill. We evaluate goodwill, at a minimum, on an annual basis and whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit s carrying amount, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using a combination of the income, or discounted cash flows, approach and a market approach, which utilizes comparable companies data. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired, and a second step impairment analysis is then performed to measure the amount of impairment loss, if any. The process of determining the fair value of our reporting units is subjective and requires management to exercise judgment in making assumptions related to cash flows and discount rates, among other things. During the fourth quarter of fiscal 2002, we recorded an impairment loss of approximately $2.7 billion in connection with the annual impairment test pursuant to SFAS No. 142. As of March 29, 2003, the remaining carrying value of goodwill was approximately $2.1 billion. We cannot assure you that future goodwill impairment tests will not result in further impairment charges.

*Income Taxes* We estimate our income tax provision in each of the jurisdictions in which we operate, including estimating exposures related to examinations by taxing authorities. We must also make judgments regarding the realizability of deferred tax assets. The carrying value of our net deferred tax asset is based on our belief that it is more likely than not that we will generate sufficient future taxable income in certain jurisdictions to realize these deferred tax assets. A valuation allowance has been established for deferred tax assets which we do not believe meet the more likely than not criteria established by SFAS No. 109, Accounting for Income Taxes. Our judgments regarding future taxable income may change

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due to changes in market conditions, changes in tax laws, or other factors. If our assumptions and consequently our estimates, change in the future, the valuation allowances we have established may be increased, resulting in increased income tax expense.

**Recent Acquisitions**

In January 2003, we entered into an agreement with IBM under which IBM agreed to outsource the manufacturing of a portion of its low and midrange servers, workstations and ThinkPad notebooks to Sanmina-SCI and Sanmina-SCI agreed to acquire IBM s related manufacturing facilities in Greenock, Scotland and Guadalajara, Mexico. The transaction closed in February 2003 for a cash purchase price of $169.4 million. The purchase price was allocated to the fair value of the net assets acquired, including primarily inventory ($57.2 million), buildings and equipment ($50.4 million) and goodwill ($60.3 million).

During the first half of fiscal 2003 we also completed other acquisitions for an aggregate purchase price of $42.0 million, including an Israeli medical systems manufacturing operation and a wireless communication equipment assembly facility in Texas. Goodwill resulting from these acquisitions was approximately $10.4 million.

**Results of Operations**

The following table sets forth, for the three months and six months ended March 29, 2003 and March 30, 2002, certain items as a percentage of net sales. The consolidated financial statements include the operating results of SCI from December 3, 2001, the close of the accounting period nearest to the acquisition date of December 6, 2001. The net revenues for this three-day period between December 3 and December 6 were $91 million. The table and the discussion below should be read in connection with the condensed consolidated financial statements and the notes thereto, which appear elsewhere in this report.

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | March 29, 2003 | March 30, 2002 | March 29, 2003 | March 30, 2002 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of sales | 95.7 | 95.8 | 95.7 | 95.6 |
| Gross profit | 4.3 | 4.2 | 4.3 | 4.4 |
| Operating expenses: | | | | |
| Selling, general and administrative | 3.2 | 3.3 | 3.2 | 3.7 |
| Amortization of goodwill and intangibles | 0.1 | 0.1 | 0.1 | 0.1 |
| Integration costs | 0.2 | | 0.1 | |
| Restructuring costs | 1.5 | 2.0 | 1.5 | 3.2 |
| Total operating expenses | 5.0 | 5.4 | 4.9 | 7.0 |
| Operating income (loss) | (0.7) | (1.2) | (0.6) | (2.6) |
| Other income (expense), net | (1.2) | (0.9) | (0.6) | (0.9) |
| Income (loss) before provision for income taxes | (1.9) | (2.1) | (1.2) | (3.5) |
| Provision (benefit) for income taxes | (0.6) | (0.5) | (0.4) | (1.1) |
| Net income (loss) | (1.3)% | (1.6)% | (0.8)% | (2.4)% |

Net sales for the second quarter of fiscal 2003 increased by 1.3% to $2.44 billion from $2.41 billion in the corresponding quarter of the prior year. For the six months ended March 29, 2003, sales increased by 40.6% to $4.98 billion from $3.54 billion in the six months ended March 30, 2002. The increase in net sales for the second quarter and first six months of fiscal 2003 over the same periods in fiscal 2002, was primarily the result of the merger with SCI in December 2001 and other purchase business combinations. The increases in net sales attributable to purchase business combinations were partially offset by the impact of the continuing downturn in economic conditions worldwide, in the electronics industry in general and the communications sector in particular during both the three and six month periods of 2003. This downturn has had a significant impact on our customers and their end markets during the past several quarters. These economic conditions have led to a reduced demand for services provided by Sanmina-SCI and other EMS companies.

The following summarizes financial information by geographic segment (in thousands):

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **March 29, 2003** | **March 30, 2002** | **March 29, 2003** | **March 30, 2002** |
| Net Sales: | | | | |
| Domestic | $ 930,408 | $1,017,260 | $1,935,054 | $1,563,113 |
| International | 1,513,145 | 1,393,981 | 3,045,460 | 1,978,589 |
| Total | $2,443,553 | $2,411,241 | $4,980,514 | $3,541,702 |

Domestic sales for the second quarter of fiscal 2003 decreased by 8.5% to $930.4 million from $1.0 billion and international sales increased by 8.5% to $1.5 billion from $1.4 billion in the corresponding quarter of the prior year. The shift in net sales from domestic to international operations in the second quarter of fiscal 2003 as compared to the second quarter of fiscal 2002 is primarily due to increases in international sales as a result of purchase business combinations, the movement of manufacturing operations to lower cost regions and the general decline in the domestic electronics market. Purchase business combinations during the first half of fiscal 2003 contributed in excess of $100 million of net sales to the international segment in the quarter ended March 29, 2003 (see Note 3 to the Condensed Consolidated Financial Statements included in Item I). The increase in both domestic and international net sales for the first six months of fiscal 2003 over the same period in fiscal 2002 was primarily the result of the SCI merger in December 2001 and other purchase business combinations, with further increases in international net sales and offset by decreases in domestic net sales as a result of the factors discussed above.

The following unaudited pro forma financial information presents the combined results of operations of Sanmina-SCI and SCI as if the merger had occurred as of the beginning of fiscal 2002, after giving effect to certain adjustments and related income tax effects.

| | **Six Months Ended March 30, 2002** |
|---|---|
| | **(in thousands, except per share data)** |
| Revenue | $4,817,469 |
| Net (loss) income | (230,547) |
| Basic earnings (loss) per share | $ (0.44) |
| Diluted earnings (loss) per share | $ (0.43) |

The pro forma financial information above includes infrequent charges of $163.8 million related to restructuring and $29.8 million in merger costs incurred by SCI during the first quarter of 2002 prior to its merger with Sanmina-SCI.

***Gross Profit***

Gross profit increased slightly from 4.2% in the second quarter of fiscal 2002 to 4.3% in the second quarter of fiscal 2003 and decreased from 4.4% for the six months ended March 30, 2002 to 4.3% for the six months ended March 29, 2003. We expect gross margins to continue to fluctuate based on overall production and shipment volumes as well as changes in the mix of products ordered by and shipped to major customers. The minor variations in gross profit for the three and six months ended March 29, 2003

as compared to the three and six months ended March 30, 2002 were primarily attributable to changes in product and customer mix. Fluctuations in our gross margins may be caused by a number of factors. Increased competition in the EMS industry may require us to reduce prices for our services. Changes in the types of products required by our customers could affect our overall gross margins depending on the mix of high or low margin products demanded by them, and whether we are providing our customers with our vertically integrated key system components and subassemblies. We have experienced fluctuations in our gross margins in the past and may continue to in the future.

The pricing of manufacturing services in OEM divestiture transactions may be less favorable to us than in typical contractual relationships because of the long-term nature of these supply arrangements or an OEM s desire to reduce manufacturing costs. Changes in customer demand and sales volumes could also result in fluctuations in gross margin. Gross margin may be impacted by charges or write offs of excess and obsolete inventory and other manufacturing related assets. Our practice is to dispose of excess and obsolete inventory written off as soon as practicable after such inventory has been identified as having no value. No significant sales of such inventory have occurred to date. These write offs could relate to:

- declines in the market value of inventory,
- raw materials held for specific customers who are experiencing financial difficulty, and
- changes in customer demand for inventory, such as cancellation of orders and our purchases of inventory beyond customer needs that result in excess quantities on hand.

