SOLECTRON CORP
Form 424B3
August 18, 2004

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Remarketing Prospectus Supplement **STRICTLY CONFIDENTIAL**
(To Prospectus Supplement dated December 20, 2001 and Prospectus dated August 29, 2001)

$64,269,950

Solectron Corporation

7.97% Subordinated Debentures due 2006

The Company:

We are a provider of electronics supply chain services to original equipment manufacturers around the world.

The Offering:

In December 2001, we issued the 7.25% subordinated debentures due 2006, referred to in this remarketing prospectus supplement as the debentures, in connection with our issuance of Adjustable Conversion-Rate Equity Security Units, referred to in this remarketing prospectus supplement as the Equity Security Units. The debentures were issued as a component of the Equity Security Units each of which consists of (a) a contract to purchase from us on November 15, 2004, at a price of $25, newly issued shares of our common stock; and (b) a debenture in the principal amount of $25. This remarketing prospectus supplement relates to a remarketing and interest rate reset of $64,269,950 aggregate principal amount of debentures. The debentures generally do not contain restrictive covenants. The debentures are not, and are not expected to be, listed on any securities exchange or included in any automated quotation system.

Use of Proceeds: We will not receive any of the proceeds from this remarketing of the debentures.

The Subordinated Debentures:

Maturity: The debentures will mature on November 15, 2006.

Interest Payments: Interest on the debentures is payable quarterly in arrears on February 15, May 15, August 15 and November 15 of each year. The interest rate on the debentures will be reset at 7.97% per annum, payable quarterly, effective on and after August 15, 2004. The first interest payment on the remarketed debentures will be made on November 15, 2004.

Ranking: The debentures are our general, unsecured obligations and are subordinated in right of payment to all of our existing and future senior debt. In addition, the debentures are structurally subordinated to any indebtedness of our subsidiaries to the extent of the assets of those subsidiaries. As of May 28, 2004, Solectron Corporation had approximately $1.2 billion of senior debt outstanding and the aggregate amount of liabilities of our subsidiaries, principally trade payables, was approximately $2.4 billion (excluding intercompany liabilities).

Tax Event Redemption: If a tax event occurs and is continuing, we may, at our option, redeem the debentures in whole, but not in part, on not less than 30 days nor more than 60 days prior written notice, at the redemption price described in this remarketing prospectus supplement under Description of the Remarketed Debentures Tax Event Redemption.

Investing in the debentures involves risks. See Risk Factors beginning on page RS-8 of this Remarketing Prospectus Supplement.

	Per Debenture(2)	Total
Public offering price(1)	101.98%	$65,544,845

Remarketing fee to remarketing agent(3)	0.51%	$ 326,094
Net proceeds to participating holders of Equity Security Units	101.47%	$65,218,751

(1) Plus accrued interest, if any, from August 19, 2004, if settlement occurs after that date. The price to the public will be in excess of the principal amount.

(2) Rounded to two decimal places.

(3) Based on the remarketing fee of 0.50% of the proceeds from the remarketing.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this remarketing prospectus supplement or the accompanying prospectus supplement and prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

The remarketing agent expects to deliver the debentures to investors on or about August 19, 2004, only in book-entry form through the facilities of The Depository Trust Company.

Remarketing Agent

Banc of America Securities LLC

August 16, 2004.

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ABOUT THIS REMARKETING PROSPECTUS SUPPLEMENT

You should read this remarketing prospectus supplement along with the prospectus supplement and prospectus that follow, and the documents incorporated by reference in this and those documents. The information contained in or incorporated by reference into this remarketing prospectus supplement supersedes any inconsistent information contained in the accompanying prospectus supplement or prospectus. You should rely only on the information contained or incorporated by reference in this remarketing prospectus supplement and, except as stated above, in the accompanying prospectus supplement and prospectus. We and the remarketing agent have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We and the remarketing agent are not making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this remarketing prospectus supplement is accurate as of any date other than the date of this remarketing prospectus supplement.

Unless we have indicated otherwise, or the context otherwise requires, references in this remarketing prospectus supplement and the accompanying prospectus supplement and prospectus to Solectron, we, us, and our or similar terms are to Solectron Corporation and its subsidiaries.

This document is in three parts. The first part is this remarketing prospectus supplement, which describes the specific terms of the remarketing. The second part, the accompanying prospectus supplement related to the issuance of the Equity Security Units in December 2001, describes the terms of the Equity Security Units. The third part, the accompanying prospectus, gives more general information, some of which may not apply to this remarketing.

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SUMMARY

This summary contains selected information about us and this offering. Because this is a summary, it may not contain all the information that may be important to you. You should read this entire remarketing prospectus supplement and the accompanying prospectus supplement and prospectus carefully, including, but not limited to, the information set forth under Risk Factors and our consolidated financial statements and the schedules and related notes and Management s Discussion and Analysis of Financial Condition and the Results of Operations and the other information incorporated by reference into this remarketing prospectus supplement and the accompanying prospectus supplement and prospectus.

Solectron Corporation

We provide electronics supply chain services to original equipment manufacturers (OEMs) around the world. These companies contract with us to build their products or to obtain services related to product development, manufacturing and post-production requirements. In most cases, we build and service products that carry the brand names of our customers.

We serve several electronics products and technology markets. Much of our business is related to the following products:

- Computing equipment, including workstations, notebooks, desktops, servers, storage systems and peripherals;
- Networking equipment such as routers and switches that move traffic across the Internet;
- Telecommunications equipment;
- Consumer products such as high-end cellular phones, set-top boxes, personal/handheld communications devices and home game consoles;
- Automotive electronics systems and components, including audio and navigation systems, system control modules, and actuators and body electronics;
- Semiconductor and test equipment, including wafer fabrication equipment controls, process automation equipment and home appliance electronics controls;
- Medical products such as X-ray equipment, ultrasound fetal monitors, MRI scanners, blood analyzers, ECG patient monitors, surgical robotic systems, HPLCs, spectrometers, and laser surgery equipment; and
- Other electronics equipment and products.

