

PLEXUS CORP
Form 10-Q
February 04, 2010

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(X) Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended January 2, 2010

or

() Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number 001-14423

PLEXUS CORP.

(Exact name of registrant as specified in charter)

Wisconsin 39-1344447
(State of Incorporation) (IRS Employer Identification No.)
55 Jewelers Park Drive
Neenah, Wisconsin 54957-0156
(Address of principal executive offices)(Zip Code)
Telephone Number (920) 722-3451
(Registrant's telephone number, including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of January 29, 2010, there were 39,774,212 shares of Common Stock of the Company outstanding.

PLEXUS CORP.
TABLE OF CONTENTS
January 2, 2010

<u>PART I. FINANCIAL INFORMATION</u>	3
<u>ITEM 1. FINANCIAL STATEMENTS</u>	3
<u>Condensed Consolidated Statements of Operations and Comprehensive Income</u>	3
<u>Condensed Consolidated Balance Sheets</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	18
<u>Safe Harbor Cautionary Statement</u>	18
<u>Overview</u>	19
<u>Executive Summary</u>	20
<u>Reportable Segments</u>	21
<u>Results of Operations</u>	22
<u>Liquidity and Capital Resources</u>	24
<u>Contractual Obligations, Commitments and Off-Balance Sheet Obligations</u>	26
<u>Disclosure About Critical Accounting Policies</u>	27
<u>New Accounting Pronouncements</u>	27
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	27
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	28
<u>PART II. OTHER INFORMATION</u>	29
<u>ITEM 1. LEGAL PROCEEDINGS</u>	29
<u>ITEM 1A. RISK FACTORS</u>	29
<u>ITEM 6. EXHIBITS</u>	29

SIGNATURES

30

EX-10.1
EX-10.2
EX-10.3
EX-10.4
EX-31.1
EX-31.2
EX-32.1
EX-32.2

2

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
PLEXUS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME
(in thousands, except per share data)
Unaudited

	Three Months Ended	
	January 2, 2010	January 3, 2009
Net sales	\$ 430,399	\$ 456,109
Cost of sales (Note 11)	385,858	409,559
Gross profit	44,541	46,550
Operating expenses:		
Selling and administrative expenses	24,319	25,269
Restructuring costs	-	550
	24,319	25,819
Operating income	20,222	20,731
Other income (expense):		
Interest expense	(2,559)	(2,930)
Interest income	456	931
Miscellaneous	(95)	198
Income before income taxes	18,024	18,930
Income tax expense	180	1,892
Net income	\$ 17,844	\$ 17,038
Earnings per share:		
Basic	\$ 0.45	\$ 0.43
Diluted	\$ 0.44	\$ 0.43
Weighted average shares outstanding:		
Basic	39,587	39,337

Edgar Filing: PLEXUS CORP - Form 10-Q

Diluted	40,252	39,472
Comprehensive income:		
Net income	\$ 17,844	\$ 17,038
Derivative instrument fair market value adjustment - net of income tax	699	(4,518)
Foreign currency translation adjustments	(255)	(4,050)
Comprehensive income	\$ 18,288	\$ 8,470

See notes to condensed consolidated financial statements.

3

Table of Contents

PLEXUS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

Unaudited

	January 2, 2010	October 3, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 233,931	\$ 258,382
Accounts receivable, net of allowances of \$1,400 and \$1,000, respectively	233,904	193,222
Inventories	372,753	322,352
Deferred income taxes	14,955	15,057
Prepaid expenses and other	10,704	9,421
Total current assets	866,247	798,434
Property, plant and equipment, net	205,843	197,469
Deferred income taxes	10,209	10,305
Other	16,692	16,464
Total assets	\$ 1,098,991	\$ 1,022,672
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	\$ 21,626	\$ 16,907
Accounts payable	290,498	233,061
Customer deposits	25,831	28,180
Accrued liabilities:		
Salaries and wages	28,371	28,169
Other	35,758	33,004
Total current liabilities	402,084	339,321
Long-term debt and capital lease obligations, net of current portion	125,908	133,936
Other liabilities	21,381	21,969
Total non-current liabilities	147,289	155,905
Commitments and contingencies (Note 12)	-	-
Shareholders' equity:	-	-

Edgar Filing: PLEXUS CORP - Form 10-Q

Preferred stock, \$.01 par value, 5,000 shares authorized, none issued or outstanding		
Common stock, \$.01 par value, 200,000 shares authorized, 47,095 and 46,994 shares issued, respectively, and 39,649 and 39,548 shares outstanding, respectively	471	470
Additional paid-in capital	370,254	366,371
Common stock held in treasury, at cost, 7,446 shares for both periods	(200,110)	(200,110)
Retained earnings	373,879	356,035
Accumulated other comprehensive income	5,124	4,680
	549,618	527,446
Total liabilities and shareholders' equity	\$ 1,098,991	\$ 1,022,672

See notes to condensed consolidated financial statements.

Table of Contents

PLEXUS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
Unaudited

	Three Months Ended	
	January 2, 2010	January 3, 2009
Cash flows from operating activities		
Net income	\$ 17,844	\$ 17,038
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	9,054	8,101
(Gain) loss on sale of property, plant and equipment	(5)	10
Deferred income taxes	(1,029)	(930)
Stock based compensation expense	1,839	2,810
Changes in assets and liabilities:		
Accounts receivable	(40,531)	26,253
Inventories	(50,253)	(7,688)
Prepaid expenses and other	(1,507)	925
Accounts payable	52,160	11,005
Customer deposits	(2,374)	2,129
Accrued liabilities and other	4,537	(10,300)
Cash flows (used in) provided by operating activities	(10,265)	49,353
Cash flows from investing activities		
Payments for property, plant and equipment	(12,315)	(23,494)
Proceeds from sales of property, plant and equipment	11	66
Cash flows used in investing activities	(12,304)	(23,428)
Cash flows from financing activities		
Payments on debt and capital lease obligations	(4,194)	(7,888)
Proceeds from exercise of stock options	1,870	480
Income tax benefit of stock option exercises	175	11
Cash flows used in financing activities	(2,149)	(7,397)
Effect of foreign currency translation on cash and cash equivalents	267	(6,107)
Net (decrease) increase in cash and cash equivalents	(24,451)	12,421

Edgar Filing: PLEXUS CORP - Form 10-Q

Cash and cash equivalents:		
Beginning of period	258,382	165,970
End of period	\$233,931	\$178,391

See notes to condensed consolidated financial statements.

5

Table of Contents

**PLEXUS CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JANUARY 2, 2010 AND JANUARY 3, 2009
UNAUDITED**

NOTE 1 BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by Plexus Corp. and its subsidiaries (Plexus or the Company) without audit and pursuant to the rules and regulations of the United States Securities and Exchange Commission (SEC). In the opinion of the Company, the condensed consolidated financial statements reflect all adjustments, which include normal recurring adjustments necessary for the fair statement of the consolidated financial position of the Company as of January 2, 2010, and the results of operations for the three months ended January 2, 2010 and January 3, 2009, and the cash flows for the same three month periods.

Certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been condensed or omitted pursuant to the SEC rules and regulations dealing with interim financial statements. However, the Company believes that the disclosures made in the condensed consolidated financial statements included herein are adequate to make the information presented not misleading. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company s 2009 Annual Report on Form 10-K.

The Company s fiscal year ends on the Saturday closest to September 30. The Company also uses a 4-4-5 weekly accounting system for the interim periods in each quarter. Each quarter therefore ends on a Saturday at the end of the 4-4-5 period. Periodically, an additional week must be added to the fiscal year to re-align with the Saturday closest to September 30. Fiscal 2009 included this additional week and the fiscal year-end was October 3, 2009. Therefore the accounting year for 2009 included 371 days. The additional week was added to the first fiscal quarter, ended January 3, 2009, which included 98 days. The accounting period for the three months ended January 2, 2010 included 91 days.