Current economic conditions in the electronics industry are resulting in continued downward pressure on pricing of electronics components and electronics manufacturing services as OEMs are continually seeking to reduce their costs. In addition, due to slowing growth in the electronics industry, EMS companies are in many cases competing more aggressively on price to obtain new or maintain existing business. These conditions are likely to continue to impact our gross margins.

We procure inventory based on specific customer orders and forecasts. Customers have limited rights of modification with respect to these orders. Correspondingly, customer modifications to orders affecting inventory previously procured by us (for example, cancellations or rescheduling of orders, as well as inventory that is highly customized and therefore not available for use by other customers) and our purchases of inventory beyond customer needs may result in excess and obsolete inventory for the related customers. Although we may be able to use some excess components and raw materials in our inventory for other products we manufacture, a portion of the cost of this excess inventory may not be returned to the vendors or recovered from customers. We also may not be able to recover the cost of obsolete inventory from vendors or customers. Due to increased competition, changes in product and customer mix, and product pricing terms negotiated as part of OEM divestiture transactions, we may continue to experience fluctuations in gross margins.

***Operating Expenses***

***Selling, general and administrative expenses***

Selling, general and administrative expenses decreased from $78.6 million in the second quarter of fiscal 2002 to $77.2 million in the second quarter of fiscal 2003. As a percentage of sales, selling, general and administrative expenses decreased from 3.3% in the second quarter of fiscal 2002 to 3.2% in the second quarter of fiscal 2003. For the six months ended March 29, 2003, selling, general, and administrative expenses increased in absolute dollars to $160.5 million from $130.6 million for the first six months ended March 30, 2002; however, as a percentage of sales, selling, general and administrative expenses decreased to 3.2% from 3.7% for the respective periods. The decrease in selling, general and administrative expense as a percentage of sales was primarily due to our focus on controlling costs and our ability to cost effectively scale our manufacturing operations to market conditions. In addition, we recorded the recovery of a previously written-off account receivable of approximately $6.0 million as a reduction of the bad debt provision in the second quarter of fiscal 2003 due to the collection of this receivable. No such recovery was recorded in the comparable period in fiscal 2002. Selling, general and administrative expenses as a percentage of sales are anticipated to remain relatively constant or decrease slightly as a percentage of net sales, depending on sales volume. In addition, we expect to continue to achieve operating synergies as a result of the integration of acquired businesses and Sanmina-SCI s continued focus on controlling operating expenses.

***Amortization expense***

Amortization expense increased from $1.3 million in the second quarter of fiscal 2002 to $1.6 million in the second quarter of fiscal 2003. For the six months ended March 29, 2003, amortization expense increased to $3.2 million from $2.7 million for the comparable period in fiscal 2002. The increases in amortization expense in the three and six month periods as compared to the respective periods in the prior year are due to increases in intangible assets acquired in purchase business combinations.

***Restructuring costs***

**SFAS No. 146**

Costs associated with restructuring activities initiated on or after January 1, 2003, other than those activities related to purchase business combinations, are accounted for in accordance with SFAS No. 146. Accordingly, costs associated with such plans are recorded as restructuring costs in the consolidated statements of operations when a liability is incurred. Below is a summary of the activity related to restructuring costs recorded pursuant to SFAS No. 146 for the second quarter of fiscal 2003.

| | One-Time Employee Termination Benefits | Lease and Contract Termination Costs | Other Restructuring Costs | Impairment of Fixed Assets | Total |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| | Cash | Cash | Cash | Non-cash | |
| Balance at December 28, 2002 | $ | $ | $ | $ | $ |
| Charges to operations | 805 | 448 | 76 | 2,099 | 3,428 |
| Charges utilized | (203) | (433) | (76) | (2,099) | (2,811) |
| Balance at March 29, 2003. | $ 602 | $ 15 | $ | $ | $ 617 |

In the second quarter of fiscal 2003, we approved actions pursuant to SFAS No. 146 to close and consolidate four of our manufacturing facilities in the United States and Europe as a result of the ongoing slowdown in the electronics industry. In the second quarter of fiscal 2003, we recorded charges to operations of $805,000 for termination benefits related to the involuntary termination of 307 employees, and we utilized charges of approximately $203,000 as a result of terminating 161 employees. During this period we also recorded charges to operations of $448,000 for the termination of non-cancelable leases, lease payments for permanently vacated properties and other contract termination costs, and we utilized charges of $433,000 related to these charges. We also incurred other restructuring charges to operations of $76,000 in the second quarter of fiscal 2003, primarily for costs to prepare facilities for closure. We also incurred charges to operations of $2.1 million in the second quarter of fiscal 2003 for the impairment of excess equipment at the vacated facilities. We expect the closing of the plants discussed above as well as other activities related to these exit plans to be completed by the first half of fiscal 2004.

**EITF 94-3**

Costs associated with restructuring activities initiated prior to January 1, 2003, other than those activities related to purchase business combinations, are accounted for in accordance with EITF 94-3. Accordingly, costs associated with such plans are recorded as restructuring costs in the consolidated statements of operations. Below is a summary of the activity related to restructuring costs recorded pursuant to EITF 94-3 for the periods in which activity pursuant to our ongoing restructuring plans has taken place through the first half of fiscal 2003.

| | Employee Severance and Related Expenses | Restructuring and Other Expenses | Shutdown and Consolidation Costs of Duplicate Facilities | Write-off Impaired or Redundant Fixed Assets | Total |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| | Cash | Cash | Cash | Non-cash | |
| Balance at September 30, 2000 | $ 14,742 | $ 832 | $ | $ | $ 15,574 |
| Charges to operations | 12,628 | 4,064 | 42,487 | 99,953 | 159,132 |
| Charges utilized | (19,639) | (4,057) | (5,942) | (99,953) | (129,591) |
| Balance at September 29, 2001 | 7,731 | 839 | 36,545 | | 45,115 |
| Charges to operations | 31,100 | 10,101 | 31,009 | 99,585 | 171,795 |
| Charges utilized | (28,487) | (10,161) | (31,667) | (99,585) | (169,900) |
| Balance at September 28, 2002 | 10,344 | 779 | 35,887 | | 47,010 |
| Charges to operations | 11,362 | | 11,513 | 11,218 | 34,093 |
| Charges utilized | (3,314) | (779) | (12,992) | (11,218) | (28,303) |
| Balance at December 28, 2002 | 18,392 | | 34,408 | | 52,800 |
| Charges to operations | 2,845 | | 9,987 | 23,689 | 36,521 |
| Charges utilized | (4,559) | | (17,049) | (23,689) | (45,297) |
| Balance at March 29, 2003 | $ 16,678 | $ | $ 27,346 | $ | $ 44,024 |

**Fiscal 2002 Plans**

*September 2002 Restructuring.* In September 2002, we approved a plan pursuant to EITF 94-3 to close and consolidate certain of our manufacturing facilities in North America, Europe and Asia as a result of the ongoing slowdown in the industry. In fiscal 2002, we recorded charges to operations of $3.1 million for planned employee severance expenses related to the involuntary termination of 540 employees, and we utilized charges of approximately $1.7 million as a result of terminating 144 employees. In fiscal 2002 we also recorded charges to operations of $4.2 million for the shutdown of duplicative facilities related to non-cancelable lease payments for permanently vacated properties and associated costs, and we utilized charges of $110,000 related to the shutdown of these facilities. We also incurred charges to operations of $38.3 million in fiscal 2002 related to asset write-offs for excess equipment and leasehold improvements at facilities that were permanently vacated. In the first half of fiscal 2003, we recorded charges to operations of $5.3 million for severance expenses related to the expected termination of 261 employees, and $8.5 million for non-cancelable lease payments and related costs for the shutdown of duplicative facilities. In the first half of fiscal 2003 we also incurred charges to operations of $31.1 million related to the impairment of buildings and excess equipment and leasehold improvements at permanently vacated facilities. We utilized $3.1 million of accrued severance charges and $10.3 million of accrued facilities related charges in the first half of fiscal 2003. As of March 29, 2003, 804 employees have been terminated under this exit plan. We expect the closing of the plants discussed above as well as other activities related to this exit plan to be completed in the first half of fiscal 2004.