Our customers include many of the world s leading technology companies, such as Apple, Cisco Systems, Ericsson, Hewlett-Packard, IBM, Lucent Technologies, NEC, Nortel Networks, Sony and Sun Microsystems.

We have a comprehensive range of services designed to meet customer supply chain needs throughout the product life cycle. Our services include:

- Collaborative design support and design for manufacturability;
- New product introduction engineering services;
- Supply chain design and sourcing;
- Prototyping;
- Product testing;
- Full product manufacturing, including printed circuit board assembly and complete product systems assembly;

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- Materials purchasing and supply base management;
- Product fulfillment services, including packaging, distribution and installation; and
- Product repair and warranty service.

We bring these services together to provide integrated solutions for customers in electronics and technology markets. By utilizing our services, customers gain cost, time and quality advantages that help improve their competitiveness and enable them to focus on their core competencies of sales, marketing, and research and development.

Recent Developments

Divestitures

During the quarter ended November 30, 2003, as a result of a review of our portfolio of businesses, we committed to a plan to divest three non-strategic businesses in addition to the divestiture of four non-strategic businesses we had previously announced. As a result of that decision, we reported the financial results of these businesses as discontinued operations in our Quarterly Report on Form 10-Q for the period ended November 30, 2003. We have reissued, in an updated format, certain of our historical consolidated financial statements in connection with the provision of Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, and Rule 3-01 of Regulation S-X under the Securities Act of 1933 as included in our current report on Form 8-K, filed on February 9, 2004, which report is incorporated by reference into this remarketing prospectus supplement.

As part of our plan to divest non-strategic businesses, as of the date of this remarketing prospectus supplement, the following have occurred since May 28, 2004:

- On June 29, 2004, we sold our 63% interest in US Robotics Corporation to the management of US Robotics.
- On July 30, 2004, we signed a definitive agreement to sell our Microtechnology business to Francisco Partners.
- On August 1, 2004, we completed the sale of our Force Computers, Inc. embedded computing business to Motorola, Inc.

Early Settlement Offer for Equity Security Units

On May 11, 2004, we completed our early settlement offer to exchange up to 41,800,000 of our Equity Securities Units for 2.5484 shares of common stock plus $1.97 in cash for each validly tendered and accepted Equity Security Unit. The early settlement offer expired at midnight, New York City time, on May 5, 2004, and we accepted all of the 41,429,202 Equity Security Units tendered as of the expiration of the early settlement offer, or approximately 94% of the 44,000,000 issued and outstanding Equity Security Units. None of the tendered Equity Security Units accepted by us for exchange in the early settlement offer are included in the remarketing. In accordance with the terms of the early settlement offer, we exchanged an aggregate of approximately 105.6 million shares of our common stock and $81.6 million in cash, including cash paid in lieu of fractional shares, for the 41,429,202 Equity Security Units tendered. As of May 28, 2004, there were approximately 2.6 million of our Equity Security Units outstanding.

Offering of Common Stock

On May 6, 2004, we sold approximately 17.1 million shares of common stock at a price to the public of $4.85 per share (excluding underwriting discounts and commissions). We used the net proceeds from the sale of the shares to pay the cash portion of the consideration offered in our early settlement offer to holders of Equity Security Units.

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Repurchase of Zero-Coupon Senior Convertible Notes

On May 20, 2004, we repurchased approximately $950 million of our zero-coupon senior convertible notes due November 2020.

We were originally incorporated in the State of California in August 1977. In February 1997, we were reincorporated in Delaware. Our principal executive offices are located at 847 Gibraltar Drive, Milpitas, California 95035. Our telephone number is (408) 957-8500 and our internet address is *www.solectron.com*. The information contained or incorporated in our website is not a part of, or incorporated into, this remarketing prospectus supplement or the accompanying prospectus supplement or prospectus and should not be relied upon in making a decision of whether or not to invest in the debentures.

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Summary of the Remarketing

Issuer	Solectron Corporation
Securities	$64,269,950 million aggregate principal amount of subordinated debentures due November 15, 2006, remarketed on behalf of holders of Equity Security Units for which the debentures serve as collateral and any holders of debentures held separately from the Equity Security Units who elect to participate in the remarketing.
Maturity	The debentures will mature on November 15, 2006.
Issue Price	101.98%, representing 100.5% of the Treasury portfolio purchase price, as required by the terms of the debentures and the Equity Security Units. The Treasury portfolio was determined on August 16, 2004 and will consist of: principal strips of U.S. Treasury securities that will pay on or prior to November 15, 2004, an amount of cash equal to $25, the principal amount of a debenture, for each debenture which is included in an Equity Security Unit and which is participating in the remarketing, and principal strips of U.S. Treasury securities that will pay on or prior to November 15, 2004, an amount of cash equal to the aggregate interest, at the annual rate of 7.25%, that is scheduled to be paid on November 15, 2004, on each debenture which is included in an Equity Security Unit and which is participating in the remarketing.
Interest Rate	The debentures will bear interest at the reset rate of 7.97% per annum, payable quarterly, which was determined on August 16, 2004. Interest on the debentures will accrue at the reset rate from and including August 15, 2004.
Interest Payment Dates	February 15, May 15, August 15 and November 15 of each year. The first interest payment on the remarketed debentures will be made on November 15, 2004.
Tax Event Redemption	If a tax event occurs and is continuing, we may, at our option, redeem the debentures in whole, but not in part, on not less than 30 days nor more than 60 days prior written notice at the redemption price described under Description of the Remarketed Debentures Tax Event Redemption in this remarketing prospectus supplement.
Use of Proceeds	We will not receive any of the proceeds from this remarketing. Proceeds will be used as follows: to purchase a Treasury portfolio that will be delivered to holders of the Equity Security Units to (1) provide the consideration to fulfill stock purchase contracts on November 15, 2004 and (2) pay an amount of cash equal to the aggregate quarterly interest payment due on November 15, 2004, on each debenture which is included in an Equity Security Unit and which is participating in the remarketing. Additional details regarding the Treasury portfolio can be found in the prospectus supplement relating to the issuance of the Equity Security Units;