Fair Value of Financial Instruments

The Company holds financial instruments consisting of cash and cash equivalents, accounts receivable, accounts payable, debt, and capital lease obligations. The carrying value of cash and cash equivalents, accounts receivable, accounts payable and capital lease obligations as reported in the consolidated financial statements approximates fair value. Accounts receivable were reflected at net realizable value based on anticipated losses due to potentially uncollectible balances. Anticipated losses were based on management s analysis of historical losses and changes in customers credit status. The fair value of the Company s term loan debt was \$104.7 million and \$107.8 million as of January 2, 2010 and October 3, 2009, respectively. The Company uses quoted market prices when available or discounted cash flows to calculate the fair values.

Subsequent Events

In preparing the accompanying condensed consolidated financial statements, the Company has reviewed, as deemed necessary by the Company s management, other events and transactions occurring after the balance sheet date of January 2, 2010 through February 4, 2010, which is the date that the financial statements are issued.

Table of Contents**NOTE 2 INVENTORIES**

Inventories are stated at the lower of cost (on a first-in, first-out basis) or market value. The stated cost is comprised of direct materials, labor, and overhead. The major classes of inventories, net of applicable lower of cost or market write-downs, were as follows (in thousands):

	January 2, 2010	October 3, 2009
Raw materials	\$ 276,884	\$ 237,717
Work-in-process	35,073	29,399
Finished goods	60,796	55,236
	\$ 372,753	\$ 322,352

Per contractual terms, customer deposits are received by the Company to offset obsolete and excess inventory risks and are shown as part of current liabilities on the Condensed Consolidated Balance Sheets.

NOTE 3 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following categories (in thousands):

	January 2, 2010	October 3, 2009
Land, buildings and improvements	\$ 121,019	\$ 120,505
Machinery and equipment	227,733	220,402
Computer hardware and software	73,551	72,782
Construction in progress	20,050	11,727
	442,353	425,416
Less: accumulated depreciation and amortization	(236,510)	(227,947)
	\$ 205,843	\$ 197,469

NOTE 4 LONG-TERM DEBT

On April 4, 2008, the Company entered into a new credit agreement (the Credit Facility) with a group of banks which allows the Company to borrow \$150 million in term loans and \$100 million in revolving loans. The \$150 million in term loans was immediately funded and the \$100 million revolving credit facility is currently available. The Credit Facility is unsecured and the revolving credit facility may be increased by an additional \$100 million (the accordion feature) if the Company has not previously terminated all or any portion of the Credit Facility, there is no event of default existing under the Credit Facility and both the Company and the administrative agent consent to the increase. The Credit Facility expires on April 4, 2013. Borrowings under the Credit Facility may be either through term loans or revolving or swing loans or letter of credit obligations. As of January 2, 2010, the Company has term loan borrowings of \$123.8 million outstanding and no revolving borrowings under the Credit Facility.

The Credit Facility contains certain financial covenants, which include a maximum total leverage ratio, maximum value of fixed rentals and operating lease obligations, a minimum interest coverage ratio and a minimum net worth test, all as defined in the agreement. As of January 2, 2010, the Company was in compliance with all debt covenants. If the Company incurs an event of default, as defined in the Credit Facility (including any failure to comply with a financial covenant), the group of banks has the right to terminate the remaining Credit Facility and all other obligations, and demand immediate repayment of all outstanding sums (principal and accrued interest). Interest on borrowing varies depending upon the Company's then-current total leverage ratio; as of January 2, 2010, the Company could elect to pay interest at a defined base rate or the LIBOR rate plus 1.25%. Rates would increase upon negative

changes in specified Company financial metrics and would decrease upon reduction in the current total leverage ratio to no less than LIBOR plus 1.00%. The Company is also required to pay an annual commitment fee on the unused credit commitment based on its leverage ratio; the current fee is 0.30 percent. Unless the accordion feature is exercised, this fee applies only to the initial \$100 million of availability (excluding the \$150 million of term borrowings). Origination fees and expenses associated with the Credit Facility totaled approximately \$1.3 million and have been deferred. These origination fees and expenses are being amortized over the five-year term of the Credit Facility. Equal quarterly principal repayments of the term loan of \$3.75 million per quarter began June 30, 2008 and end on April 4, 2013 with a balloon repayment of \$75.0 million.

Table of Contents

The Credit Facility allows for the future payment of cash dividends or the future repurchases of shares provided that no event of default (including any failure to comply with a financial covenant) is existing at the time of, or would be caused by, a dividend payment or a share repurchase.

Interest expense related to the commitment fee and amortization of deferred origination fees and expenses for the Credit Facility totaled approximately \$0.2 million for both the three months ended January 2, 2010 and January 3, 2009.

NOTE 5 DERIVATIVES AND FAIR VALUE MEASUREMENTS

All derivatives are recognized in the Condensed Consolidated Balance Sheets at their estimated fair value. On the date a derivative contract is entered into, the Company designates the derivative as a hedge of a recognized asset or liability (a fair value hedge), a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (a cash flow hedge), or a hedge of the net investment in a foreign operation. The Company currently has cash flow hedges related to variable rate debt and foreign currency obligations. The Company does not enter into derivatives for speculative purposes. Changes in the fair value of the derivatives that qualify as cash flow hedges are recorded in Accumulated other comprehensive income in the Condensed Consolidated Balance Sheets until earnings are affected by the variability of the cash flows.

In June 2008, the Company entered into three interest rate swap contracts related to the \$150 million in term loans under the Credit Facility that have a total notional value of \$150 million and mature on April 4, 2013. These interest rate swap contracts will pay the Company variable interest at the three month LIBOR rate, and the Company will pay the counterparties a fixed interest rate. The fixed interest rates for each of these contracts are 4.415%, 4.490% and 4.435%, respectively. These interest rate swap contracts were entered into to convert \$150 million of the variable rate term loan under the Credit Facility into fixed rate debt. Based on the terms of the interest rate swap contracts and the underlying debt, these interest rate contracts were determined to be effective, and thus qualify as a cash flow hedge. As such, any changes in the fair value of these interest rate swaps are recorded in Accumulated other comprehensive income on the Condensed Consolidated Balance Sheets until earnings are affected by the variability of cash flows. The total fair value of these interest rate swap contracts was \$8.0 million as of January 2, 2010, and the Company has recorded this in Other current liabilities and Other liabilities in the accompanying Condensed Consolidated Balance Sheets. As of January 2, 2010, the total combined notional amount of the Company's three interest rate swaps was \$123.8 million.

Our Malaysian operations have entered into forward exchange contracts maturing in fiscal 2010 and 2011 with a total notional value of \$30.6 million. These forward contracts will fix the exchange rates on foreign currency cash used to pay a portion of local currency expenses. The changes in the fair value of the forward contracts are recorded in Accumulated other comprehensive income on the accompanying Condensed Consolidated Balance Sheets until earnings are affected by the variability of cash flows. The total fair value of the forward contracts was \$0.7 million at January 2, 2010, and the Company recorded this amount in Prepaid expenses and other in the accompanying Condensed Consolidated Balance Sheets.

Table of Contents

The tables below present information regarding the fair values of derivative instruments and the effects of derivative instruments on the Company's Statements of Operations:

Fair Values of Derivative Instruments

In thousands of dollars

	Asset Derivatives				Liability Derivatives			
	January 2, 2010		October 3, 2009		January 2, 2010		October 3, 2009	
Derivatives designated as hedging instruments	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate swaps		-		-	Current liabilities - Other	\$ 1,774	Current liabilities - Other	\$ 2,072
Interest rate swaps		-		-	Other liabilities	\$ 6,208	Other liabilities	\$ 7,253
Forward contracts	Prepaid expenses and other	\$ 689	Prepaid expenses and other	\$ 530				

Table of Contents**The Effect of Derivative Instruments on the Statements of Operations****for the Three Months Ended***In thousands of dollars*

	Amount of Gain or (Loss) Recognized in Other Comprehensive Income (OCI) on		Location of Gain or (Loss) Reclassified from Accumulated OCI into	Amount of Gain or (Loss) Reclassified from Accumulated OCI into		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	Derivative (Effective Portion)	Derivative (Effective Portion)		January 2, 2010	January 3, 2009		January 2, 2010	January 3, 2009
Derivatives in Cash								
Flow Hedging Relationships								
Interest rate swaps	\$ 47	\$ -	Interest income (expense)	(\$1,296)	\$ -	Other income (expense)	\$ -	\$ -
Forward contracts	\$ 316	\$ -	Selling and administrative expenses	\$ 157	\$ -	Other income (expense)	\$ -	\$ -

Table of Contents

The Company adopted a newly issued accounting statement on September 28, 2008, for fair value measurements of financial assets and liabilities. The Company adopted this statement for non-financial assets and liabilities on October 4, 2009. This accounting statement defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (or exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The accounting statement established a fair value hierarchy based on three levels of inputs that may be used to measure fair value. The input levels are:

Level 1: Quoted (observable) market prices in active markets for identical assets or liabilities.