*October 2001 Restructuring.* In October 2001, we approved a plan pursuant to EITF 94-3 to close and consolidate certain of our manufacturing facilities throughout North America and Europe as a result of the continued slowdown in the industry and economy worldwide. In fiscal 2002, we recorded net charges to operations of $23.6 million for the expected involuntary termination of 2,762 employees associated with these plant closures, and utilized charges of approximately $17.7 million. We also incurred net charges to operations of $32.3 million in fiscal 2002 for the shutdown of duplicate facilities associated with non-cancelable lease payments for permanently vacated properties, and we utilized approximately $25.7 million of these charges in fiscal 2002. We also incurred charges to operations of $54.0 million in fiscal 2002 related to the write-offs of fixed assets consisting of excess equipment and leasehold improvements to facilities that were permanently vacated, all of which were utilized in fiscal 2002. In the first half of fiscal 2003, we recorded charges to operations of $8.9 million for severance costs related to the expected involuntary termination of 2,233 employees, and $13.0 million for non-cancelable lease payments and other costs related to the shutdown of duplicate facilities. We utilized accrued severance charges of $3.5 million and accrued facilities related charges of $11.8 million during the first half of fiscal 2003. We also incurred charges of $3.8 million during the first half of fiscal 2003 related to write-offs of fixed assets consisting of excess equipment and leasehold improvements to facilities that were permanently vacated. As of March 29, 2003, 4,579 employees have been terminated under this exit plan. We expect the closing of the plants discussed above as well as employee terminations and other related activities to be completed in the second half of fiscal 2003.

**Fiscal 2001 Plans**

*Segerström Restructuring.* In March 2001, we acquired Segerström in a pooling of interests business combination and announced our restructuring plan. During fiscal 2001 and 2002, we recorded net charges to operations of $5.7 million for the involuntary termination of 470 employee positions, and utilized $4.8 million of these charges. During those periods we also recorded charges to operations of $5.2 million related to the consolidation of duplicate facilities, of which $1.3 million was utilized. In the first half of fiscal 2003, we utilized $400,000 with respect to employee severance and $300,000 with respect to shutdown of duplicate facilities.

*July 2001 Restructuring.* In July 2001, we approved a plan to close and merge manufacturing facilities throughout North America and Europe as a result of the ongoing slowdown in the EMS industry. During fiscal 2001 and 2002, we recorded charges to operations of $24.0 million for severance costs for involuntary employee terminations, of which $21.8 million was utilized. During those periods we recorded net charges to operations of $45.2 million for lease payments for permanently vacated properties and other costs related to the shutdown of facilities, of which $23.1 million was utilized. Also during fiscal 2001 and fiscal 2002, we recorded and utilized $7.3 million of asset related write-offs of equipment and leasehold improvements to permanently vacated properties. During the first half of fiscal 2003, we utilized $866,000 of accrued severance costs related to the termination of 12 employees, $7.6 million of accrued costs related to the shutdown of facilities and $779,000 of other accrued restructuring costs. Manufacturing activities at the plants affected by this plan ceased in the fourth quarter of fiscal 2002; however, the leases of the related facilities expire between 2003 and 2010, therefore the remaining accrual will be reduced over time as the lease payments, net of sublease income, are made.

**EITF 95-3**

Costs associated with restructuring activities related to a purchase business combination are accounted for in accordance with EITF 95-3. Accordingly, costs associated with such plans are recorded as a liability assumed as of the consummation date of the purchase business combination and included in the cost of

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the acquired entity. Below is a summary of the activity related to restructuring costs recorded pursuant to EITF 95-3 for fiscal 2002 and the first half of fiscal 2003:

| | Employee Severance and Related Expenses | Shutdown and Consolidation Costs of Duplicate Facilities | Write-off Impaired or Redundant Fixed Assets | Total |
|---|---|---|---|---|
| | (In thousands) | | | |
| | Cash | Cash | Non-cash | |
| Balance at September 29, 2001. | $ | $ | $ | $ |
| Additions to restructuring accrual | 104,161 | 36,078 | 23,724 | 163,963 |
| Accrual utilized | (64,207) | (12,519) | (19,643) | (96,369) |
| Balance at September 28, 2002. | 39,954 | 23,559 | 4,081 | 67,594 |
| Additions to restructuring accrual | 18,975 | 6,000 | | 24,975 |
| Accrual utilized | (13,393) | (6,006) | (4,081) | (23,480) |
| Reversal of accrual | (23,968) | (1,007) | | (24,975) |
| Balance at December 28, 2002. | 21,568 | 22,546 | | 44,114 |
| Additions to restructuring accrual | 4,111 | 1,224 | 3,251 | 8,586 |
| Accrual utilized | (9,304) | (2,999) | (3,251) | (15,554) |
| Balance at March 29, 2003. | $ 16,375 | $ 20,771 | $ | $ 37,146 |

The following sections separately present the charges to the restructuring liability and charges utilized that are set forth in the above table on an aggregate basis.

*Other Acquisition-Related Restructuring Actions.* As part of an insignificant business acquisition completed in December 2002, we closed the acquired manufacturing facility in Texas as of the acquisition date and transferred the business to an existing Sanmina-SCI plant. In the second quarter of fiscal 2003 we recorded total charges to the restructuring liability of $2.4 million relating the closure of this plant. The charge consisted of $311,000 for salary related costs for employees participating in the closure of the plant and $2.1 million for excess equipment that will be disposed of. All charges were utilized during the second quarter of fiscal 2003.

*SCI Acquisition Restructuring.* In December 2001, we merged with SCI in a purchase business combination. As part of the acquisition of SCI, we recorded an assumed liability, based on SCI management s plan prior to the acquisition in accordance with EITF 94-3, for expected involuntary employee termination costs of approximately $7.4 million for 158 employee positions. As of September 28, 2002, we had utilized approximately $5.5 million of these charges in connection with the termination of 100 employees during the period. In fiscal 2002, we also incurred charges of $2.3 million related to plant consolidations and closures, of which $354,000 was paid during fiscal 2002. In the first half of fiscal 2003, we utilized the remaining $1.9 million of accrued severance, and utilized the remaining $1.9 million of accrued costs related to plant consolidations and closures. We do not expect any further activity under this exit plan.

As part of the acquisition of SCI, we also recorded charges to the restructuring liability of $96.8 million during fiscal 2002 consisting of planned involuntary employee termination costs for 7,143 employees. We utilized $58.7 million in charges with respect to the termination of 6,446 employees during fiscal 2002. During fiscal 2002 we also incurred net charges to the restructuring liability of $33.8 million for restructuring costs related to lease payments for permanently vacated properties and other costs, and utilized approximately $12.1 million of these charges. We incurred charges to restructuring liability of $23.7 million of asset related write-offs consisting of excess equipment and leasehold improvements to facilities that were permanently vacated, of which $19.6 million were utilized in fiscal 2002. In the first half of fiscal 2003, we recorded restructuring charges of $22.8 million for severance costs related to the

involuntary termination of 777 employees, and utilized $20.5 million for 1,639 employee terminations. We reversed a total of $24.0 million of accrued severance costs, approximately $18.4 million of which was due to lower than anticipated settlement costs at a major European manufacturing site, and approximately $5.6 million of which related to two plants that were not closed as initially planned due to a change in business requirements. As of March 29, 2003, 8,085 employees had been terminated under this exit plan. In the first half of fiscal 2003, we also recorded restructuring charges of $7.2 million for lease payments for permanently vacated properties and other costs, and we utilized approximately $7.0 million of these charges during the first half of 2003. We also reversed $1.0 million due to lower than estimated costs at various sites. During the quarter ended March 29, 2003, we also recorded costs of $1.2 million for the impairment of excess equipment at closed plants. We expect the closing and consolidation of the plants discussed above as well as involuntary employee terminations to be completed during the second half of fiscal 2003.

**Ongoing Restructuring Activities**

We continue to rationalize manufacturing facilities and headcount to better scale capacity to current market and operating conditions. In connection therewith, we will incur additional restructuring charges in the second half of fiscal year 2003 and fiscal 2004 pursuant to our phase two restructuring plan which was approved by management in the fourth quarter of fiscal 2002. We expect to incur up to approximately $250.0 million of restructuring costs pursuant to this plan, of which approximately $50.0 million was incurred in the fourth quarter of fiscal 2002 and approximately $50.8 million was incurred in the first half of fiscal 2003. We expect that approximately 55% of the costs will be cash and 45% will be non-cash. As a result of our phase two restructuring plan, we expect to achieve reductions in non-cash and cash costs, including depreciation, payroll and related benefits, and rent expense. We expect our annual savings to aggregate approximately $100-200 million, affecting cost of sales and selling, general and administrative expense. We began to benefit from such savings in the fourth quarter of fiscal 2002 and expect to fully realize the estimated annual savings before the end of fiscal 2004. We plan to fund cash restructuring costs with cash flows generated by operating activities.