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	to pay the holders of separate debentures the full Treasury portfolio purchase price for their debentures;
	to pay to the remarketing agent a remarketing fee of 0.50% of the total proceeds from the remarketing; and
	any remaining proceeds will be remitted to the holders of the separate debentures and the Equity Security Units participating in the remarketing, on a pro rata basis.
Ranking	The debentures are our general, unsecured obligations and are subordinated in right of payment to all of our existing and future senior debt. As of May 28, 2004, Solectron Corporation had approximately $1.2 billion of senior debt outstanding.
	In addition, the debentures are structurally subordinated to any indebtedness of our subsidiaries to the extent of the assets of those subsidiaries. As of May 28, 2004, the aggregate amount of liabilities of our subsidiaries, principally trade payables, was approximately $2.4 billion (excluding intercompany liabilities). See Description of the Remarketed Debentures Ranking in this remarketing prospectus supplement.
Covenants	The indenture governing the debentures does not generally contain financial or operating covenants or restrictions, such as limitations on the payments of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by us or any of our subsidiaries, or otherwise. The indenture contains no covenants or other provisions to afford protection to holders of the debentures in the event we are involved in a highly leveraged transaction or other similar transaction that may adversely affect those holders.
Trustee, Registrar and Paying Agent	U.S. Bank National Association
Governing Law	State of New York
Listing	The debentures are not, and are not expected to be, listed on any national securities exchange or included in any automated quotation system.

Risk Factors

You should read the Risk Factors section, beginning on page RS-8 of this remarketing prospectus supplement, as well as other cautionary statements throughout the entire remarketing prospectus supplement and the accompanying prospectus supplement and prospectus and the documents incorporated by reference in those documents, so that you understand the risks associated with an investment in the debentures.

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RISK FACTORS

In considering whether you should purchase any of the debentures, you should carefully consider all of the information we have included or incorporated by reference in this remarketing prospectus supplement and the accompanying prospectus supplement and prospectus. In particular, you should carefully consider the risk factors described below, which supersede the risk factors described in the accompanying prospectus supplement and prospectus, and described in the documents incorporated by reference prior to the date of the remarketing prospectus supplement.

Risks Related to the Debentures

The debentures generally do not contain restrictive covenants. We could enter into various transactions that could increase the amount of our outstanding debt, or adversely affect our capital structure or credit ratings, or otherwise adversely affect holders of the debentures.

The indenture governing the debentures does not generally contain financial or operating covenants or restrictions, such as limitations on the payments of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by us or any of our subsidiaries, or otherwise. The terms of the debentures do not prevent us from entering into a variety of acquisition, change of control, refinancing, recapitalization or other highly leveraged transactions. As a result, those terms do not prevent us from entering into transactions that would increase the total amount of our outstanding indebtedness, adversely affect our capital structure or credit ratings or otherwise adversely affect the holders of the debentures.

Our substantial debt could adversely affect our cash flow and prevent us from fulfilling our obligations.

We have, and will continue to have after the remarketing of the debentures, significant amounts of outstanding indebtedness and interest cost. Our level of indebtedness presents risks to investors, including the possibility that we may be unable to generate cash sufficient to pay the principal of and interest on the indebtedness when due. As of May 28, 2004, Solectron Corporation had senior debt of approximately $1.2 billion, the aggregate amount of liabilities of our subsidiaries, principally trade payables, was approximately $2.4 billion (excluding intercompany liabilities), and we had a debt-to-capital ratio of ..345 to 1.

The indenture governing the debentures does not contain any covenant restricting our ability to incur new indebtedness. If new debt is added to our and our subsidiaries current debt levels, the related risks that we and they now face could intensify.

Your right to receive payments on the debentures is subordinated to the rights of our existing and future unsubordinated creditors and our subsidiaries obligations.

The debentures are unsecured and subordinated in right of payment to all of our existing and future unsubordinated indebtedness and structurally subordinated to all indebtedness and other liabilities and commitments (including trade payables and lease obligations) of our subsidiaries. In the event of a bankruptcy, liquidation, dissolution, reorganization or similar proceeding of our company, our assets will be available to satisfy obligations of our unsubordinated debt before any payment may be made on the debentures. In such an event, we may not have sufficient assets remaining to pay amounts on any or all of the debentures. Our right to receive assets of any of our subsidiaries upon the subsidiary s liquidation or reorganization (and the consequent right of the holders of the debentures to participate in those assets) will be structurally subordinated to all liabilities, including trade payables and lease obligations, of any of our subsidiaries and any subsidiaries that we may in the future acquire or establish. As of May 28, 2004, our subsidiaries had approximately $2.4 billion of liabilities, principally trade payables, outstanding (excluding intercompany liabilities).

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Our holding company structure makes us dependent on cash flow from our subsidiaries to meet our obligations.

Most of our operations are conducted through, and most of our assets are held by, our subsidiaries and therefore, we are dependent on the cash flow of our subsidiaries to meet our debt obligations, including our obligations under the debentures. Our subsidiaries are separate legal entities that will have no obligation to pay any amounts due under the debentures or to make any funds available for that purpose, whether by dividends, loans or other payments. The ability of our subsidiaries to pay dividends or otherwise transfer assets to us is subject to various restrictions, including restrictions under applicable law.

Our subsidiaries will not guarantee the payment of the debentures. Except to the extent we may ourself be a creditor with recognized claims against our subsidiaries, all claims of creditors and holders of preferred stock, if any, of the subsidiaries will have priority with respect to the assets of such subsidiaries over the claims of our creditors, including holders of the debentures.

An active trading market for the debentures may not develop.

There is currently no public market for the debentures held separately from the Equity Security Units and we do not plan to list the debentures on any national securities exchange. In addition, the liquidity of any trading market in the debentures, and the market price quoted for the debentures, may be adversely affected by changes in the overall market for these securities and by changes in our financial performance or prospects. A liquid trading market in the debentures may not develop. A security with a small float, such as the debentures, may command a lower price and trade with greater volatility or much less frequently than would a comparable security with a greater float.

We may redeem the debentures upon the occurrence of a tax event.