Level 2: Inputs other than Level 1 that are observable, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability.

The following table lists the fair values of our financial instruments as of January 2, 2010, by input level as defined above:

**Fair Value Measurements
Using Input Levels: (in
thousands)**

	Level 1	Level 2	Level 3	Total
Derivatives				
Interest rate swap	\$ -	\$ 7,982	\$ -	\$ 7,982
Foreign currency forward contract	\$ -	\$ 689	\$ -	\$ 689

The Company also has \$2.0 million of auction rate securities. The fair value of these securities is determined based on Level 3 inputs. There has been no material change in the fair value of these securities since October 3, 2009.

Table of Contents**NOTE 6 EARNINGS PER SHARE**

The following is a reconciliation of the amounts utilized in the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Three Months Ended	
	January 2, 2010	January 3, 2009
Basic and Diluted Earnings Per Share:		
Net income	\$ 17,844	\$ 17,038
Basic weighted average common shares outstanding	39,587	39,337
Dilutive effect of stock options	665	135
Diluted weighted average shares outstanding	40,252	39,472
Earnings per share:		
Basic	\$ 0.45	\$ 0.43
Diluted	\$ 0.44	\$ 0.43

For the three months ended January 2, 2010 and January 3, 2009, stock options and stock-settled stock appreciation rights (SARs) to purchase approximately 1.4 million and 2.7 million shares, respectively, were outstanding but were not included in the computation of diluted earnings per share because the options and SARs exercise prices were greater than the average market price of the common shares and, therefore, their effect would be antidilutive.

NOTE 7 STOCK-BASED COMPENSATION

The Company recognized \$1.8 million and \$2.8 million of compensation expense associated with stock-based awards for the three months ended January 2, 2010 and January 3, 2009, respectively.

The Company continues to use the Black-Scholes valuation model to determine the fair value of stock options and stock appreciation rights and recognizes the stock-based compensation expense over the stock-based awards vesting period. The Company uses the fair value at the date of grant to value restricted stock units.

NOTE 8 INCOME TAXES

Income taxes for the three months ended January 2, 2010 and January 3, 2009 were \$0.2 million and \$1.9 million, respectively. The effective tax rates for the three months ended January 2, 2010 and January 3, 2009 were 1 percent and 10 percent, respectively. The decrease in the effective tax rate for the current year period compared to the prior year period was primarily due to an increase in the proportion of the Company's projected fiscal 2010 pre-tax income in Malaysia and China, where the Company benefits from tax holidays.

As of January 2, 2010, there was no material change in the amount of unrecognized tax benefits recorded for uncertain tax positions. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. The amount of interest and penalties recorded for the three months ended January 2, 2010 and January 3, 2009 was not material.

It is reasonably possible that a number of uncertain tax positions related to federal and state tax positions may be settled within the next 12 months. Settlement of these matters is not expected to have a material effect on the Company's consolidated results of operations, financial position and cash flows.

Table of Contents**NOTE 9 BUSINESS SEGMENT, GEOGRAPHIC AND MAJOR CUSTOMER INFORMATION**

Reportable segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or group, in assessing performance and allocating resources.

The Company uses an internal management reporting system, which provides important financial data to evaluate performance and allocate the Company's resources on a geographic basis. Net sales for segments are attributed to the region in which the product is manufactured or service is performed. The services provided, manufacturing processes used, class of customers serviced and order fulfillment processes used are similar and generally interchangeable across the segments. A segment's performance is evaluated based upon its operating income (loss). A segment's operating income (loss) includes its net sales less cost of sales and selling and administrative expenses, but excludes corporate and other costs, interest expense, other income (loss), and income taxes. Corporate and other costs primarily represent corporate selling and administrative expenses, and restructuring and impairment costs. These costs are not allocated to the segments, as management excludes such costs when assessing the performance of the segments. Inter-segment transactions are generally recorded at amounts that approximate arm's length transactions. The accounting policies for the regions are the same as for the Company taken as a whole.

Information about the Company's four reportable segments for the three months ended January 2, 2010 and January 3, 2009 were as follows (in thousands):

	Three Months Ended	
	January 2, 2010	January 3, 2009
Net sales:		
United States	\$ 258,849	\$ 294,702
Asia	193,126	160,071
Europe	13,863	12,608
Mexico	18,595	21,752
Elimination of inter-segment sales	(54,034)	(33,024)
	\$ 430,399	\$ 456,109
Depreciation and amortization:		
United States	\$ 2,663	\$ 2,456
Asia	4,378	3,610
Europe	222	192
Mexico	571	559
Corporate	1,220	1,284
	\$ 9,054	\$ 8,101
Operating income (loss):		
United States	\$ 20,576	\$ 21,733
Asia	23,306	18,187
Europe	(1,187)	1,017
Mexico	(1,073)	(722)
Corporate and other costs	(21,400)	(19,484)
	\$ 20,222	\$ 20,731

Table of Contents

	Three Months Ended	
	January 2, 2010	January 3, 2009
Capital expenditures:		
United States	\$ 2,994	\$ 5,089
Asia	5,010	8,403
Europe	194	194
Mexico	580	411
Corporate	3,537	9,397
	\$ 12,315	\$ 23,494
	January 2, 2010	October 3, 2009
Total assets:		
United States	\$ 392,471	\$ 346,272
Asia	426,065	370,247
Europe	82,816	86,024
Mexico	47,020	45,699
Corporate	150,619	174,430
	\$ 1,098,991	\$ 1,022,672

The following enterprise-wide information is provided in accordance with the required segment disclosures. Net sales to unaffiliated customers were based on the Company's location providing product or services (in thousands):

	Three Months Ended	
	January 2, 2010	January 3, 2009
Net sales:		
United States	\$ 258,849	\$ 294,702
Malaysia	170,150	135,285
China	22,976	24,786
United Kingdom	13,782	12,608
Mexico	18,595	21,752
Romania	81	-
Elimination of inter-segment sales	(54,034)	(33,024)
	\$ 430,399	\$ 456,109
	January 2, 2010	October 3, 2009
Long-lived assets:		
United States	\$ 59,362	\$ 51,811
Malaysia	74,167	72,325
China	15,577	14,266

Edgar Filing: PLEXUS CORP - Form 10-Q

United Kingdom	7,102	5,989
Mexico	6,951	6,940
Romania	4,416	5,760
Corporate	38,268	40,378
	\$ 205,843	\$ 197,469

Long-lived assets as of January 2, 2010, and October 3, 2009, exclude other long-term assets totaling \$26.9 million and \$26.8 million, respectively.

Table of Contents

Restructuring and impairment costs are not allocated to reportable segments, as management excludes such costs when assessing the performance of the reportable segments. Such costs are included within the Corporate and other costs section in the above operating income (loss) table. For the three months ended January 2, 2010, the Company did not incur any restructuring costs. For the three months ended January 3, 2009, the Company incurred \$0.6 million of restructuring costs related to severance at the Juarez, Mexico (Juarez) facility.

The percentages of net sales to customers representing 10 percent or more of total net sales for the indicated periods were as follows:

	Three Months Ended	
	January	January 3,
	2,	2009
	2010	
Juniper Networks, Inc. (Juniper)	17%	18%

No other customers accounted for 10 percent or more of net sales in either period.