***Total Operating Expenses***

Operating expenses decreased from $131.8 million in the second quarter of fiscal 2002 to $122.8 million in the second quarter of 2003. As a percentage of sales, operating expenses decreased from 5.4% to 5.0% in the second quarter of 2002 compared to the second quarter of fiscal 2003. For the six month period, operating expenses in absolute dollars decreased from $247.9 million in fiscal 2002 to $244.2 million in fiscal 2003 and operating expenses as a percentage of sales decreased from 7.0% in fiscal 2002 to 4.9% in fiscal 2003. The decrease in operating expenses for the second quarter of fiscal 2003 as compared to the second quarter in fiscal 2002 was mainly attributable to lower restructuring costs of $39.9 million in the second quarter of 2003 as compared to $51.9 million in the second quarter of 2002, offset by $4.0 million of integration costs in the second quarter of fiscal 2003 that did not occur in the second quarter of 2002. The decrease in operating expenses as a percentage of sales for the first six months of fiscal 2003 as compared to the first six months in fiscal 2002 was mainly attributable to having a larger base of net sales and lower restructuring costs of $74.0 million as compared to $114.6 million in 2002.

Excluding integration and restructuring costs, for the second quarter of fiscal 2003, operating expenses as a percentage of sales decreased to 3.2% from 3.3%, as compared to the same period for fiscal 2002. Excluding merger and restructuring costs, for the first six months of fiscal 2003, operating expenses as a percentage of sales decreased to 3.3% from 3.8%, as compared to the same period for fiscal 2002. This decrease is due to management s commitment to realign resources to reflect market demand and to having a larger base of net sales in the six month period in 2003 as compared to 2002.

***Other Income (Expense), net***

For the second quarter of fiscal 2003, Sanmina-SCI reported net other expense of $29.5 million compared to net other expense of $22.1 million for the corresponding quarter of last year. For the six

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months ended March 29, 2003, Sanmina-SCI reported net other expense of $28.2 million compared to net other expense of $31.2 million for the six months ended March 30, 2002. The components of other income and expense, comprising net other income or expense, are primarily interest income on cash balances and short-term investments, interest expense on borrowings and convertible subordinated notes, and gains from repurchases of convertible debt (see discussion below). For the second quarter of fiscal 2003, the increase in net other expense was largely due to increased interest expense as a result of the Refinancing (see discussion below). In the six months ended March 29, 2003, net other expense decreased by $3.0 million as compared to the same period in the prior year due to gains from the repurchase of convertible debt which did not occur in 2002, offset by decreased interest income due to lower average cash and investments balances and increased interest expense as a result of debt incurred in connection with the SCI merger and the Refinancing.

***Benefit for Income Taxes***

Sanmina-SCI s benefit for income taxes for the three and six months ended March 29, 2003 is based upon Sanmina-SCI s estimate of the effective tax rate for fiscal 2003 of 33.0%. For the three and six months ended March 30, 2002, the effective tax rate was 24.0% and 31.7%, respectively. The increase in the effective benefit rate in fiscal 2003 is due primarily to the tax benefit of certain losses and restructuring costs incurred by non-U.S. operations.

**Liquidity and Capital Resources**

Cash, cash equivalents, and short-term investments as of March 29, 2003 and September 28, 2002 were $1.4 billion and $1.2 billion, respectively. For the six months ending March 29, 2003, cash provided by operations was $259.0 million, which was primarily due to decreases in inventory and increases in income tax accounts, accounts payable and accrued liabilities, offset by increases in accounts receivable. Working capital increased to $2.6 billion as of March 29, 2003 compared to $2.1 billion at September 28, 2002. This increase in working capital was primarily due to increased cash and cash equivalents balances as a result of the Refinancing (see discussion below) in late December 2002 and increases in accounts receivable due to a higher concentration of sales at the end of the March quarter.

Net cash used for investing activities of $200.3 million for the six months ending March 29, 2003, primarily related to $74.2 million in net proceeds from maturities of short-term investments and $9.7 million in net proceeds from sale of assets, which was offset by net cash paid for business acquisitions of $211.4 million, purchases of property, plant, and equipment of $35.4 million and purchases of short-term investments of $36.8 million.

Net cash provided by financing activities of $205.0 million for the six months ending March 29, 2003, was related to proceeds received from long term debt of $1.0 billion and proceeds from the sale of common stock from the exercise of stock options and the employee stock purchase plan of $8.3 million, offset by payments of notes and credit facilities of $604.7 million, payments of long-term debt of $30.1 million and repurchases of convertible notes of $171.3 million. For the six months ended March 30, 2002, net cash used for financing activities of $453.0 million included payments of long-term debt of $1.2 billion and repurchases of common stock of $44.6 million offset by proceeds received from revolving credit facilities of $824.0 million and proceeds from the sale of common stock from the exercise of stock options and the employee stock purchase plan of $18.3 million.

On December 23, 2002, we issued $750.0 million of 10.375% Senior Secured Notes due January 15, 2010 (the 10.375% Notes ) in a private placement to qualified investors, as part of a refinancing transaction pursuant to which we also entered into a $275.0 million senior secured credit facility (the Credit Facility ). A portion of the net proceeds of the 10.375% Notes and Credit Facility was used to repay all outstanding amounts under our three-year revolving credit facility and to repurchase all outstanding receivables sold under our receivables securitization facility. These transactions are referred to collectively as the Refinancing.

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The 10.375% Notes are fully and unconditionally guaranteed by substantially all of Sanmina-SCI s United States subsidiaries and are secured by a second priority security interest in the same collateral securing our obligations under the credit facility which includes substantially all of the personal property assets of Sanmina-SCI and its United States subsidiaries located in the United States, a pledge of the capital stock of substantially all of Sanmina-SCI s United States subsidiaries, a pledge of 65% of the capital stock of certain of Sanmina-SCI s first-tier foreign subsidiaries, and mortgages on certain domestic real estate. Sanmina-SCI may redeem the 10.375% Notes, in whole or in part, at anytime beginning on January 15, 2007 at a redemption price initially of 105.188%, declining to 102.594% on January 15, 2008 and 100.000% on January 15, 2009. Sanmina-SCI may also redeem the 10.375% Notes, in whole or in part, at any time prior to January 15, 2007 at a redemption price equal to the principal amount plus accrued interest to the redemption date plus a make-whole premium specified in the indenture. In the event of a change of control of Sanmina-SCI, Sanmina-SCI will be required to offer to repurchase the 10.375% Notes at a repurchase price of 101% of the principal amount plus accrued interest to the repurchase date. The indenture includes covenants that, among other things, limit in certain respects Sanmina-SCI and its restricted subsidiaries from incurring debt, making investments and other restricted payments, paying dividends on capital stock, redeeming capital stock or subordinated obligations and creating liens. In the event that Sanmina-SCI obtains the investment grade rating specified in the indenture and certain other conditions are met, the collateral securing the 10.375% Notes will be permanently released, and Sanmina-SCI will no longer required to comply with certain of the indenture covenants specified above for as long as Sanmina-SCI retains the investment grade rating specified in the indenture.

The Credit Facility currently bears interest at an annual rate equal to a reserve adjusted eurodollar rate plus 4.0% (the reserve adjusted eurodollar rate was 1.29% at March 29, 2003). The principal amount of the Credit Facility is repayable in quarterly installments of $687,500 from March 31, 2003 through December 31, 2005, $13.75 million from March 31, 2006 through December 31, 2006, and $52.94 million from March 31, 2007 through December 23, 2007, plus interest. The Credit Facility is guaranteed by substantially all of Sanmina-SCI s United States subsidiaries (the Guarantors ) and is secured by a first priority security interest in substantially all of the personal property assets of Sanmina-SCI and the Guarantors, a pledge of the capital stock of the Guarantors, a pledge of 65% of the capital stock of certain of Sanmina-SCI s first-tier foreign subsidiaries and mortgages on certain domestic real estate. The Credit Facility is prepayable at Sanmina-SCI s option at 103% through December 22, 2003, 102% from December 23, 2003 through December 22, 2004, 101% from December 23, 2004 through December 22, 2005, and 100% thereafter. The Credit Facility provides for various operational and financial covenants, including limitations on incurring indebtedness and creating liens, restrictions on the payment of dividends and other restricted payments, restrictions on sales of assets, restrictions on acquisitions, maintenance of a minimum interest coverage ratio and a maximum secured leverage ratio and limits on capital expenditures.

We entered into an interest rate swap to hedge our mix of short-term and long-term interest rate exposures resulting from certain of our outstanding debt obligations. During the first quarter of fiscal 2003, we entered into an interest rate swap transaction related to the 10.375% Notes due 2010 pursuant to which we pay a variable rate and receive a fixed rate. The interest rate swap has a total notional amount of $525.0 million. Under the swap agreement, we pay an interest rate equal to the six-month LIBOR rate plus 6.125%, determined semi-annually in arrears. In exchange, we receive a fixed interest rate of 10.375%. The swap agreement effectively replaces the fixed interest rate that we pay on $525.0 million of our 10.375% Notes with a variable interest rate. The swap was designated as fair value hedge under SFAS No. 133. Management believes that the interest rate swap meets the criteria established by SFAS No. 133 for short cut accounting; therefore, there is no ineffectiveness of the interest rate swap.

