

ALLIED HEALTHCARE PRODUCTS INC
Form 10-Q
May 10, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 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 March 31, 2012

“ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the transition period from _____ to _____

Commission File Number: 0-19266

ALLIED HEALTHCARE PRODUCTS, INC.

(Exact name of registrant as specified in its charter)

Delaware 25-1370721
(State or other jurisdiction of (I.R.S. Employer
Incorporation or organization) Identification No.)

1720 Sublette Avenue, St. Louis, Missouri 63110

(Address of principal executive offices, including zip code)

(314) 771-2400

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 twelve months (or for such shorter periods that the registrant was required to file such reports, and (2) has been subject to such filing requirements for the past ninety 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

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

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

Yes No

The number of shares of common stock outstanding at April 30, 2012 is 8,124,386 shares.

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

Statements contained in this Report, which are not historical facts or information, are "forward-looking statements." Words such as "believe," "expect," "intend," "will," "should," and other expressions that indicate future events and trends identify such forward-looking statements. These forward-looking statements involve risks and uncertainties, which could cause the outcome and future results of operations, and financial condition to be materially different than stated or anticipated based on the forward-looking statements. Such risks and uncertainties include both general economic risks and uncertainties, risks and uncertainties affecting the demand for and economic factors affecting the delivery of health care services, and specific matters which relate directly to the Company's operations and properties as discussed in the Company's annual report on Form 10-K for the year ended June 30, 2011. The Company cautions that any forward-looking statements contained in this report reflect only the belief of the Company or its management at the time the statement was made. Although the Company believes such forward-looking statements are based upon reasonable assumptions, such assumptions may ultimately prove inaccurate or incomplete. The Company undertakes

no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement was made.

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****ALLIED HEALTHCARE PRODUCTS, INC.****CONSOLIDATED STATEMENT OF OPERATIONS****(UNAUDITED)**

	Three months ended March 31,		Nine months ended March 31,	
	2012	2011	2012	2011
Net sales	\$ 10,702,421	\$ 11,338,196	\$ 32,778,824	\$ 34,681,610
Cost of sales	8,377,307	8,729,823	25,312,756	26,712,541
Gross profit	2,325,114	2,608,373	7,466,068	7,969,069
Selling, general and administrative expenses	2,555,649	2,494,806	7,883,631	7,780,116
Income (loss) from operations	(230,535)	113,567	(417,563)	188,953
Interest income	(5,692)	(8,150)	(21,984)	(23,692)
Interest expense	-	-	336	66
Other, net	10,297	24,421	36,446	67,931
	4,605	16,271	14,798	44,305
Income (loss) before provision for (benefit from) income taxes	(235,140)	97,296	(432,361)	144,648
Provision for (benefit from) income taxes	(89,353)	36,972	(164,297)	54,966
Net income (loss)	\$(145,787)	\$60,324	\$(268,064)	\$89,682
Basic earnings (loss) per share	\$(0.02)	\$0.01	\$(0.03)	\$0.01
Diluted earnings (loss) per share	\$(0.02)	\$0.01	\$(0.03)	\$0.01
Weighted average shares outstanding - basic	8,124,386	8,113,434	8,124,386	8,101,643
Weighted average shares outstanding - diluted	8,124,386	8,195,174	8,124,386	8,121,042

See accompanying Notes to Consolidated Financial Statements.

ALLIED HEALTHCARE PRODUCTS, INC.**CONSOLIDATED BALANCE SHEET****ASSETS**

	(Unaudited)	
	March 31, 2012	June 30, 2011
Current assets:		
Cash and cash equivalents	\$6,375,285	\$6,512,887
Accounts receivable, net of allowances of \$300,000	4,123,940	5,366,860
Inventories, net	10,338,003	10,553,289
Income tax receivable	-	95,578
Other current assets	665,404	213,745
Total current assets	\$21,502,632	\$22,742,359
Property, plant and equipment, net	9,307,647	8,660,507
Other assets, net	562,112	362,480
Total assets	\$31,372,391	\$31,765,346

See accompanying Notes to Consolidated Financial Statements.

(CONTINUED)

ALLIED HEALTHCARE PRODUCTS, INC.**CONSOLIDATED BALANCE SHEET****(CONTINUED)****LIABILITIES AND STOCKHOLDERS' EQUITY**

	(Unaudited)	
	March 31, 2012	June 30, 2011
Current liabilities:		
Accounts payable	\$1,588,091	\$1,644,910
Other accrued liabilities	2,073,899	1,645,552
Deferred income taxes	499,417	512,572
Deferred revenue	286,750	688,200
Total current liabilities	4,448,157	4,491,234
Deferred revenue	-	114,700
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Preferred stock; \$0.01 par value; 1,500,000 shares authorized; no shares issued and outstanding	-	-
Series A preferred stock; \$0.01 par value; 200,000 shares authorized; no shares issued and outstanding	-	-
Common stock; \$0.01 par value; 30,000,000 shares authorized; 10,427,878 shares issued at March 31, 2012 and June 30, 2011; 8,124,386 shares outstanding at March 31, 2012 and June 30, 2011	104,279	104,279
Additional paid-in capital	48,531,989	48,499,103
Accumulated deficit	(980,606)	(712,542)
Less treasury stock, at cost; 2,303,492 shares at March 31, 2012 and June 30, 2011	(20,731,428)	(20,731,428)
Total stockholders' equity	26,924,234	27,159,412
Total liabilities and stockholders' equity	\$31,372,391	\$31,765,346

See accompanying Notes to Consolidated Financial Statements.