NOTE 10 GUARANTEES

The Company offers certain indemnifications under its customer manufacturing agreements. In the normal course of business, the Company may from time to time be obligated to indemnify its customers or its customers' customers against damages or liabilities arising out of the Company's negligence, misconduct, breach of contract, or infringement of third party intellectual property rights. Certain agreements have extended broader indemnification, and while most agreements have contractual limits, some do not. However, the Company generally does not provide for such indemnities, and seeks indemnification from its customers for damages or liabilities arising out of the Company's adherence to customers' specifications or designs or use of materials furnished, or directed to be used, by its customers. The Company does not believe its obligations under such indemnities are material.

In the normal course of business, the Company also provides its customers a limited warranty covering workmanship, and in some cases materials, on products manufactured by the Company. Such warranty generally provides that products will be free from defects in the Company's workmanship and meet mutually agreed-upon specifications for periods generally ranging from 12 months to 24 months. If a product fails to comply with the Company's limited warranty, the Company's obligation is generally limited to correcting, at its expense, any defect by repairing or replacing such defective product. The Company's warranty generally excludes defects resulting from faulty customer-supplied components, design defects or damage caused by any party or cause other than the Company.

The Company provides for an estimate of costs that may be incurred under its limited warranty at the time product revenue is recognized and establishes additional reserves for specifically identified product issues. These costs primarily include labor and materials, as necessary, associated with repair or replacement and are included in our Condensed Consolidated Balance Sheets in other current accrued liabilities. The primary factors that affect the Company's warranty liability include the value and the number of shipped units and historical and anticipated rates of warranty claims. As these factors are impacted by actual experience and future expectations, the Company assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

Below is a table summarizing the activity related to the Company's limited warranty liability for fiscal 2009 and for the three months ended January 2, 2010 (in thousands):

Limited warranty liability, as of September 27, 2008	\$ 4,052
Accruals for warranties issued during the period	507
Settlements (in cash or in kind) during the period	(89)
Limited warranty liability, as of October 3, 2009	4,470

Edgar Filing: PLEXUS CORP - Form 10-Q

Accruals for warranties issued during the period	267
Settlements (in cash or in kind) during the period	(13)
Limited warranty liability, as of January 2, 2010	\$ 4,724

Table of Contents**NOTE 11 LITIGATION**

In December 2009, the Company received settlement funds of approximately \$3.2 million related to a court case in which the Company was a plaintiff. The settlement related to prior purchases of inventory and therefore was recorded in cost of sales.

The Company is party to certain other lawsuits in the ordinary course of business. Management does not believe that these proceedings, individually or in the aggregate, will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

NOTE 12 CONTINGENCIES

We were notified in April 2009 by U.S. Customs and Border Protection (CBP) of its intention to conduct a customary Focused Assessment of our import activities during fiscal 2008 and of our processes and procedures to comply with U.S. Customs laws and regulations. As a result of discussions with CBP, Plexus has committed to CBP that it will report any errors, and tender any associated duties and fees relating to import trade activity, by June 2010. Plexus has also agreed that it will implement improved processes and procedures in areas where errors are found and review these corrective measures with CBP. At this time, we do not believe that any deficiencies in processes or controls, or unanticipated costs, unpaid duties or penalties associated with this matter will have a material adverse effect on Plexus or our results of operations.

NOTE 13 RESTRUCTURING COSTS

Fiscal 2010 restructuring costs: For the three months ended January 2, 2010, the Company did not incur any restructuring costs.

Fiscal 2009 restructuring costs: For the three months ended January 3, 2009, the Company incurred restructuring costs of \$0.6 million related to the reduction of our workforce in Juarez. The workforce reduction affected approximately 280 employees.

The table below summarizes the Company's accrued restructuring and impairment liabilities as of January 2, 2010 (in thousands):

	Employee Termination and Severance Costs	Lease Obligations and Other Exit Costs	Non-cash Asset Impairments	Total
Accrued balance, September 27, 2008	\$ 2,038	\$ -	\$ -	\$ 2,038
Restructuring and impairment costs	2,196	876	5,748	8,820
Adjustments to provisions	(249)	-	-	(249)
Amounts utilized	(3,941)	(790)	(5,748)	(10,479)
Accrued balance, October 3, 2009	44	86	-	130
Amounts utilized	(44)	(86)	-	(130)
Accrued balance, January 2, 2010	\$ -	\$ -	\$ -	\$ -

Table of Contents**NOTE 14 NEW ACCOUNTING PRONOUNCEMENTS**

In October 2009, the Financial Accounting Standards Board (FASB) issued a new accounting standard for Multiple-Deliverable Revenue Arrangements, which establishes a selling price hierarchy for determining the selling price of a deliverable, replaces the term fair value in the revenue allocation guidance with selling price, eliminates the residual method of allocation by requiring that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method and requires that a vendor determine its best estimate of selling price in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis. This guidance is effective for financial statements issued for fiscal years beginning after June 15, 2010. The Company is currently assessing the impact of this new standard on the consolidated financial statements.

In June 2009, the FASB also issued an amendment to the accounting and disclosure requirements for the consolidation of variable interest entities (VIEs). The elimination of the concept of a qualifying special-purpose entity (QSPE) removes the exception from applying the consolidation guidance within this amendment. This amendment requires an enterprise to perform a qualitative analysis when determining whether or not it must consolidate a VIE. The amendment also requires an enterprise to continuously reassess whether it must consolidate a VIE. Additionally, the amendment requires enhanced disclosures about an enterprise's involvement with VIEs and any significant change in risk exposure due to that involvement, as well as how its involvement with VIEs impacts the enterprise's financial statements. Finally, an enterprise will be required to disclose significant judgments and assumptions used to determine whether or not to consolidate a VIE. This amendment is effective for financial statements issued for fiscal years beginning after November 15, 2009. The Company is currently assessing the impact of this amendment on its consolidated results of operations, financial position and cash flows.

In June 2008, the FASB issued new accounting guidance that specifies that unvested share-based awards containing non-forfeitable rights to dividends or dividend equivalents are participating securities and should be included in the computation of earnings per share pursuant to the two-class method. The Company adopted this guidance beginning October 4, 2009, and the adoption did not have a material effect on the weighted average shares outstanding or earnings per share amounts.

In March 2008, the FASB ratified accounting guidance for lessee maintenance deposits under lease arrangements. The guidance requires that all nonrefundable maintenance deposits be accounted for as a deposit, and expensed or capitalized when underlying maintenance is performed. If it is determined that an amount on deposit is not probable of being used to fund future maintenance, it is to be recognized as expense at the time such determination is made. The Company adopted this guidance beginning October 4, 2009, and the adoption did not have a material effect on our financial position, results of operations, or cash flows.

In December 2007, the FASB issued authoritative guidance regarding business combinations (whether full, partial or step acquisitions) which will result in all assets and liabilities of an acquired business being recorded at their fair values. Certain forms of contingent consideration and certain acquired contingencies will be recorded at fair value at the acquisition date. The guidance also states that acquisition costs will generally be expensed as incurred and restructuring costs will be expensed in periods after the acquisition date. The Company adopted the new guidance beginning October 4, 2009, and the adoption did not have a material effect on our financial position, results of operations, or cash flows.