In December 2001, we entered into two separate facilities consisting of a $250.0 million 364-day credit facility and a $500.0 million three-year credit facility with a syndicate of banks. As of September 28, 2002, $400.0 million was outstanding under these credit facilities. The 364-day credit facility terminated in accordance with its terms on December 4, 2002. The balance outstanding under the

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three-year credit facility was repaid and the facility was terminated in December 2002 in connection with the Refinancing.

We were a party to an asset securitization agreement that gave us the option to periodically transfer undivided percentage ownership interests, of up to $200.0 million, in a revolving pool of eligible trade receivables to conduit and bank purchasers. The net accounts receivables sold under the program at September 28, 2002 were included in the accounts receivable balance and the associated debt was recorded as current portion of long-term debt on the consolidated balance sheet. The asset securitization agreement was terminated, and the accounts receivable sold thereunder were repurchased, in December 2002 in connection with the Refinancing.

During the six months ended March 29, 2003, we repurchased, through unsolicited privately negotiated transactions, $50.0 million aggregate principal amount of our 3% Convertible Subordinated Notes due 2007 of SCI Systems, Inc., one of our wholly-owned subsidiaries, $27.5 million aggregate principal amount of our 4 1/4% Convertible Subordinated Notes due 2004, and $200.6 million aggregate principal amount at maturity (having an accreted value of $99.4 million) of our Zero Coupon Convertible Subordinated Debentures due 2020, resulting in a net gain of $25.6 million, which is reflected as other income in the accompanying statement of operations.

The aggregate principal amount of outstanding long-term debt maturing during each of our next five fiscal years and thereafter, including capital lease obligations, is as follows as of March 29, 2003:

| Fiscal Year Ending | (In thousands) |
|---|---|
| 2003 (remainder) | $ 10,311 |
| 2004 | 273,685 |
| 2005 | 20,614 |
| 2006 | 37,312 |
| 2007 | 653,673 |
| Thereafter | 1,454,880 |
| Total | $2,450,475 |

In fiscal 2005, we will be required to repurchase up to $637.0 million principal amount of Zero Coupon Subordinated Debentures due 2020 if submitted for repurchase by the holders of these debentures at their option on the repurchase date of September 12, 2005.

We lease facilities under operating leases expiring at various dates through 2021. We are responsible for utilities, maintenance, insurance and property taxes under the leases. Future minimum lease payments required to be made during each of our next five fiscal years and thereafter under operating leases are as follows:

| Fiscal Year Ending | (In thousands) |
|---|---|
| 2003 | $ 22,967 |
| 2004 | 37,861 |
| 2005 | 28,295 |
| 2006 | 19,916 |
| 2007 | 14,966 |
| Thereafter | 29,424 |
| Total | $153,429 |

In fiscal 1999, we entered into an operating lease agreement for facilities in San Jose, California, which house our corporate headquarters and certain of our assembly operations. Management had determined that the lease facility met the criteria for off-balance sheet treatment and therefore we

accounted for the lease facility as an operating lease. The lease agreement terminated on December 19, 2002 and we purchased the land and improvements subject to the lease on that date for approximately $53.2 million, primarily with $52.9 million of investments previously held by the lender as collateral for certain obligations under the lease. The previously pledged investments were classified in long-term investments.

Our future needs for financial resources include increases in working capital to support anticipated sales growth, investments in manufacturing facilities and equipment, and repayments of outstanding indebtedness. We expect fiscal 2003 purchases of property, plant and equipment to decline slightly from those in fiscal 2002. We have evaluated and will continue to evaluate possible business acquisitions within the parameters of the restrictions set forth in the agreements governing certain of our debt obligations. These possible business acquisitions could require substantial cash payments. Additionally, we anticipate incurring additional expenditures in connection with the integration of our recently acquired businesses and our restructuring activities.

We believe that our existing cash resources, together with cash generated from operations, will be sufficient to meet our working capital requirements through at least the next 12 months. Should demand for our products decrease over the next 12 months the available cash provided by operations could be negatively impacted. We may also seek to raise additional capital through the issuance of either debt or equity securities. In addition to existing collateral and covenant requirements, future debt financing may further require us to pledge assets as collateral and comply with financial ratios and covenants. Equity financing may result in dilution to stockholders.

**Effect of Recent Accounting Pronouncements**

In October 2001, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 143, Accounting for Asset Retirement Obligations to be effective for all fiscal years beginning after June 15, 2002, with early adoption permitted. SFAS 143 establishes accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. It also provides accounting guidance for legal obligations associated with the retirement of tangible long-lived assets. We adopted SFAS 143 in the first quarter of fiscal 2003, and there was no significant impact on our financial position, results of operations and cash flows.

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which establishes a single accounting model for the impairment or disposal of long-lived assets, including discontinued operations. SFAS 144 supersedes SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of and APB Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions for the Disposal of a Segment of a Business. The provisions of SFAS 144 are effective in fiscal years beginning after December 15, 2001, with early adoption permitted and, in general, are to be applied prospectively. We adopted SFAS 144 on September 29, 2002, with no resulting impact on our financial position, results of operations, and cash flows.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit and Disposal Activities. This statement revises the rules as to how companies account for exit and disposal activities under EITF 94-3, Liability Recognition for Certain Employee Termination Benefits and other Costs to Exit an Activity. Commitment to a plan to exit an activity or dispose of long-lived assets will no longer be sufficient to record a charge for most anticipated costs. Instead, companies will record exit or disposal costs when they are incurred and can be measured at fair value, and they will subsequently adjust the recorded liability for changes in estimated cash flows. The provisions of SFAS No. 146 are effective prospectively for exit or disposal activities initiated after December 31, 2002. Earlier adoption is encouraged. Companies may not restate previously issued financial statements for the effect of the provisions of SFAS No. 146 and liabilities that a company previously recorded under EITF 94-3 are grandfathered. We do not expect SFAS No. 146 to have a significant impact on our financial position, results of operations and cash flows.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123. SFAS No. 148 amends SFAS No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. We are required to follow the prescribed format and provide the additional disclosures required by SFAS No. 148 in its annual financial statements for the year ending September 27, 2003 and must also provide the disclosures in its quarterly reports containing condensed financial statements for interim periods beginning with the current quarterly period. The adoption of SFAS No. 148 will not have an effect on our financial position or results of operations as we currently do not intend to adopt the fair value method of accounting for stock-based employee compensation pursuant to SFAS No. 148.

In November 2002, the FASB issued Interpretation 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.* The Interpretation elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under the guarantee and must disclose that information in its interim and annual financial statements. The provisions related to recognizing a liability at inception of the guarantee for the fair value of the guarantor s obligations does not apply to product warranties or to guarantees accounted for as derivatives. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. Management believes that the adoption of Interpretation 45 will not have a material impact on Sanmina-SCI s financial position or results of operations.

In January 2003, the FASB issued Interpretation 46, *Consolidation of Variable Interest Entities.* In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. Interpretation 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity s activities or entitled to receive a majority of the entity s residual returns or both. The consolidation requirements of Interpretation 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. Sanmina-SCI believes that the adoption of Interpretation 46 will not have a material impact on its financial position or results of operations.

**Factors Affecting Operating Results**

***If the markets for our customers products decline further, or improve at a slower pace than we anticipate, demand for our services may be adversely affected and, therefore, our operating results could be adversely affected***

As a result of the downturn in the electronics industry, in general, and the communications sector in particular, demand for our manufacturing services has declined significantly. The decrease in demand for manufacturing services by OEMs has resulted primarily from reduced capital spending by communications service providers. Until the recent downturn in the communications sector, we had depended on OEMs in this sector for a significant portion of our net sales and earnings. Consequently, our operating results have been adversely affected as a result of the deterioration in the communications market and the other markets that we serve. If capital spending in the end markets we serve continues to decline or if these markets do not improve, or improves at a slower pace than we anticipate, our revenue and profitability will continue to be adversely affected.

We cannot accurately predict future levels of demand for our customers electronics products. As a result of this uncertainty, we cannot accurately predict if and when the electronics industry, and in particular the communications sector, will improve. Consequently, our past operating results, earnings and cash flows may not be indicative of our future operating results, earnings and cash flows.