We have the option to redeem the debentures, on not less than 30 days nor more than 60 days prior written notice, in whole but not in part, at any time prior to maturity if a tax event occurs and continues under the circumstances described in this remarketing prospectus supplement. If we exercise this option, we will redeem the debentures at the redemption price plus any accrued and unpaid interest. If we redeem the debentures, we will pay the specified redemption price in cash to the holders of the debentures. A tax event redemption would be a taxable event to the holders of debentures.

Uncertainties with respect to the proper application of the contingent payment debt regulations may affect the timing and character of income, gain or loss realized by holders of the debentures.

Because of the manner in which the interest rate on the debentures is reset, we have treated and will continue to treat the debentures as indebtedness subject to the Treasury regulations governing contingent payment debt instruments, which we refer to as the contingent payment debt regulations. Under the contingent payment debt regulations, regardless of your method of accounting for U.S. federal income taxes, you generally are required to accrue interest income on the debentures on a constant yield basis at an assumed yield that was determined at the time of issuance of the debentures. Assuming that you report your income in a manner consistent with our discussion in the section of this remarketing prospectus supplement entitled Certain United States Federal Income Tax Consequences, the amount of income that you will recognize for U.S. federal income tax purposes in respect of the debentures should correspond approximately to the economic accrual of income to you and the amount of income you would have recognized on an accrual basis for U.S. federal income tax purposes if the debentures were not subject to the contingent payment debt regulations. However, the proper application of the contingent payment debt regulations to the debentures following the remarketing is uncertain in a number of respects, and no assurance can be given that the Internal Revenue Service, which we refer to as the IRS, will not successfully assert a different treatment of the debentures that could affect the timing and character of income, gain or loss with respect to an investment in the debentures.

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Risks Related to Our Business

Most of our net sales come from a small number of customers; if we lose any of these customers, our net sales could decline significantly.

Most of our annual net sales come from a small number of our customers. Our ten largest customers accounted for approximately 60.7% and 61.7% of net sales from continuing operations in the third quarters of fiscal 2004 and 2003, respectively. Some of these customers individually account for more than ten percent of our annual net sales. Any material delay, cancellation or reduction of orders from these or other major customers could cause our net sales to decline significantly, and we may not be able to reduce the accompanying expenses at the same time. We cannot guarantee that we will be able to retain any of our largest customers or any other accounts, or that we will be able to realize the expected revenues under existing or anticipated supply agreements with these customers. Our business, market share, financial condition and results of operations will continue to depend significantly on our ability to obtain orders from new customers, retain existing customers, realize expected revenues under existing and anticipated supply agreements, as well as on the financial condition and success of our customers and their customers.

Net sales may not improve, and could decline, in future periods if there is continued or resumed weakness in customer demand, particularly in the telecommunications and computing sectors, resulting from worldwide economic conditions. In addition, in connection with our efforts to improve our gross margins, we are engaged in pricing discussions with certain current customers on specific programs where we feel we are presently under-compensated for the services and value that we provide. Where we are not able to reach mutual agreement with a customer on price adjustments, we have mutually agreed with the customer to transition the business in question to a new supplier. While we believe our disengagement from specific programs with certain customers will ultimately advance our efforts to return to sustained profitability, there can be no assurance that such disengagements will not result in a loss of significant revenue, a lowering of our capacity utilization at affected sites, and other adverse financial effects.

Our customers may cancel their orders, change production quantities or locations, or delay production.

To remain competitive, EMS companies must provide increasingly rapid product turnaround, at increasingly competitive prices, for their customers. We generally do not have long-term contractual commitments from our top customers. As a result, we cannot guarantee that we will continue to receive any net sales from our customers. Customers may cancel their orders, change production quantities or delay production for a number of reasons outside of our control. Many of our customers industries have recently experienced a significant decrease in demand for their products and services, as well as substantial price competition. The generally uncertain economic condition of several of our customers industries has resulted, and may continue to result, in some of our customers delaying purchases on some of the products we manufacture for them, and placing purchase orders for lower volumes of products than previously anticipated. Cancellations, reductions or delays by a significant customer or by a group of customers would seriously harm our results of operations by reducing the volumes of products manufactured by us for the customers and delivered in that period. Furthermore, delays in the repayment of our expenditures for inventory in preparation for customer orders and lower asset utilization in those periods would result in lower gross margins. In addition, customers may require that manufacturing of their products be transitioned from one facility to another to achieve cost and other objectives. Such transfers, if unanticipated or not properly executed, could result in various inefficiencies and costs, including excess capacity and overhead at one facility and capacity constraints and related strains on our resources at the other, disruption and delays in product deliveries and sales, deterioration in product quality and customer satisfaction, and increased manufacturing and scrap costs.

We may not be able to sell excess or obsolete inventory to customers or third parties, which could have a material adverse impact on our financial condition.

The majority of our inventory purchases and commitments are based upon demand forecasts that our customers provide to us. The customers forecasts, and any changes to the forecasts, including cancellations, may lead to on-hand inventory quantities and on-order purchase commitments that are in excess of the customers revised needs, or that become obsolete.

We generally enter into supply agreements with our significant customers. Under these supply agreements, the extent of our customer s responsibility for excess or obsolete inventory related to raw materials that were previously purchased or ordered to meet that customer s demand forecast is defined. If our customers do not comply with their contractual obligations to purchase excess or obsolete inventory back from us and we are unable to use or sell such inventory, our financial condition could be materially harmed.

Some of our customers are in the telecommunications industry, an industry that in recent years has experienced declining revenue, large losses, negative cash flows, and several bankruptcies or defaults on borrowing arrangements. In the past, some of our customers have defaulted on their obligations to purchase inventory back from us. There is a risk that, in the future, these or other customers may not purchase inventory back from us despite contractual obligations, which could harm our financial condition if we are unable to sell the inventory at carrying value. In addition, enforcement of these supply agreements may result in material expenses, delays in payment for inventory and/or disruptions in our customer relationships.