In September 2006, the FASB issued new accounting guidance that defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It also establishes a fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability. We adopted this guidance for financial assets and liabilities effective September 28, 2008, and for non-financial assets and liabilities effective October 4, 2009. Non-financial assets and liabilities subject to this new guidance primarily include goodwill and indefinite lived intangible assets measured at fair value for impairment assessments, long-lived assets measured at fair value for impairment assessments, and non-financial assets and liabilities measured at fair value in business combinations. The adoption of the new accounting guidance effective October 4, 2009, did not have a material effect on our financial position, results of operations, or cash flows.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SAFE HARBOR CAUTIONARY STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995:

The statements contained in this Form 10-Q that are not historical facts (such as statements in the future tense and statements including believe, expect, intend, plan, anticipate, goal, target and similar terms and concepts, and discussions of periods which are not yet completed) are forward-looking statements that involve risks and uncertainties, including, but not limited to:

the economic performance of the industries, sectors and customers we serve

the risk of customer delays, changes, cancellations or forecast inaccuracies in both ongoing and new programs

the poor visibility of future orders, particularly in view of current economic conditions

the effects of the volume of revenue from certain sectors or programs on our margins in particular periods

our ability to secure new customers, maintain our current customer base and deliver product on a timely basis

the risk that our revenue and/or profits associated with customers who have recently been acquired by third parties will be negatively affected

the risks relative to new customers, which risks include customer delays, start-up costs, potential inability to execute, the establishment of appropriate terms of agreements and the lack of a track record of order volume and timing. These risks exist with any significant new customer program and include our recently announced arrangements with The Coca-Cola Company.

the risks of concentration of work for certain customers

our ability to manage successfully a complex business model

the risk that new program wins and/or customer demand may not result in the expected revenue or profitability

the fact that customer orders may not lead to long-term relationships

the weakness of the global economy and the continuing instability of the global financial markets and banking systems, including the potential inability on our part or that of our customers or suppliers to access cash investments and credit facilities

material cost fluctuations and the adequate availability of components and related parts for production, particularly due to sudden increases in customer demand

the effect of changes in the pricing and margins of products

the risk that inventory purchased on behalf of our customers may not be consumed or otherwise paid for by customers, resulting in an inventory write-off

Edgar Filing: PLEXUS CORP - Form 10-Q

the effect of start-up costs of new programs and facilities, including our recent and planned expansions, such as our new facilities in Hangzhou, China and Oradea, Romania

the adequacy of restructuring and similar charges as compared to actual expenses

the risk of unanticipated costs, unpaid duties and penalties related to an ongoing audit of our import compliance by U.S. Customs and Border Protection

possible unexpected costs and operating disruption in transitioning programs

the potential effect of world or local events or other events outside our control (such as epidemics, drug cartel-related violence in Juarez, Mexico, changes in oil prices, terrorism and war in the Middle East)

the impact of increased competition and

other risks detailed herein, as well as in our Securities and Exchange Commission filings (particularly in Part I, Item 1A of our annual report on Form 10-K for the year ended October 3, 2009).

Table of Contents**OVERVIEW**

The following information should be read in conjunction with our condensed consolidated financial statements included herein and the Risk Factors section in Part I, Item 1A of our annual report on Form 10-K for the year ended October 3, 2009.

Plexus Corp. and its subsidiaries (together Plexus, the Company, or we) participate in the Electronic Manufacturing Services (EMS) industry. We provide product realization services to original equipment manufacturers (OEMs) and other technology companies in the wireline/networking, wireless infrastructure, medical, industrial/commercial and defense/security/aerospace market sectors. We provide advanced product design, manufacturing and testing services to our customers with a focus on the mid-to-lower-volume, higher-mix segment of the EMS market. Our customers products typically require exceptional production and supply-chain flexibility, necessitating an optimized demand-pull-based manufacturing and supply chain solution across an integrated global platform. Many of our customers products require complex configuration management and direct order fulfillment to their customers across the globe. In such cases we provide global logistics management and after-market service and repair. Our customers products may have stringent requirements for quality, reliability and regulatory compliance. We offer our customers the ability to outsource all phases of product realization, including product specifications; development, design and design validation; regulatory compliance support; prototyping and new product introduction; manufacturing test equipment development; materials sourcing, procurement and supply-chain management; product assembly/manufacturing, configuration and test; order fulfillment, logistics and service/repair.

Plexus is passionate about its goal to be the best EMS company in the world at providing services for customers that have mid-to-lower-volume requirements and a higher mix of products. We have tailored our engineering services, manufacturing operations, supply-chain management, workforce, business intelligence systems, financial goals and metrics specifically to support these types of programs. Our flexible manufacturing facilities and processes are designed to accommodate customers with multiple product-lines and configurations as well as unique quality and regulatory requirements. Each of these customers is supported by a multi-disciplinary customer team and one or more uniquely configured focus factories supported by a supply-chain and logistics solution specifically designed to meet the flexibility and responsiveness required to support that customer s fulfillment requirements.

Our go-to-market strategy is also tailored to our target market sectors and business strategy. We have business development and customer management teams that are dedicated to each of the five sectors we serve. These teams are accountable for understanding the sector participants, technology, unique quality and regulatory requirements and longer-term trends. Further, these teams help set our strategy for growth in their sectors with a particular focus on expanding the services and value-add that we provide to our current customers while strategically targeting select new customers to add to our portfolio.

Our financial model is aligned with our business strategy, with our primary focus to earn a return on invested capital (ROIC) in excess of our weighted average cost of capital (WACC). The smaller volumes, flexibility requirements and fulfillment needs of our customers typically result in greater investments in inventory than many of our competitors, particularly those that provide EMS services for high-volume, less complex products with less stringent requirements (such as consumer electronics). In addition, our cost structure relative to these peers includes higher investments in selling and administrative costs as a percentage of sales to support our sector-based go-to-market strategy, smaller program sizes, flexibility, and complex quality and regulatory compliance requirements. By exercising discipline to generate a ROIC in excess of our WACC, our goal is to ensure that Plexus creates a value proposition for our shareholders as well as our customers.

Our customers include both industry-leading OEMs and other technology companies that have never manufactured products internally. As a result of our focus on serving market sectors that rely on advanced electronics technology, our business is influenced by technological trends such as the level and rate of development of telecommunications infrastructure, the expansion of networks and use of the Internet. In addition, the federal Food and Drug Administration s approval of new medical devices, defense procurement practices and other governmental approval and regulatory processes can affect our business. Our business has also benefited from the trend to increased outsourcing by OEMs.

Table of Contents

We provide most of our contract manufacturing services on a turnkey basis, which means that we procure some or all of the materials required for product assembly. We provide some services on a consignment basis, which means that the customer supplies the necessary materials, and we provide the labor and other services required for product assembly. Turnkey services require material procurement and warehousing, in addition to manufacturing, and involve greater resource investments than consignment services. Other than certain test equipment and software used for internal operations, we do not design or manufacture our own proprietary products.

EXECUTIVE SUMMARY

As a consequence of the Company's use of a 4-4-5 weekly accounting system, periodically an additional week must be added to the fiscal year to re-align with a fiscal year end at the Saturday closest to September 30. In fiscal 2009, this required an additional week, which was added to the first fiscal quarter. Therefore, the comparisons between the first quarters of fiscal 2010 and fiscal 2009 reflect that the first quarter of fiscal 2010 included 91 days while the first quarter in fiscal 2009 included 98 days.

Three months ended January 2, 2010. Net sales for the three months ended January 2, 2010 decreased by \$25.7 million, or 5.6 percent, as compared to the three months ended January 3, 2009, to \$430.4 million. The net sales decline in the current year period was driven primarily by decreased end market demand, resulting in decreased demand from numerous existing customers. In particular, decreases resulted from weakened demand from two customers in the medical sector, and for a defense customer due to the inability of this customer to secure additional orders for the product we formerly manufactured.

Gross margins were 10.3 percent for the three months ended January 2, 2010, which compared favorably to 10.2 percent for the three months ended January 3, 2009. Gross margins in the current year period improved as a result of \$3.2 million of proceeds received from a litigation settlement, which provided a benefit of 0.7 percentage points. Without this settlement, gross margins decreased as a result of reduced net sales and changes in customer mix.

Selling and administrative expenses for the three months ended January 2, 2010 were \$24.3 million, a decrease of \$1.0 million, or 3.8 percent, over the three months ended January 3, 2009. The current year period included a decrease in stock-based compensation expense, headcount reductions and continued cost containment, partially offset by higher variable incentive compensation expense.

Net income for the three months ended January 2, 2010 increased to \$17.8 million, or 4.7 percent, from \$17.0 million for the three months ended January 3, 2009, and diluted earnings per share increased to \$0.44 in the current year period from \$0.43 in the prior year period. Net income increased from the prior year period due to higher gross margins and lower selling and administrative expenses, as described above, as well as a lower effective tax rate in the current year period. The effective tax rate in the current year period was 1 percent versus a 10 percent effective tax rate in the prior year period. The decrease in the effective tax rate from the prior year period was primarily due to an increase in the proportion of our projected fiscal 2010 pre-tax income in Malaysia and China (where we currently benefit from reduced rates due to tax holidays) when compared to fiscal 2009 pre-tax income.