***If demand for our higher-end, higher margin manufacturing services does not improve, our future gross margins and operating results may be lower than expected***

Before the recent economic downturn in the communications sector, sales of our services to OEMs in this sector accounted for a substantially greater portion of our net sales and earnings than in recent periods. As a result of reduced sales to OEMs in the communications sector, our gross margins have declined because the services that we provided to these OEMs often were more complex, thereby generating higher margins, than those that we provided to OEMs in other sectors of the electronics industry. For example, communications OEMs often required us to manufacture printed circuit boards with more than 20 layers. In addition, a greater percentage of our net sales in recent periods has been derived from sales of personal computers. Margins on personal computers are typically lower than margins that we have historically realized in communication products. Personal computer OEMs are continuing to seek price decreases from us and other EMS companies and competition for this business remains intense. This price competition could adversely affect our gross margins. If demand for our higher-end, higher margin manufacturing services does not improve in the future, our gross margins and operating results in future periods may be lower than expected.

***Our operating results are subject to significant uncertainties***

Our operating results are subject to significant uncertainties, including the following:

- economic conditions in the electronics industry;
- the timing of orders from major customers and the accuracy of their forecasts;
- the timing of expenditures in anticipation of increased sales, customer product delivery requirements and shortages of components or labor;
- the 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;
- the degree to which we are able to utilize our available manufacturing capacity;
- our ability to effectively plan production and manage our inventory and fixed assets;
- pricing and other competitive pressures;
- seasonality in customers product requirements;
- fluctuations in component prices;
- component shortages, which could cause us to be unable to meet customer delivery schedules; and
- new product development by our customers.

A significant portion of our operating expenses is relatively fixed in nature, and planned expenditures are based, in part, on anticipated orders, which are difficult to estimate because of the current downturn in the electronics industry. If we do not receive anticipated orders as expected, our operating results will be adversely impacted. Moreover, our ability to reduce our costs as a result of current or future restructuring efforts may be limited because consolidation of operations can be costly and a lengthy process to complete.

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***We may not be able to finance future needs or adapt our business plan to change because of restrictions placed on us by the instruments governing our debt***

The agreements governing our existing debt contain, and those governing our future debt may contain, various covenants that limit our ability to, among other things:

- Incur additional debt, including guarantees by us or our restricted subsidiaries;
- Make investments, pay dividends on our capital stock, redeem or repurchase our capital stock or subordinate obligations, subject to certain exceptions;
- Create specified liens;
- Make capital expenditures;
- Sell assets;
- Make acquisitions;
- Create or permit restrictions on ability of our restricted subsidiaries to pay dividends or make other distributions to us;
- Engage in transactions with affiliates;
- Engage in sale and leaseback transactions; and
- Consolidate or merge with or into other companies or sell all or substantially all of our assets.

Our ability to comply with covenants contained in the agreements governing debt to which we are or may become a party may be affected by events beyond our control, including prevailing economic, financial and industry conditions. Our new secured credit facility requires us to comply with limits on capital expenditures, a maximum senior leverage ratio and a maximum net interest expense ratio. Additionally, the new secured credit facility contains numerous affirmative covenants, including covenants regarding payment of taxes and other obligations, maintenance of insurance, reporting requirements and compliance with applicable laws and regulations. Further, the new senior secured credit facility contains negative covenants limiting our ability and the ability of our subsidiaries, among other things, to incur debt, grant liens, make acquisitions, make certain restricted payments, sell assets and enter into sale and leaseback transactions. Additional debt we incur in the future may subject us to further covenants.

Our failure to comply with these covenants could result in a default under the agreements governing the relevant debt. In addition, if any such default is not cured or waived, the default could result in an acceleration of debt under our other debt instruments that contain cross acceleration or cross-default provisions, which could require us to repay or repurchase debt, together with accrued interest, prior to the date it otherwise is due and that could adversely affect our financial condition. Upon a default or cross-default, holders of our secured obligations could proceed against the collateral securing the obligations. Even if we are able to comply with all the applicable covenants, the restrictions on our ability to manage our business in our sole discretion could adversely affect our business by, among other things, limiting our ability to take advantage of financings, mergers, acquisitions and other corporate opportunities that we believe would be beneficial to us.

***We generally do not obtain long-term volume purchase commitments from customers, and, therefore, cancellations, reductions in production quantities and delays in production by our customers could adversely affect our operating results***

We generally do not obtain firm, long-term purchase commitments from our customers. Customers may cancel their orders, reduce production quantities or delay production for a number of reasons. Many of our customers recently have experienced significant decreases in demand for their products and services. The uncertain economic conditions in several of the markets in which our customers operate have prompted some of our customers to cancel orders, delay the delivery of some of the products that we manufacture or place purchase orders for fewer products than we previously anticipated. Even when our

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customers are contractually obligated to purchase products from us, we may be unable or, for other business reasons, choose not to enforce our contractual rights. Cancellations, reductions or delays of orders by customers would:

- adversely affect our operating results by reducing the volumes of products that we manufacture for our customers;
- delay or eliminate recoupment of our expenditures for inventory purchased in preparation for customer orders; and
- lower our asset utilization, which would result in lower gross margins.

In addition, customers may require that we transfer the manufacture of their products from one facility to another to achieve cost reductions and other objectives. These transfers may result in increased costs to us due to resulting facility downtime or less than optimal utilization of our manufacturing capacity.

***We rely on a small number of customers for a substantial portion of our net sales, and declines in sales to these customers could adversely affect our operating results***

Sales to our 10 largest customers accounted for 67.3% of our net sales in the quarter ending March 29, 2003 and our two largest customers each accounted for 10% or more of our net sales for the quarter. We depend upon the continued growth, viability and financial stability of our customers, substantially all of which operate in an environment characterized by rapid technological change, short product life cycles, consolidation, and pricing and margin pressures. We expect to continue to depend upon a relatively small number of customers for a significant percentage of our revenue. Consolidation among our customers may further concentrate our business in a limited number of customers and expose us to increased risks relating to dependence on a small number of customers. In addition, a significant reduction in sales to any of our large customers or significant pricing and margin pressures exerted by a key customer, would adversely affect our operating results. In the past, some of our large customers have significantly reduced or delayed the volume of manufacturing services ordered from us. We cannot assure you that present or future large customers will not terminate their manufacturing arrangements with us or significantly change, reduce or delay the amount of manufacturing services ordered from us, any of which would adversely affect our operating results.

***If our business does not improve or declines, we may further restructure our operations, which may adversely affect our financial condition and operating results***

In recent periods, we have announced two major restructuring plans as a result of the slowdown in the global electronics industry and the worldwide economy, as well as in connection with a number of our acquisitions. Prior to the end of fiscal 2002, we announced a phase one restructuring plan that contemplated aggregate cash and non-cash restructuring costs totaling approximately $730.0 million. We expect to incur approximately $3.0 million of restructuring costs pursuant to this plan in the remainder of fiscal 2003. In October 2002, we announced a phase two restructuring plan, which was approved by management in the fourth quarter of fiscal 2002, of up to $250.0 million of both cash and non-cash restructuring charges as a result of the continued slowdown in the EMS industry. We expect to incur up to approximately $150.0 million of restructuring costs pursuant to this new phase two restructuring plan in future periods. We cannot be certain as to the actual amount of these restructuring charges or the timing of their recognition for financial reporting purposes. We may need to take additional restructuring charges in the future if our business does not improve or declines or if the expected benefits of recently completed and currently planned restructuring activities do not materialize. These benefits may not materialize if we incur unanticipated costs in closing facilities or transitioning operations from closed facilities to other facilities or if customers cancel orders as a result of facility closures. If we are unsuccessful in implementing our restructuring plans, we may experience disruptions in our operations and higher ongoing costs, which may adversely affect our operating results.

***If we are unable to purchase the operations of electronics industry OEMs or negotiate favorable long-term supply agreements with the divesting OEMs, our business may be adversely affected***

To continue to expand our business, we expect to pursue opportunities to acquire operations being divested by OEMs. We expect that competition for these divestiture transactions among EMS companies will be intense because these transactions typically enable the acquirer to enter into significant long-term supply arrangements with the divesting OEM. The pricing of manufacturing services in OEM divestiture transactions may be less favorable to us than in typical contractual relationships because of the long-term nature of these supply arrangements or an OEM s desire to reduce manufacturing costs. In addition, because these transactions often involve existing customers, they can present difficult managerial and organizational challenges, particularly with respect to excess inventory, excess capacity and other aspects of our customer relationships. If we enter into new OEM asset divestiture transactions, our gross and operating margins may be reduced as a result of both the pricing structure as well as costs associated with excess inventory and capacity. Our future operating results could be adversely affected if we do not obtain a significant portion of the divestiture transactions that we pursue.