We are responsible for excess and obsolete inventory resulting from inventory purchases in excess of inventory needed to meet customer demand forecasts at the time the purchase commitments were made, as well as any inventory purchases not made pursuant to the customer s responsibility under our supply agreements. For inventory which is not the customer s responsibility, provisions are made when required to reduce any such excess or obsolete inventory to its estimated net realizable value, based on the quantity of such inventory on hand, our customers latest forecasts of production requirements, and our assessment of available disposition alternatives such as use of components on other programs, the ability and cost to return components to the vendor, and our estimates of resale values and opportunities. These assessments are necessarily based upon various assumptions and market conditions which are subject to rapid change, and/or which may ultimately prove to be inaccurate. Any material changes in our assumptions or market conditions could have a significant effect on our estimates of net realizable value, could necessitate material changes in our allowances for excess and obsolete inventory, and could have a material adverse impact on our financial condition. In addition, in the normal course of business, bona fide disagreements may arise over the amount and/or timing of such claims, and in order to avoid litigation expenses, collection risks, or disruption of customer relationships, we may elect to settle such disputes for lesser amounts than we believe we should be entitled to recover. In these instances, we must bear the economic loss of any such excess or obsolete inventory, which could have a material adverse impact on our financial condition. For example, we recorded a charge of $76 million related to excess and obsolete inventory during the second quarter of fiscal 2003, and there can be no assurance that similar charges at lesser or greater levels will not be necessary in future periods.

We could be adversely affected by an unfavorable outcome in certain existing lawsuits related to our obsolete inventory recognition in which we are defendants.

We are currently defendants in certain existing lawsuits including purported lawsuits that allege securities law violations related to our obsolete inventory recognition, including the Northern District of California securities class action litigation entitled *In re Solectron Corp. Securities Litigation*, Case No. C-03-0986 CRB (originally filed in March 2003 as *Abrams v. Solectron Corp., et. al.*), and the consolidated shareholder derivative lawsuits entitled *Lifshitz v. Cannon et. al.*, Case No. CV815693, filed in the Santa Clara County, California Superior Court in March 2003. We believe the plaintiff s allegations in the litigations are without merit, and we have been defending ourselves and our officers and directors vigorously against these and other lawsuits in which we are engaged. However, there can be no assurance that the outcome of any of these lawsuits will be favorable to us and, if the outcome is unfavorable to us, they may have a material adverse effect on our business, financial condition and results of operations. In April 2004, we and the insurer resolved, under terms not material to us, the lawsuit entitled *Ronald Sorisho v. Solectron Corporation, et. al.*, Santa Clara California Case No. CV811243, which previously had been disclosed in our SEC filings.

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Our non-U.S. locations represent a significant portion of our net sales; we are exposed to risks associated with operating internationally.

Approximately 73.5% and 65.6% of our net sales from continuing operations came from sites outside the United States during the third quarters of fiscal 2004 and 2003, respectively. As a result of our foreign sales and facilities, our operations are subject to a variety of risks and costs that are unique to international operations, including the following:

- adverse movement of foreign currencies against the U.S. dollar in which our results are reported;
- import and export duties, and value added taxes;
- import and export regulation changes that could erode our profit margins or restrict exports and/or imports;
- potential restrictions on the transfer of funds;
- government and license requirements governing the transfer of technology and products abroad;
- disruption of local labor supply and/or transportation services;
- inflexible employee contracts in the event of business downturns;
- the burden and cost of compliance with import and export regulations and foreign laws;
- economic and political risks in emerging or developing economies; and
- risks of conflict and terrorism that could disrupt our or our customers and suppliers businesses.

We have been granted tax holidays, which are effective through 2011 subject to some conditions, for our Malaysian and Singapore sites. We have also been granted various tax holidays in China. These tax holidays are effective for various terms and are subject to some conditions. It is possible that the current tax holidays will be terminated or modified or that future tax holidays that we may seek will not be granted. If the current tax holidays are terminated or modified, or if additional tax holidays are not granted in the future or when our current tax holidays expire, our future effective income tax rate could increase.

We are exposed to general economic conditions, which could have a material adverse impact on our business, operating results and financial condition.

As a result of the recent economic downturn in the U.S. and internationally, and reduced capital spending as well as end-market demand, our customers and therefore our sales have declined significantly from prior years. In particular, we depend on the telecommunications and computing industries, where the decline began in the second quarter of fiscal 2001. If there were to be continued or resumed weakness in these industries or any further deterioration in the business or financial condition of our customers, it could have a material adverse impact on our business, operating results and financial condition. In addition, if the economic conditions in the United States and the other markets we serve worsen, we may experience a material adverse impact on our business, operating results and financial condition.

Possible fluctuation of operating results from quarter to quarter and factors out of our control could affect the market price of our securities.

Our quarterly earnings and/or stock price may fluctuate in the future due to a number of factors including the following:

- differences in the profitability of the types of manufacturing services we provide. For example, high velocity and low complexity printed circuit boards and systems assembly services have lower gross margins than low volume/complex printed circuit boards and systems assembly services;
- our ability to maximize the hours of use of our equipment and facilities is dependent on the duration of the production run time for each job and customer;

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- the amount of automation that we can use in the manufacturing process for cost reduction varies, depending upon the complexity of the product being made;
- our customers demand for our products and their ability to take delivery of our products and to make timely payments for delivered products;
- our ability to optimize the ordering of inventory as to timing and amount to avoid holding inventory in excess of immediate production needs;
- our ability to offer technologically advanced, cost-effective, quick response, manufacturing services;
- fluctuations in the availability and pricing of components;
- timing of expenditures in anticipation of increased sales;
- cyclicality in our target markets;
- fluctuations in our market share;
- expenses and disruptions associated with acquisitions and divestitures;
- announcements of operating results and business conditions by our customers;
- announcements by our competitors relating to new customers or technological innovation or new services;
- economic developments in the electronics industry as a whole;
- credit rating and stock analyst downgrades;
- political and economic developments in countries in which we have operations; and
- general market conditions.

If our operating results in the future are below the expectations of securities analysts and investors, the market price of our outstanding securities could be harmed.

We may not be able to meet our cash requirements because of a number of factors, many of which are beyond our control.