Fiscal 2010 outlook. Our financial goals for fiscal 2010 are to capitalize on the ramp of new business wins and signs of improvement in the economy and customer demand to drive increases in our operating income, which we believe will return our ROIC above our estimated WACC.

We currently expect net sales in the second quarter of fiscal 2010 to be in the range of \$470 million to \$495 million; however, our results will ultimately depend upon the actual level of customer orders and production. We are currently in a period of parts shortages for some components, based on lack of capacity at some of our suppliers to meet increased demand from the gradually improving economic outlook. We believe we have sufficient parts availability to support the revenue guidance for the second quarter of fiscal 2010 and are managing this issue aggressively to support revenue in future quarters. Assuming that net sales are in the range noted above, we would currently expect to earn, before any restructuring and impairment costs, between \$0.44 to \$0.52 per diluted share in the second quarter of fiscal 2010.

We currently expect the annual effective tax rate for fiscal 2010 to be in the low single digits.

Table of Contents**REPORTABLE SEGMENTS**

A further discussion of financial performance by reportable segment is presented below (dollars in millions):

	Three Months Ended	
	January 2, 2010	January 3, 2009
Net sales:		
United States	\$ 258.9	\$ 294.7
Asia	193.1	160.1
Europe	13.9	12.6
Mexico	18.6	21.7
Elimination of inter-segment sales	(54.1)	(33.0)
	\$ 430.4	\$ 456.1

	Three Months Ended	
	January 2, 2010	January 3, 2009
Operating income (loss):		
United States	\$ 20.6	\$ 21.7
Asia	23.3	18.2
Europe	(1.2)	1.0
Mexico	(1.1)	(0.7)
Corporate and other costs	(21.4)	(19.5)
	\$ 20.2	\$ 20.7

United States: Net sales for the current year period decreased primarily due to reduced demand from our largest customer, Juniper Networks, Inc. (Juniper), and a defense customer, partially offset by demand from a customer in the wireless infrastructure sector. Net sales to Juniper decreased over the prior year period due to the transfer of manufacturing of some products to our Asia reportable segment and as a result of decreased demand from their end-market. In addition, our net sales to a defense customer decreased over the prior year period due to the inability of that customer to secure additional orders for the product we formerly manufactured. Operating income for the current year period decreased primarily as a result of lower revenues from the customers noted above and changes in customer mix, particularly related to the defense customer, offset by proceeds received from a litigation settlement.

Asia: Net sales growth for the current year period reflected increased net sales from the transfer of manufacturing of some Juniper products from the United States reportable segment to the Asia reportable segment, as well as increased demand from a customer in the wireless/infrastructure sector. Operating income in the current year period improved as a result of the net sales growth.

Europe: Net sales in the current year period increased due primarily to increased demand from a customer program in the industrial/commercial sector, offset by reduced demand from a medical sector customer. The operating loss in the current year period, as compared to operating income in the prior year period, resulted from changes in customer mix.

Mexico: Net sales for the current year period decreased due primarily to decreased demand from a customer in the industrial/commercial sector, as well as the cessation of two customer programs, partially offset by demand from a new customer program in the industrial/commercial sector. Operating loss for the current year period increased slightly due to reduced net sales volume in the current year period.

Table of Contents

For our significant customers, we generally manufacture product in more than one location. Net sales to Juniper, our largest customer, occur in the United States and Asia. See Note 9 in Notes to Condensed Consolidated Financial Statements for certain financial information regarding our reportable segments, including a detail of net sales by reportable segment.

RESULTS OF OPERATIONS

Net sales. Net sales for the indicated periods were as follows (dollars in millions):

	Three months ended		Increase / (Decrease)	
	January 2, 2010	January 3, 2009		
Net Sales	\$430.4	\$456.1	\$(25.7)	(5.6)%

Our net sales decrease of 5.6 percent reflected decreased demand in the medical and defense/security/aerospace sectors, primarily due to decreased end-market demand. This was offset by favorable impacts mainly in the wireless/infrastructure, industrial/commercial and wireline/networking sectors.

Our net sales by market sector for the indicated periods were as follows:

Market Sector	Three months ended	
	January 2, 2010	January 3, 2009
Wireline/Networking	47%	44%
Wireless Infrastructure	11%	10%
Medical	18%	24%
Industrial/Commercial	15%	13%
Defense/Security/Aerospace	9%	9%

The percentages of net sales to customers representing 10 percent or more of net sales and net sales to our ten largest customers for the three months ended January 2, 2010 and January 3, 2009 were as follows:

	Three months ended	
	January 2, 2010	January 3, 2009
Juniper	17%	18%
Top 10 customers	62%	61%

Net sales to our largest customers may vary from time to time depending on the size and timing of customer program commencements, terminations, delays, modifications and transitions. We remain dependent on continued sales to our significant customers, and we generally do not obtain firm, long-term purchase commitments from our customers. Customers' forecasts can and do change as a result of changes in their end-market demand and other factors, including global economic conditions. Any material change in forecasts or orders from these major accounts, or other customers, could materially affect our results of operations. In addition, as our percentage of net sales to customers in a specific sector becomes larger relative to other sectors, we will become increasingly dependent upon economic and business conditions affecting that sector.

In the current economic environment, we are seeing increased merger and acquisition activity that may impact our customers. Specifically, two of our customers were acquired in the first fiscal quarter of 2010. We do not believe that there will be a material impact on our expected results in the short run, but in the longer time frame, these transactions create both risk that this business will transition to other contract manufacturers or in house, and opportunities that Plexus could gain additional business with the acquiring entity.

Table of Contents

Gross profit. Gross profit and gross margins for the indicated periods were as follows (dollars in millions):

	Three months ended		Increase/ (Decrease)	
	January 2, 2010	January 3, 2009		
Gross Profit	\$ 44.5	\$ 46.6	\$ (2.1)	(4.5)%
Gross Margin	10.3%	10.2%		

For the three months ended January 2, 2010, gross profit was impacted by the following factors:

decreased net sales in the medical and defense/security/aerospace sectors

unfavorable changes in customer mix, particularly related to our unnamed defense customer

increased fixed expenses, primarily in the United States reportable segment

offset, in part, by proceeds received from a litigation settlement.

Even though gross profit decreased, gross margin improved slightly due to a proportionately greater decrease in net sales.

Gross margins reflect a number of factors that can vary from period to period, including product and service mix, the level of new facility start-up costs, inefficiencies resulting from the transition of new programs, product life cycles, sales volumes, price reductions, overall capacity utilization, labor costs and efficiencies, the management of inventories, component pricing and shortages, the mix of turnkey and consignment business, fluctuations and timing of customer orders, changing demand for our customers' products and competition within the electronics industry. We are currently in a period of parts shortages for some components, based on lack of capacity at some of our suppliers to meet increased demand from the gradually improving economic outlook, which could affect pricing and/or availability and thus our gross profit and/or net sales. Additionally, turnkey manufacturing involves the risk of inventory management, and a change in component costs can directly impact average selling prices, gross margins and net sales. Although we focus on maintaining gross margins, there can be no assurance that gross margins will not decrease in future periods.

Design work performed by the Company is not the proprietary property of Plexus and all costs incurred with this work are considered reimbursable by our customers. We do not track research and development costs that are not reimbursed by our customers and we consider these amounts immaterial.

Selling and administrative expenses. Selling and administrative expenses (S&A) for the indicated periods were as follows (dollars in millions):

	Three months ended		Increase/ (Decrease)	
	January 2, 2010	January 3, 2009		
S&A	\$ 24.3	\$ 25.3	\$ (1.0)	(4.0)%
Percent of net sales	5.7%	5.5%		

For the three months ended January 2, 2010, the dollar decrease in S&A was due primarily to decreased compensation costs related to stock-based compensation, headcount reductions resulting from cost containment actions in fiscal 2009, as well as other continued efforts toward cost containment. This was partially offset by higher variable incentive compensation expense for the current year period. The prior year period also contained an additional week of expenses due to the re-alignment of the fiscal year (see the Executive Summary).

Restructuring Actions. During the three months ended January 2, 2010, we did not incur any restructuring charges. During the three months ended January 3, 2009, we incurred restructuring charges of \$0.6 million related to severance at our Juarez, Mexico facility.