***We are subject to intense competition in the EMS industry, and our business may be adversely affected by these competitive pressures***

The EMS industry is highly competitive. We compete on a worldwide basis to provide electronics manufacturing services to OEMs in the communications, high-end computing, personal computing, aerospace and defense, medical, industrial controls and multimedia sectors. Our competitors include major global EMS providers such as Celestica, Inc., Flextronics International Ltd., Jabil Circuit, Inc., and Solectron Corporation, as well as smaller EMS companies that often have a regional or product, service or industry specific focus. Some of these companies have greater manufacturing and financial resources than we do. We also face competition from current and potential OEM customers, who may elect to manufacture their own products internally rather than outsource the manufacturing to EMS providers.

We expect competition to intensify further as more companies enter markets in which we operate and the OEMs we serve continue to consolidate. To remain competitive, we must continue to provide technologically advanced manufacturing services, high quality service, flexible and reliable delivery schedules, and competitive prices. Our failure to compete effectively could adversely affect our business and results of operations.

***Consolidation in the electronics industry may adversely affect our business***

In the current economic climate, consolidation in the electronics industry may increase as companies combine to achieve further economies of scale and other synergies. Consolidation in the electronics industry could result in an increase in excess manufacturing capacity as companies seek to divest manufacturing operations or eliminate duplicative product lines. Excess manufacturing capacity has increased, and may continue to increase, pricing and competitive pressures for the EMS industry as a whole and for us in particular. Consolidation could also result in an increasing number of very large electronics companies offering products in multiple sectors of the electronics industry. The significant purchasing power and market power of these large companies could increase pricing and competitive pressures for us. If one of our customers is acquired by another company that does not rely on us to provide services and has its own production facilities or relies on another provider of similar services, we may lose that customer s business. Any of the foregoing results of industry consolidation could adversely affect our business.

***Our failure to comply with applicable environmental laws could adversely affect our business***

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. We also are subject to laws and regulations governing the recyclability of products, the materials that may be included in products, and the obligations of a manufacturer to dispose of these products after end users are done using them. If we violate environmental laws, we may be held liable for damages and the costs of remedial actions and may be subject to revocation of permits necessary to conduct our businesses. We cannot assure you that we will not violate environmental laws and regulations in the future as a result of our inability to obtain permits, human error, equipment failure or other causes. Any permit revocations could require us to cease or limit production at one or more of our facilities, which could adversely affect our business, financial condition and operating results. Although we estimate our potential liability with respect to violations or alleged violations and reserve for such liability, we cannot assure you that any reserves will be sufficient to cover the actual costs that we incur as a result of these violations or alleged violations. Our failure to comply with applicable environmental laws and regulations could 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.

Over the years, environmental laws have become, and in the future may 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 political, 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 operating expenses and capital investment or, depending on the severity of the impact of the foregoing factors, costly plant relocation.

***We are potentially liable for contamination of our current and former facilities, which could adversely affect our business and operating results in the future.***

We are potentially liable for contamination at our current and former facilities, including those of the companies we have acquired. We have been named as a potentially responsible party at several contaminated disposal sites as a result of the past disposal of hazardous waste by us or companies we have acquired. We cannot assure you that liabilities relating to contaminated sites and past disposal activities will not adversely affect our business and operating results in the future.

***Our key personnel are critical to our business, and we cannot assure you that they will remain with us***

Our success depends upon the continued service of our executive officers and other key personnel. Generally, these employees are not bound by employment or non-competition agreements. We cannot assure you that we will retain our officers and key employees, particularly our highly skilled design, process and test engineers involved in the manufacture of existing products and development of new products and processes. The competition for these employees is intense. In addition, if Jure Sola, co-chairman and chief executive officer, Randy Furr, president and chief operating officer, or one or more of our other executive officers or key employees, were to join a competitor or otherwise compete directly or indirectly with us or otherwise be unavailable to us, our business, operating results and financial condition could be adversely affected.

***We are subject to risks arising from our international operations***

We conduct our international operations in Asia, Latin America, Canada and Europe and we continue to consider additional opportunities to make foreign acquisitions and construct new foreign facilities. We generated 61.9% of our net sales from non-U.S. operations during the second quarter of fiscal 2003, and a significant portion of our manufacturing material was provided by international suppliers during this period. As a result of our international operations, we are affected by economic and political conditions in foreign countries, including:

- the imposition of government controls;
- export license requirements;
- political and economic instability;
- trade restrictions;

- changes in tariffs;
- labor unrest and difficulties in staffing;
- coordinating communications among and managing international operations;
- fluctuations in currency exchange rates;
- increases in duty rates;
- earnings expatriation restrictions;
- difficulties in obtaining export licenses;
- misappropriation of intellectual property; and
- constraints on our ability to maintain or increase prices.

To respond to competitive pressures and customer requirements, we may further expand internationally in lower cost locations, particularly in Asia, Eastern Europe and Latin America. If we pursue expansion in these locations, we may incur additional capital expenditures. We cannot assure you that we will realize the anticipated strategic benefits of our international operations or that our international operations will contribute positively to, and not adversely affect, our business and operating results.

In addition, the continuing threat of severe acute respiratory syndrome ( SARS ) may adversely impact our business, particularly in China and Southeast Asia. To date, SARS has not had a material adverse effect on our business. However, future spreading of SARS as well as travel and other restrictions imposed to combat SARS may adversely affect us.

***We may encounter difficulties completing or integrating our acquisitions and expanding our operations, which could adversely affect our operating results***

For the past several years, we have pursued a strategy of growth through acquisitions. These transactions have involved acquisitions of entire companies and acquisitions of selected assets from electronics industry OEMs. These assets typically consist primarily of equipment, inventory and, in certain cases, facilities or facility leases. OEM asset divestiture transactions also typically involve our entering into new supply agreements with OEMs. Acquisitions and other expansion of our operations may involve difficulties, including:

- integrating acquired operations and businesses;
- allocating management resources;
- scaling up production and coordinating management of operations at new sites;
- managing and integrating operations in geographically dispersed locations;
- maintaining customer, supplier or other favorable business relationships of acquired operations and restructuring or terminating unfavorable relationships;
- integrating the acquired company s systems into our management information systems;
- addressing unforeseen liabilities of acquired businesses;
- lack of experience operating in the geographic market or industry sector of the business acquired;

- improving and expanding our management information systems to accommodate expanded operations; and

- losing key employees of acquired operations.

Any of these factors could prevent us from realizing the anticipated benefits of the acquisition or expansion, including operational synergies, economies of scale and increases in the value of our business.

Our failure to realize the anticipated benefits of acquisitions or expansions could adversely affect our business and operating results.

Future acquisitions may also result in dilutive issuances of equity securities, the incurrence of additional debt, restructuring charges relating to consolidation of operations and the creation of goodwill and other intangible assets that could result in amortization expense or impairment charges, any of which could adversely affect our operating results.

***If we are unable to protect our intellectual property or infringe or are alleged to infringe another person s intellectual property, our operating results may be adversely affected***

We rely on a combination of copyright, patent, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. We cannot be certain that the steps we have taken will prevent unauthorized use of our technology. Our inability to protect our intellectual property rights could diminish or eliminate the competitive advantages that we derive from our proprietary technology.

We may become involved in litigation in the future to protect our intellectual property or because others may allege that we infringe on their intellectual property. These claims and any resulting lawsuit could subject us to significant liability for damages and invalidate our proprietary rights. In addition, these lawsuits, regardless of their merits, likely would be time consuming and expensive to resolve and would divert management s time and attention. Any potential intellectual property litigation alleging our infringement of a third-party s intellectual property also could force us or our customers to:

- stop producing products that use the challenged intellectual property;
- obtain from the owner of the infringed intellectual property a license to sell the relevant technology at an additional cost, which license may not be available on reasonable terms, or at all; and
- redesign those products or services that use the infringed technology.

***We and the customers we serve are vulnerable to technological changes in the electronics industry***

Our customers are primarily OEMs in the communications, high-end computing, personal computing, aerospace and defense, medical, industrial controls and multimedia sectors. These industry sectors, and the electronics industry as a whole, are subject to rapid technological change and product obsolescence. If our customers are unable to develop products that keep pace with the changing technological environment, our customers products could become obsolete, and the demand for our services could decline significantly. In addition, our customers may discontinue or modify products containing components that we manufacture, or develop products requiring new manufacturing processes. If we are unable to offer technologically advanced, easily adaptable and cost effective manufacturing services in response to changing customer requirements, demand for our services will decline. If our customers terminate their purchase orders with us or do not select us to manufacture their new products, our operating results could be adversely affected.