Our ability to meet our cash requirements (including our debt service obligations) is dependent upon our future performance, which will be subject to financial, business and other factors affecting our operations, many of which are beyond our control. If we are unable to meet our cash requirements from operations, we would be required to fund these cash requirements by alternative financings. The degree to which we may be leveraged could materially and adversely affect our ability to obtain financing for working capital, acquisitions or other purposes, could make us more vulnerable to industry downturns and competitive pressures, or could limit our flexibility in planning for, or reacting to, changes and opportunities in the electronics manufacturing industry, which may place us at a competitive disadvantage. There can be no assurance that we will be able to obtain alternative financing, that any such financing would be on acceptable terms, or that we would be permitted to do so under the terms of our existing financing arrangements. In the absence of such financing, our ability to respond to changing business and economic conditions, make future acquisitions, react to adverse operating results, meet our debt service obligations or fund required capital expenditures or increased working capital requirements may be adversely affected.

If we incur more restructuring-related charges than currently anticipated, our financial condition and results of operations may suffer.

In furtherance of the continued implementation of the series of restructuring plans which we commenced in fiscal 2001, we expect to continue to incur restructuring-related charges in fiscal 2004, primarily to consolidate facilities and reduce our workforce in North America and Europe, although no certainty can be attributed to an amount or the timing of its recognition. We will continue to evaluate our cost structure

relative to our revenue levels and may take additional restructuring charges in the future. If our estimates about future restructuring charges prove to be inadequate, our financial condition and results of operations may suffer. In addition, if we are unable to successfully move production from higher cost to lower cost facilities without experiencing degradation of quality or timeliness of our service to our customers, our business could be harmed.

We depend on limited or sole source suppliers for critical components. The inability to obtain sufficient components as required, and under favorable purchase terms, would cause harm to our business.

We are dependent on certain suppliers, including limited and sole source suppliers, to provide key components used in our products. We have experienced, and may continue to experience, delays in component deliveries, which in turn could cause delays in product shipments and require the redesign of certain products. In addition, if we are unable to procure necessary components under favorable purchase terms, including at favorable prices and with the order lead-times needed for the efficient and profitable operation of our factories, our results of operations could suffer. The electronics industry has experienced in the past, and may experience in the future, shortages in semiconductor devices, including application-specific integrated circuits, DRAM, SRAM, flash memory, certain passive devices such as tantalum capacitors, and other commodities that may be caused by such conditions as overall market demand surges or supplier production capacity constraints. The inability to continue to obtain sufficient components as and when required, or to develop alternative sources as and when required, could cause delays, disruptions or reductions in product shipments or require product redesigns which could damage relationships with current or prospective customers, and increase inventory levels and costs, thereby causing harm to our business.

We potentially bear the risk of price increases associated with shortages in electronics components.

At various times, there have been shortages of components in the electronics industry leading to increased component prices. One of the services that we perform for many customers is purchasing electronics components used in the manufacturing of the customers products. As a result of this service, we potentially bear the risk of price increases for these components if we are unable to purchase components at the pricing level anticipated to support the margins assumed in our agreements with our customers.

Our net sales could decline if our competitors provide comparable manufacturing services and improved products at a lower cost.

We compete with different contract manufacturers, depending on the type of service we provide or the geographic locale of our operations, in an industry which is intensely competitive. These competitors may have greater manufacturing, financial, R&D and/or marketing resources than we have. In addition, we may not be able to offer prices as low as some of our competitors because those competitors may have lower cost structures as a result of their geographic location or the services they provide, or because such competitors are willing to accept business at lower margins in order to utilize more of their excess capacity. In that event, our net sales could decline. We also expect our competitors to continue to improve the performance of their current products or services, to reduce their current products or service sales prices and to introduce new products or services that may offer greater value-added performance and improved pricing. Any of these could cause a decline in sales, loss of market acceptance of our products or services and corresponding loss of market share, or profit margin compression.

We depend on the continuing trend of OEMs to outsource.

A substantial factor in our past revenue growth was attributable to the transfer of manufacturing and supply-based management activities from our OEM customers. Future growth is partially dependent on new outsourcing opportunities. To the extent that these opportunities are not available, our future growth would be unfavorably impacted.

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The agreements governing our existing and future debt contain and will contain various covenants that limit our discretion in the operation of our business.

The agreements and instruments governing our existing and future debt and our secured credit facility contain and will contain various restrictive covenants that, among other things, require us to comply with or maintain certain financial tests and ratios and restrict our ability to:

- incur debt;
- incur or maintain liens;
- redeem and/or prepay debt;
- make acquisitions of businesses or entities;
- make investments, including loans, guarantees and advances;
- make capital expenditures;
- engage in mergers, consolidations or certain sales of assets;
- engage in transactions with affiliates;
- pay dividends or engage in stock redemptions; and
- enter into certain restrictive agreements.

Our secured credit facility is secured by a pledge of all of the capital stock of our material domestic subsidiaries, 65% of the capital stock of certain of our material foreign subsidiaries, certain of our intercompany loans and certain additional assets, including inventory, accounts receivable and equipment of us and our domestic subsidiaries. The covenants governing our secured credit facility also restrict the operations of certain of our subsidiaries, including, in some cases, limiting the ability of our subsidiaries to make distributions to us.

Our ability to comply with covenants contained in our secured credit facility and other indebtedness 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 failure to comply with our debt-related obligations could result in an event of default which, if not cured or waived, could result in an acceleration of our indebtedness and cross-defaults under our other indebtedness, which could have a material adverse effect on our financial condition. We obtained amendments related to the minimum cash interest coverage ratio covenants applicable to various debt and lease agreements, and as a result of such waivers, we were in compliance with all applicable covenants as of May 28, 2004.

Even if we are able to comply with all applicable covenants, the restrictions on our ability to operate our business in our sole discretion could harm our business by, among other things, limiting our ability to take advantage of financings, mergers, acquisitions and other corporate opportunities.

Our strategic relationships with major customers create risks.