Table of Contents

As of January 2, 2010, we have no remaining restructuring liability. See Note 13 in Notes to the Condensed Consolidated Financial Statements for further information on restructuring costs.

Income taxes. Income taxes for the indicated periods were as follows (dollars in millions):

	Three months ended	
	January 2, 2010	January 3, 2009
Income tax expense	\$ 0.2	\$ 1.9
Effective tax rate	1%	10%

The decrease in the effective tax rate for the three months ended January 2, 2010, compared to the three months ended January 3, 2009, was primarily due to an increase in our projected fiscal 2010 pre-tax income in Malaysia and China, where we currently benefit from tax holidays, when compared to fiscal 2009 pre-tax income.

Our net deferred income tax assets as of January 2, 2010, reflect a \$1.6 million valuation allowance against certain deferred income taxes. We also had a remaining valuation allowance of \$1.0 million related to tax deductions associated with stock-based compensation as of January 2, 2010.

We currently expect the annual effective tax rate for fiscal 2010 to be in the low single digits.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities. Cash flows used by operating activities were \$10.3 million for the three months ended January 2, 2010, compared to cash flows provided by operating activities of \$49.4 million for the three months ended January 3, 2009. During the three months ended January 2, 2010, cash flows used in operating activities were primarily as a result of increased accounts receivable and inventories, partially offset by increased accounts payable, as well as earnings after adjusting for the non-cash effects of depreciation, amortization and stock-based compensation expenses.

As of January 2, 2010, days sales outstanding in accounts receivable for the current year period were 50 days, which compared unfavorably to the 45 days sales outstanding for fiscal 2009 as a result of increased net sales and the timing of customer payments.

Our inventory turns decreased to 4.1 turns for the three months ended January 2, 2010, from 4.4 turns for fiscal year ended October 3, 2009. Inventories increased \$50.3 million during the three months ended January 2, 2010, primarily as a result of strong revenue growth in the first fiscal quarter from the fourth quarter of fiscal 2009, as well as anticipated continued growth in the second fiscal quarter.

Investing Activities. Cash flows used in investing activities totaled \$12.3 million for the three months ended January 2, 2010, and were primarily for additions to property, plant and equipment in the United States and Asia. These investments were for equipment to support customer demand in those regions and for the construction of a new headquarters building in Neenah, Wisconsin. See Note 9 in Notes to the Condensed Consolidated Financial Statements for further information regarding our first quarter of fiscal 2010 capital expenditures by reportable segment.

We utilize available cash as the primary means of financing our operating requirements. We currently estimate capital expenditures for fiscal 2010 to be in the range of \$65 million to \$75 million, of which \$12.3 million of expenditures were made during the first quarter of fiscal 2010.

Financing Activities. Cash flows used in financing activities totaled \$2.1 million for the three months ended January 2, 2010, versus \$7.4 million for the three months ended January 2, 2009, which primarily represented payments on our outstanding term loan described below, offset by cash generated from exercises of stock options.

Table of Contents

On April 4, 2008, we entered into our Credit Facility with a group of banks which allows us to borrow \$150 million in term loans and \$100 million in revolving loans. The \$150 million in term loans was immediately funded and the \$100 million revolving credit facility is currently available. The Credit Facility is unsecured and may be increased by an additional \$100 million (the accordion feature) if we have not previously terminated all or any portion of the Credit Facility, there is no event of default existing under the credit agreement and both we and the administrative agent consent to the increase. The Credit Facility expires on April 4, 2013. Borrowings under the Credit Facility may be either through term loans, revolving or swing loans or letter of credit obligations. As of January 2, 2010, we had term loan borrowings of \$123.8 million outstanding and no revolving borrowings under the Credit Facility.

The Credit Facility contains certain financial covenants, which include a maximum total leverage ratio, maximum value of fixed rentals and operating lease obligations, a minimum interest coverage ratio and a minimum net worth test, all as defined in the agreement. As of January 2, 2010, we were in compliance with all debt covenants. If we incur an event of default, as defined in the Credit Facility (including any failure to comply with a financial covenant), the group of banks has the right to terminate the Credit Facility and all other obligations, and demand immediate repayment of all outstanding sums (principal and accrued interest). Interest on borrowing varies depending upon our then-current total leverage ratio; as of January 2, 2010, the Company could elect to pay interest at a defined base rate or the LIBOR rate plus 1.25%. Rates would increase upon negative changes in specified Company financial metrics and would decrease upon reduction in the current total leverage ratio to no less than LIBOR plus 1.00%. We are also required to pay an annual commitment fee on the unused credit commitment based on our leverage ratio; the current fee is 0.30 percent. Unless the accordion feature is exercised, this fee applies only to the initial \$100 million of availability (excluding the \$150 million of term borrowings). Origination fees and expenses associated with the Credit Facility totaled approximately \$1.3 million and have been deferred. These origination fees and expenses will be amortized over the five-year term of the Credit Facility. Quarterly principal repayments on the term loan of \$3.75 million each began June 30, 2008, and end on April 4, 2013, with a final balloon repayment of \$75.0 million.

The Credit Facility allows for the future payment of cash dividends or the future repurchases of shares provided that no event of default (including any failure to comply with a financial covenant) is existing at the time of, or would be caused by, the dividend payment or the share repurchases.

In June 2008, the Company entered into three interest rate swap contracts related to the \$150 million in term loans under the Credit Facility that have a total notional value of \$150 million and mature on April 4, 2013. The total fair value of these interest rate swap contracts was \$8.0 million as of January 2, 2010, and the Company has recorded this in Other current liabilities and Other liabilities in the accompanying Condensed Consolidated Balance Sheets. As of January 2, 2010, the total combined notional amount of the Company's three interest rate swaps was \$123.8 million.

Our Malaysian operations have entered into forward exchange contracts maturing in fiscal 2010 and fiscal 2011 with a total notional value of \$30.6 million. These forward contracts will fix the exchange rates on foreign currency cash used to pay a portion of our local currency expenses. The changes in the fair value of the forward contracts are recorded in Accumulated other comprehensive income on the accompanying Condensed Consolidated Balance Sheets until earnings are affected by the variability of cash flows. The total fair value of the forward contracts was \$0.7 million at January 2, 2010, and the Company recorded this amount in Prepaid expenses and other in the accompanying Condensed Consolidated Balance Sheets.

As of January 2, 2010, we held \$2.0 million of auction rate securities, which were classified as long-term investments and whose underlying assets were in guaranteed student loans backed by a U. S. government agency. Auction rate securities are adjustable rate debt instruments whose interest rates are reset every 7 to 35 days through an auction process, with underlying securities that have original contractual maturities greater than 10 years. Auctions for these investments failed during fiscal 2008, fiscal 2009 and the first quarter of fiscal 2010 and there is no assurance that future auctions on these securities will succeed.

Table of Contents

An auction failure means that the parties wishing to sell their securities could not do so. As a result, our ability to liquidate and fully recover the carrying value of our adjustable rate securities in the near term may be limited or not exist. These developments have resulted in the classification of these securities as long-term investments in our consolidated financial statements. If the issuers of these adjustable rate securities are unable to successfully close future auctions or their credit quality deteriorates, we may in the future be required to record an impairment charge on these investments. We may be required to wait until market stability is restored for these instruments or until the final maturity of the underlying notes to realize our investments recorded value.

Based on current expectations, we believe that our projected cash flows from operations, available cash and short-term investments, the Credit Facility, and our leasing capabilities should be sufficient to meet our working capital and fixed capital requirements for the next twelve months. We currently do not anticipate having to use our Credit Facility to satisfy any of our cash needs. If our future financing needs increase, we may need to arrange additional debt or equity financing. Accordingly, we evaluate and consider from time to time various financing alternatives to supplement our financial resources. However, particularly due to the current instability of the credit and financial markets, we cannot be certain that we will be able to make any such arrangements on acceptable terms.

We have not paid cash dividends in the past and do not currently anticipate paying them in the future. However, the company evaluates from time to time potential uses of excess cash, which in the future may include share repurchases, a special dividend or recurring dividends.