***We may experience component shortages, which could cause us to delay shipments to customers and reduce our revenue and operating results***

In the past from time to time, a number of components purchased by us and incorporated into assemblies and subassemblies produced by us have been subject to shortages. These components include application-specific integrated circuits, capacitors and connectors. Unanticipated component shortages have prevented us from making scheduled shipments to customers in the past and may do so in the future. Our inability to make scheduled shipments could cause us to experience a shortfall in revenue, increase our costs and adversely affect our relationship with the affected customer and our reputation generally as a reliable service provider. Component shortages may also increase our cost of goods sold because we may be required to pay higher prices for components in short supply and redesign or reconfigure products to accommodate substitute components. As a result, component shortages could adversely affect our operating results for a particular period due to the resulting revenue shortfall and increased manufacturing or component costs.

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***If we manufacture products containing design or manufacturing defects, or if our manufacturing processes do not comply with applicable statutory and regulatory requirements, demand for our services may decline and we may be subject to liability claims***

We manufacture products to our customers specifications, and, in some cases, our manufacturing processes and facilities may need to comply with applicable statutory and regulatory requirements. For example, medical devices that we manufacture, as well as the facilities and manufacturing processes that we use to produce them, are regulated by the 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 manufacture may at times contain design or manufacturing defects, and our manufacturing processes may be subject to errors or not in compliance with applicable statutory and regulatory requirements. Defects in the products we manufacture, whether caused by a design, manufacturing or component failure or error, or deficiencies in our manufacturing processes, may result in delayed shipments to customers or reduced or cancelled customer orders. If these defects or deficiencies are significant, our business reputation may also be damaged. The failure of the products that we manufacture or 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 liability claims against us. The magnitude of such claims may increase as we expand our medical, automotive, and aerospace and defense manufacturing services because defects in medical devices, automotive components, and aerospace and defense systems could seriously harm users of these products. Even if our customers are responsible for the defects, they may not, or may not have the resources to, assume responsibility for any costs or liabilities arising from these defects.

## Item 3. *Quantitative and Qualitative Disclosures about Market Risk*

### Interest Rate Risk

Our exposures to market risk for changes in interest rates relate primarily to Sanmina-SCI s investment portfolio and certain debt obligations. Currently, we do not use derivative financial instruments in our investment portfolio. Sanmina-SCI invests in high credit quality issuers and, by policy, limits the amount of principal exposure to any one issuer. As stated in our policy, we seek to ensure the safety and preservation of our invested principal funds by limiting default and market risk.

We seek to mitigate default risk by investing in high-credit quality securities and by positioning our investment portfolio to respond to a significant reduction in a credit rating of any investment issuer, guarantor or depository. We seek to mitigate market risk by limiting the principal and investment term of funds held with any one issuer and by investing funds in marketable securities with active secondary or resale markets.

The table below presents carrying amounts and related average interest rates by year of maturity for our investment portfolio as of March 29, 2003 (dollars in thousands):

| | Year Ended | | |
|---|---|---|---|
| | **2003** | **2004** | **Total** |
| Cash equivalents and short-term investments | $708,107 | $20,383 | $728,490 |
| Average interest rate | 1.33% | 2.89% | 1.38% |

We also have exposure to interest rate risk with certain variable rate debt obligations. Refer to Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources for a discussion of our interest rate swap arrangement that effectively converts $525.0 million of our fixed rate debt obligations to a variable interest rate. We also have an amortizing $275.0 million credit facility maturing in 2007 that bears interest at a reserve adjusted eurodollar rate plus 4.0% (the reserve adjusted eurodollar rate was 1.29% at March 29, 2003).

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**Foreign Currency Exchange Risk**

Sanmina-SCI transacts business in foreign countries. Sanmina-SCI s primary foreign currency cash flows are in certain Asian and European countries, Australia, Brazil, Canada, and Mexico. Sanmina-SCI enters into short-term foreign currency forward contracts to hedge only those currency exposures associated with certain assets and liabilities denominated in foreign currencies. At March 29, 2003, Sanmina-SCI had forward contracts to exchange various foreign currencies for U.S. dollars in the aggregate notional amount of $359 million, which are recorded as short-term investments on the balance sheet. Market value gains and losses on forward exchange contracts are recognized in the Consolidated Statement of Operations as offsets to the exchange gains and losses on the hedged transactions. The impact of these foreign exchange contracts was not material to the results of operations for the three and six months ended March 29, 2003 and March 30, 2002.

**Item 4.** ***Controls and Procedures***

(a) Based on their evaluation as of a date within 90 days of the filing date of this report, the chief executive officer and the chief financial officer of Sanmina-SCI have concluded that Sanmina-SCI s disclosure controls and procedures (as defined in Rule 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended) are effective to ensure that information required to be disclosed by Sanmina-SCI in reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) There were no significant changes in Sanmina-SCI s internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation. There were no significant deficiencies or material weaknesses, and, therefore, there were no corrective actions taken.

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## PART II. OTHER INFORMATION

### Item 1. *Legal Proceedings*

We and certain of our subsidiaries, namely Hadco Corporation and SCI Systems, Inc., are involved in various administrative proceedings related to environmental matters. Although we could incur significant costs relating to these matters, we believe, based on the limited information that is currently available, that the cost of any remediation that may be required at these facilities would not materially harm our business, financial condition or results of operations.

We are a party to certain other legal proceedings that have arisen in the ordinary course of our business. We believe that the resolution of these proceedings will not have a material adverse effect on our business, financial condition or results of operations.

### Item 2. *Changes in Securities*

None

### Item 4. *Submission of Matters to a Vote of Security Holders*

None.

### Item 6. *Exhibits and Reports on Form 8-K*

(a) Exhibits

Refer to item (c) below.

(b) Reports on Form 8-K

On January 15, 2003, Sanmina-SCI filed a current report on Form 8-K/A to amend the Form 8-K filed on December 23, 2002 that disclosed certain refinancing transactions and a partial repurchase of certain outstanding convertible debt securities through unsolicited privately negotiated transactions. The Form 8-K/A was filed by Sanmina-SCI to correct the amounts of convertible debt securities repurchased through unsolicited privately negotiated transactions that were disclosed in the above mentioned Form 8-K filed on December 23, 2002. The Form 8-K/A included unaudited supplemental guarantors financial information.

(c) Exhibits

| Exhibit Number | Description |
|---|---|
| 3.1(1) | Restated Certificate of Incorporation of the Registrant, dated January 31, 1996. |
| 3.1.1(2) | Certificate of Amendment of the Restated Certificate of Incorporation of the Registrant, dated March 9, 2001. |
| 3.1.2(3) | Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock of Registrant, dated May 31, 2001. |
| 3.1.3(4) | Certificate of Amendment of the Restated Certificate of Incorporation of the Registrant, dated December 7, 2001. |
| 3.2(5) | Amended and Restated Bylaws of the Registrant, dated December 7, 2001. |

| | |
|---|---|
| 99.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002. |
| 99.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002. |

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(1) Incorporated by reference to Exhibit 3.2 to the Registrant s Report on Form 10-K for the fiscal year ended September 30, 1996, SEC File No. 000-21272, filed with the Securities and Exchange Commission ( SEC ) on December 24, 1996.

(2) Incorporated by reference to Exhibit 3.1(a) to the Registrant s Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2001, filed with SEC on May 11, 2001.

(3) Incorporated by reference to Exhibit 3.1.3 to the Registrant s Report on Form 10-K for the fiscal year ended September 30, 2001, filed with SEC on December 21, 2001.

(4) Incorporated by reference to Exhibit 3.1.2 to the Registrant s Registration Statement on Form S-4 filed with SEC on August 10, 2001.

(5) Incorporated by reference to Exhibit 3.2 to the Registrant s Report on Form 10-K for the fiscal year ended September 28, 2002, filed with SEC on December 4, 2002.

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**SANMINA-SCI CORPORATION**

**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-SCI CORPORATION
(Registrant)

By: /s/ RANDY W. FURR

Randy W. Furr
*President and Chief Operating Officer*

Date: May 16, 2003

By: /s/ RICK R. ACKEL

Rick R. Ackel
*Executive Vice President and*
*Chief Financial Officer*

Date: May 16, 2003

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**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**

I, Jure Sola, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sanmina-SCI Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date ); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors:

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ JURE SOLA

Jure Sola
*Principal Executive Officer*

Date: May 16, 2003

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**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**

I, Rick R. Ackel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sanmina-SCI Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date ); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (or persons performing the equivalent functions:

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ RICK R. ACKEL

Rick R. Ackel
*Principal Financial Officer*

Date: May 16, 2003

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