In the past several years, we completed several strategic transactions with OEM customers. Under these arrangements, we generally acquired inventory, equipment and other assets from the OEM, and leased (or in some cases acquired) their manufacturing facilities, while simultaneously entering into multi-year supply agreements for the production of their products. There has been strong competition among EMS companies for these transactions, and this competition may continue to be a factor in customers selection of their EMS providers. These transactions contributed to a significant portion of our past revenue growth, as well as to a significant portion of our more recent restructuring charges and goodwill and intangible asset impairments. While we do not anticipate our acquisitions of OEM plants and equipment in the near future to return to the levels at which they occurred in the recent past, there may be occasions on which we determine it to be advantageous to complete acquisitions in selected geographic and/or industry markets. As part of such arrangements, we would typically enter into supply agreements with the divesting OEMs, but such agreements

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generally do not require any minimum volumes of purchases by the OEM and the actual volume of purchases may be less than anticipated. Arrangements which may be entered into with divesting OEMs typically would involve many risks, including the following:

- we may pay a purchase price to the divesting OEMs that exceeds the value we are ultimately able to realize from the future business of the OEM;
- the integration into our business of the acquired assets and facilities may be time-consuming and costly;
- we, rather than the divesting OEM, would bear the risk of excess capacity;
- we may not achieve anticipated cost reductions and efficiencies;
- we may be unable to meet the expectations of the OEM as to volume, product quality, timeliness and cost reductions; and
- if demand for the OEM s products declines, the OEM may reduce its volume of purchases, and we may not be able to sufficiently reduce the expenses of operating the facility or use the facility to provide services to other OEMs, and we might find it appropriate to close, rather than continue to operate, the facility, and any such actions would require us to incur significant restructuring and/or impairment charges.

As a result of these and other risks, we may be unable to achieve anticipated levels of profitability under such arrangements and they may not result in material revenues or contribute positively to our earnings. Additionally, other OEMs may not wish to obtain logistics or operations management services from us.

If we are unable to manage our divestitures and any future acquisitions, and cost-effectively run our operations and dispose of non-strategic assets, our profitability could be adversely affected.

While we may consider future acquisitions of companies and strategic assets on a selective basis, subject to compliance with any restrictions that may exist under certain of our financing instruments, we are presently focused on divestiture activity. We are in the process of divesting certain parts of our current operations that we do not believe to be strategic or synergistic to our primary business focus, and we believe such divestitures, if successfully and timely completed at the presently anticipated valuations and without undue disruption of operations, present us with the opportunity to improve our liquidity and reduce our interest and operating expenses.

In order to achieve anticipated revenue and other financial performance targets, we must continue to manage our assets and operations efficiently while simultaneously preparing parts of our operations for divestiture. Our divestiture activities are expected to place a heavy strain on various personnel and management resources, and must be carefully managed in order to avoid or minimize disruptions in the business operations of the affected businesses, customer relations and cash flows, and to enable us to maximize the value which we may be able to realize from the divestitures. There can be no assurance that such divestiture activities will be able to be consummated without an adverse impact on the near-term operations of the affected businesses or on Solectron as a whole. Any failure to successfully manage and consummate the divestitures in a timely manner could harm our financial condition and results of operations, as well as adversely impact the realizable value of the divested operations. In addition, there can be no assurance that we will be successful in realizing the presently anticipated benefits from our divestiture activities, as such transactions involve significant risks and uncertainties with respect to valuation of the entities to be divested, particularly given the potential disruption of operations inherent in the divestiture process, and may result in significant costs, expenses and charges that may significantly reduce the value which we may realize in connection with the anticipated divestiture transactions. In the event we fail to consummate a divestiture, we may need to incur restructuring charges.

Our ability to manage and integrate any future acquisitions will require successful integration of such acquisitions into our manufacturing and logistics infrastructure, and may require enhancements or upgrades of accounting and other internal management systems and the implementation of a variety of procedures and

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controls. We cannot guarantee that significant problems in these areas will not occur. Any failure to enhance or expand these systems and implement such procedures and controls in an efficient manner and at a pace consistent with our business activities could harm our financial condition and results of operations. In addition, we may experience inefficiencies from the management of geographically dispersed facilities and incur substantial infrastructure and working capital costs. We incurred approximately $5.5 million and $603.2 million of restructuring and impairment costs relating to continuing operations in the third quarter of fiscal 2004 and the fiscal year ended August 31, 2003, respectively. See also the Risk Factor entitled If we incur more restructuring-related charges than currently anticipated, our financial condition and results of operations may suffer.

Notwithstanding our divestiture of certain businesses, we will remain subject to certain indemnification obligations for a period of time after completion of the divestitures.

The sale agreement for each of our divested businesses contains indemnification provisions under which we may be required to indemnify the buyer of the divested business for liabilities, losses, or expenses arising out of breaches of covenants and certain breaches of representations and warranties relating to the condition of the business prior to and at the time of sale. While we believe, based upon the facts presently known to us, that we have made adequate provision for any such potential indemnification obligations, it is possible that other facts may become known in the future which may subject us to claims for additional liabilities or expenses beyond those presently anticipated and provided for. Should any such unexpected liabilities or expenses be of a material amount, our finances could be adversely affected.

We are exposed to fluctuations in foreign currency exchange rates.

We have currency exposure arising from both sales and purchases denominated in currencies other than the functional currency of our sites. Fluctuations in the rate of exchange between the currency of the exposure and the functional currency of our sites could seriously harm our business, operating results and financial condition. For example, if there is an increase in the rate at which a foreign currency is exchanged for U.S. dollars, it will require more of the foreign currency to equal a specified amount of U.S. dollars than before the rate increase. In such cases, and if we price our products and services in the foreign currency, we will receive less in U.S. dollars than we did before the rate increase went into effect. If we price our products and services in U.S. dollars and competitors price their products in local currency, an increase in the relative strength of the U.S. dollar could result in our prices being uncompetitive in markets where business is transacted in the local currency.