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND OFF-BALANCE SHEET OBLIGATIONS

Our disclosures regarding contractual obligations and commercial commitments are located in various parts of our regulatory filings. Information in the following table provides a summary of our contractual obligations and commercial commitments as of January 2, 2010 (dollars in millions):

	Total	Payments Due by Fiscal Period			2015 and thereafter
		2010	2011-2012	2013-2014	
Contractual Obligations					
Long-Term Debt Obligations (1)	\$ 123.8	\$ 11.3	\$ 30.0	\$ 82.5	\$ -
Capital Lease Obligations	30.3	7.6	7.4	7.7	7.6
Operating Lease Obligations	40.9	7.5	15.3	11.8	6.3
Purchase Obligations (2)	312.3	309.2	3.1	-	-
Other Long-Term Liabilities on the Balance Sheet (3)	8.8	1.0	1.6	1.8	4.4
Other Long-Term Liabilities not on the Balance Sheet (4)	2.5	0.7	1.8	-	-
Total Contractual Cash Obligations	\$ 518.6	\$ 337.3	\$ 59.2	\$ 103.8	\$ 18.3

(1) As of April 4, 2008, we entered into the Credit Facility and immediately funded a term loan for \$150 million. See Note 4 in Notes to Condensed Consolidated Financial Statements for further information.

(2) As of January 2, 2010, purchase obligations consist of purchases of inventory and equipment in the ordinary course of business.

(3) As of January 2, 2010, other long-term obligations on the balance sheet included deferred compensation obligations to certain of our former and current executive officers and other key employees, and an asset retirement obligation. We have excluded from the table the impact of approximately \$4.0 million, as of January 3, 2010, related to unrecognized income tax benefits. The Company cannot make reliable estimates of the future cash flows by period related to this obligation.

(4) As of January 2, 2010, other long-term obligations not on the balance sheet consist of a commitment for salary continuation in the event employment of one executive officer of the Company is terminated without cause. We did not have, and were not subject to, any lines of credit, standby letters of credit, guarantees, standby repurchase obligations, other off-balance sheet arrangements or other commercial commitments that are material.

Table of Contents**DISCLOSURE ABOUT CRITICAL ACCOUNTING POLICIES**

Our accounting policies are disclosed in our 2009 Report on Form 10-K. During the first quarter of fiscal 2010, there were no material changes to these policies.

NEW ACCOUNTING PRONOUNCEMENTS

See Note 14 in Notes to Condensed Consolidated Financial Statements for further information regarding new accounting pronouncements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in foreign exchange and interest rates. We selectively use financial instruments to reduce such risks.

Foreign Currency Risk

We do not use derivative financial instruments for speculative purposes. Our policy is to selectively hedge our foreign currency denominated transactions in a manner that partially offsets the effects of changes in foreign currency exchange rates. We typically use foreign currency contracts to hedge only those currency exposures associated with certain assets and liabilities denominated in non-functional currencies. Corresponding gains and losses on the underlying transaction generally offset the gains and losses on these foreign currency hedges. Our international operations create potential foreign exchange risk. Beginning in July 2009, we entered into forward contracts to hedge a portion of our foreign currency denominated transactions in our Asia reportable segment as described in Note 5 in Notes to Consolidated Financial Statements. Our percentages of transactions denominated in currencies other than the U.S. dollar for the indicated periods were as follows:

	Three months ended	
	January 2, 2010	January 3, 2009
Net Sales	4%	3%
Total Costs	12%	10%

Interest Rate Risk

We have financial instruments, including cash equivalents and short-term investments, which are sensitive to changes in interest rates. We consider the use of interest-rate swaps based on existing market conditions and have entered into interest rate swaps for \$150 million in term loans as described in Note 5 in Notes to Condensed Consolidated Financial Statements. As with any agreement of this type, our interest rate swap agreements are subject to the further risk that the counterparties to these agreements may fail to comply with their obligations thereunder.

The primary objective of our investment activities is to preserve principal, while maximizing yields without significantly increasing market risk. To achieve this, we maintain our portfolio of cash equivalents and short-term investments in a variety of highly rated securities, money market funds and certificates of deposit and limit the amount of principal exposure to any one issuer.

Table of Contents

Our only material interest rate risk is associated with our Credit Facility under which we borrowed \$150 million on April 4, 2008. Through the use of interest rate swaps, as described above, we have fixed the basis on which we pay interest, thus eliminating much of our interest rate risk. A 10 percent change in the weighted average interest rate on our average long-term borrowings would have had only a nominal impact on net interest expense for the three months ended January 2, 2010.

Auction Rate Securities

As of January 2, 2010, we held \$2.0 million of auction rate securities, which were classified as long-term other assets. On February 21, 2008, we were unable to liquidate these investments, whose underlying assets were in guaranteed student loans backed by a U.S. government agency. Additional auctions for these investments failed during fiscal 2008, fiscal 2009 and in the first quarter of fiscal 2010. We have the ability and intent to hold these securities until a successful auction occurs and these securities are liquidated at par value. At this time, we believe that the securities will eventually be recovered. However, we may be required to hold these securities until market stability is restored for these instruments or final maturity of the underlying notes to realize our investments' recorded value. Accordingly, we have classified these securities as long-term other assets.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures: The Company maintains disclosure controls and procedures designed to ensure that the information the Company must disclose in its filings with the Securities and Exchange Commission (SEC) is recorded, processed, summarized and reported on a timely basis. The Company's principal executive officer and principal financial officer have reviewed and evaluated, with the participation of the Company's management, the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act) as of the end of the period covered by this report (the Evaluation Date). Based on such evaluation, the chief executive officer and chief financial officer have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective (a) in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports the Company files or submits under the Exchange Act, and (b) in assuring that information is accumulated and communicated to the Company's management, including the chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting: During the first quarter of fiscal 2010, there have been no changes to the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations on the Effectiveness of Controls: Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls and internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Notwithstanding the foregoing limitations on the effectiveness of controls, we have nonetheless reached the conclusion that the Company's disclosure controls and procedures are effective at the reasonable assurance level.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

We were notified in April 2009 by U.S. Customs and Border Protection (CBP) of its intention to conduct a customary Focused Assessment of our import activities during fiscal 2008 and of our processes and procedures to comply with U.S. Customs laws and regulations. As a result of discussions with CBP, by June 2010, Plexus has committed to CBP that it will report any errors, and tender any associated duties and fees, relating to import trade activity. Plexus has also agreed that it will implement improved processes and procedures in areas where errors are found and review these corrective measures with CBP. At this time, we do not believe that any deficiencies in processes or controls, or unanticipated costs, unpaid duties or penalties associated with this matter, will have a material adverse effect on Plexus or our results of operations.

The Company is party to certain other lawsuits in the ordinary course of business. Management does not believe that these proceedings, individually or in the aggregate, will have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

ITEM 1A. Risk Factors

In addition to the risks and uncertainties discussed herein, see the risk factors set forth in Part I, Item 1A of the Company s annual report on Form 10-K for the year ended October 3, 2009.

ITEM 6. EXHIBITS

- 10.1 Amended and Restated Plexus Corp. 2008 Long-Term Incentive Plan. *
- 10.2 Form of Plexus Corp. Non-Qualified Stock Option Agreement. *
- 10.3 Form of Plexus Corp. Unrestricted Stock Award. **
- 10.4 Plexus Corp. Non-Employee Directors Deferred Compensation Plan. ***
- 31.1 Certification of Chief Executive Officer pursuant to Section 302(a) of the Sarbanes Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to section 302(a) of the Sarbanes Oxley Act of 2002.
- 32.1 Certification of the CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Reflects non-material changes that were finalized in January 2010.

** Form of award consistent with the 2008 Long-Term Incentive Plan.

Memorialization
of current policy
filed for
reference. Not
deemed to be a
material change
from current
procedures.

Table of Contents

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.

Plexus Corp.
Registrant

2/4/10
Date

/s/ Dean A. Foate
Dean A. Foate
President and Chief Executive Officer

2/4/10
Date

/s/ Ginger M. Jones
Ginger M. Jones
Vice President and Chief Financial Officer

30