We enter into foreign exchange forward contracts intended to reduce the short-term impact of foreign currency fluctuations on foreign currency cash, receivables, investments and payables. The gains and losses on the foreign exchange forward contracts are intended to offset the transaction gains and losses on the foreign currency cash, receivables, investments, and payables recognized in earnings. We do not enter into foreign exchange forward contracts for speculative purposes. Our foreign exchange forward contracts related to current assets and liabilities are generally three months or less in original maturity.

As of May 28, 2004, we had outstanding foreign exchange forward contracts with a total notional amount of approximately $585.4 million related to continuing operations. The change in value of the foreign exchange forward contracts resulting from a hypothetical 10% change in foreign exchange rates would be offset by the remeasurement of the related balance sheet items, the result of which would not be significant.

As of May 28, 2004, the majority of our foreign currency hedging contracts were scheduled to mature in approximately three months and there were no material deferred gains or losses. In addition, our international operations in some instances act as a natural hedge because both operating expenses and a portion of sales are denominated in local currency. In these instances, although an unfavorable change in the exchange rate of a foreign currency against the U.S. dollar will result in lower sales when translated to U.S. dollars, operating expenses will also be lower in these circumstances. Although approximately 29.1% of our net sales from continuing operations in the third quarter of fiscal 2004 were denominated in currencies other than the U.S. dollar, we do not believe our total exposure to be significant because of natural hedges.

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We are exposed to interest rate fluctuations.

The primary objective of our investment activities is to preserve principal, while at the same time maximize yields without significantly increasing risk. To achieve this objective, we maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including government and corporate obligations, certificates of deposit and money market funds. As of May 28, 2004, substantially our entire portfolio was scheduled to mature in less than three months. A hypothetical 10% change in interest rates would not have a material effect on the fair value of our investment portfolios.

As of May 28, 2004, we had no cash equivalents and short-term investments that were subject to interest rate risk (defined as risk of loss of investment fair value due to interest rate movements). The fair value of our cash equivalents and short-term investments approximated the carrying value as of May 28, 2004.

Interest on long-term debt instruments is payable at fixed rates. In addition, the amount of principal to be repaid at maturity is also fixed. During the third quarter of fiscal 2002, we entered into an interest rate swap transaction under which we pay variable rates and we receive fixed rates. The interest swap effectively converted $500 million of our long-term debt with fixed interest rates into debt with variable rates of interest. Our interest rate swap, which expires on February 15, 2009, has a total notional amount of $500 million and relates to our 9.625% $500 million senior notes. Under this swap transaction we pay an interest rate equal to the 3-month LIBOR rate plus a fixed spread. In exchange, we receive fixed interest rates of 9.625%. On November 15, 2002, the original swaps related to the senior notes were settled. This settlement resulted in cash received and a gain of approximately $26 million, which is being amortized over the remaining life of the senior notes. Also on November 15, 2002, Solectron entered into swaps with terms similar to the original swap transactions used to hedge the interest paid on the senior notes and designated the swaps as fair value hedges under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. In addition, we may enter into swaps or other hedging arrangements which would have the effect of increasing our exposure to interest rate fluctuations.

Failure to attract and retain key personnel and skilled associates could hurt our operations.

Our continued success depends to a large extent upon the efforts and abilities of key managerial and technical associates. Losing the services of key personnel could harm us. Our business also depends upon our ability to continue to attract key executives and retain senior managers and skilled associates. Failure to do so could harm our business.

Failure to comply with environmental regulations could harm our business.

As a company in the electronics manufacturing services industry, we are subject to a variety of environmental regulations, including those relating to the use, storage, discharge and disposal of hazardous chemicals used during our manufacturing process as well as air quality and water quality regulations, restrictions on water use, and storm water regulations. Although we have never sustained any significant loss as a result of non-compliance with such regulations, any failure by us to comply with environmental laws and regulations could result in liabilities or the suspension of production. In addition, these laws and regulations could restrict our ability to expand our facilities or require us to acquire costly equipment or incur other significant costs to comply with regulations.

We own and lease some contaminated sites (for some of which we have been indemnified by third parties for required remediation), sites for which there is a risk of the presence of contamination, and sites with some levels of contamination for which we may be liable and which may or may not ultimately require any remediation. We have obtained environmental insurance to reduce potential environmental liability exposures posed by some of our operations and facilities. We believe, based on our current knowledge, that the cost of any groundwater or soil clean up that may be required at our facilities would not materially harm our business, financial condition and results of operations. Nevertheless, the process of remediating contamination in soil and groundwater at facilities is costly and cannot be estimated with high levels of confidence, and there can be no assurance that the costs of such activities would not harm our business, financial condition and results of operations in the future.

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We may not be able to adequately protect or enforce our intellectual property rights and could become involved in intellectual property disputes.

Our ability to compete effectively may be affected by our ability to protect our proprietary information. We (including companies included in discontinued operations) hold a number of patents and possess various other trade secrets and license rights. These patents, trade secrets, and license rights may not provide meaningful protection for our manufacturing processes and equipment innovations, which could result in litigation. Any resulting litigation could be lengthy and costly and could harm our financial condition.

In the past we have been and may from time to time continue to be, notified of claims that we may be infringing patents, copyrights or other intellectual property rights owned by other parties. In the event of an infringement claim, we may be required to spend a significant amount of money to develop a non-infringing alternative, to obtain licenses, and/or to defend against the claim. We may not be successful in developing such an alternative or obtaining a license on reasonable terms, if at all. Any litigation, even where an infringement claim is without merit, could result in substantial costs and diversion of resources. Accordingly, the resolution or adjudication of intellectual property disputes could have a material adverse effect on our business, financial condition and results of operations.

Our rating downgrades make it more expensive for us to borrow money and could adversely effect the price of the debentures.

On October 28, 2003 Standard and Poor s downgraded our senior unsecured debt rating to B+ with a stable outlook. On October 31, 2003 Moody s downgraded our senior unsecured debt rating to B1 with a stable outlook. Rating downgrades increase our cost of capital should we borrow under our revolving line of credit, and may make it more expensive for us to raise additional capital in the future. Such capital raising activities may be on terms that may not be acceptable to us or may otherwise not be available. A further negative change in our ratings could have an adverse effect on the price of the debentures.