ALLIED HEALTHCARE PRODUCTS, INC.**CONSOLIDATED STATEMENT OF CASH FLOWS****(UNAUDITED)**

	Nine months ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net income (loss)	\$(268,064)	\$89,682
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	948,245	1,070,981
Stock based compensation	32,886	15,928
Provision for doubtful accounts and sales returns and allowances	13,478	19,722
Deferred taxes	(221,970)	(6,371)
Changes in operating assets and liabilities:		
Accounts receivable	1,229,442	109,248
Inventories	215,286	(59,555)
Income tax receivable	95,578	101,084
Other current assets	(451,659)	(34,925)
Accounts payable	(56,819)	30,868
Deferred revenue	(516,150)	(516,150)
Other accrued liabilities	428,347	(271,665)
Net cash provided by operating activities	1,448,600	548,847
Cash flows from investing activities:		
Capital expenditures	(1,586,202)	(125,815)
Net cash used in investing activities	(1,586,202)	(125,815)
Cash flows from financing activities:		
Stock options exercised	-	103,250
Excess tax benefit from exercise of stock options	-	12,980
Net cash provided by financing activities	-	116,230
Net (decrease) increase in cash and cash equivalents	(137,602)	539,262
Cash and cash equivalents at beginning of period	6,512,887	5,263,324
Cash and cash equivalents at end of period	\$6,375,285	\$5,802,586

See accompanying Notes to Consolidated Financial Statements.

ALLIED HEALTHCARE PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Summary of Significant Accounting and Reporting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements of Allied Healthcare Products, Inc. (the “Company”) have been prepared in accordance with the instructions for Form 10-Q and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments considered necessary for a fair presentation, have been included. Operating results for any quarter are not necessarily indicative of the results for any other quarter or for the full year. These statements should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements thereto included in the Company’s Annual Report on Form 10-K for the year ended June 30, 2011.

Recently Adopted Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (“FASB”) issued guidance titled “Revenue Recognition – Multiple Deliverable Revenue Arrangements”, which requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The guidance eliminates the residual method of revenue allocation and requires revenue to be allocated using the relative selling price method. This guidance is applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. This guidance became effective for the Company in the quarter ended September 30, 2010, and its adoption did not have a significant effect on the Company’s consolidated financial statements.

In July 2010, the FASB issued guidance expanding disclosure requirements related to receivables. The guidance was issued to provide financial statement users with greater transparency about an entity’s allowance for credit losses and the credit quality of its financing receivables. The guidance is for receivables, off-balance sheet credit exposures and foreclosed and repossessed assets. The Company’s summary of significant accounting policies shall now include: (i) basis for accounting for loans, trade receivables, and lease financing (including those classified as held for sale), (ii) method used in determining the lower of cost or fair value of nonmortgage loans held for sale, (iii) classification and

method of accounting for interest-only strips, loans and other receivables and (iv) method for recognizing interest income on loan and trade receivables.

In addition, the allowance for credit losses, the allowance for doubtful accounts, and as applicable any unearned income, any unamortized premiums and discounts, and any net unamortized deferred fees and costs, shall be disclosed in the financial statements. The Company adopted this guidance, as required for both interim and annual reporting periods, for the quarter ended December 31, 2010. The adoption of this guidance does not impact the Company's consolidated results of operations or financial position. The Company has included its Accounts Receivable policy in Note 2 – Summary of Significant Accounting Policies.

Recently Issued Accounting Pronouncements

In September 2011, the FASB issued guidance titled “Disclosures about an Employers Participation in a Multiemployer Plan”. The guidance requires employers that participate in multiemployer pension plans to provide additional quantitative and qualitative disclosures to provide users with more detailed information about an employer's involvement in multiemployer pension plans. The guidance is effective for years ending after December 15, 2011. Adoption of this pronouncement is not expected to have a material impact on the Company's consolidated financial statements.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash, accounts receivable and accounts payable. The carrying amounts for cash, accounts receivable and accounts payable approximate their fair value due to the short maturity of these instruments.

2. Inventories

Inventories are comprised as follows:

	March 31, 2012	June 30, 2011
Work-in progress	\$ 763,016	\$ 820,586
Component parts	7,599,999	7,858,862
Finished goods	3,285,723	3,293,261
Reserve for obsolete and excess inventory	(1,310,735)	(1,419,420)
	\$ 10,338,003	\$ 10,553,289

3. Earnings per share

Basic earnings per share are based on the weighted average number of shares of all common stock outstanding during the period. Diluted earnings per share are based on the sum of the weighted average number of shares of common stock and common stock equivalents outstanding during the period. The number of basic shares outstanding for the three months ended March 31, 2012 and 2011 were 8,124,386 and 8,113,434, respectively. The number of diluted shares outstanding for the three months ended March 31, 2012 and 2011 were 8,124,386 and 8,195,174, respectively. The number of basic shares outstanding for the nine months ended March 31, 2012 and 2011 was 8,124,386 and 8,101,643, respectively. The number of diluted shares outstanding for the nine months ended March 31, 2012 and 2011 was 8,124,386 and 8,121,042, respectively.

4. Commitments and Contingencies

The Company is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. The Company intends to continue to conduct business in such a manner as to avert any FDA action seeking to interrupt or suspend manufacturing or require any recall or modification of products.

The Company has recognized the costs and associated liabilities only for those investigations, claims and legal proceedings for which, in its view, it is probable that liabilities have been incurred and the related amounts are estimable. Based upon information currently available, management believes that existing accrued liabilities are sufficient and that it is not reasonably possible at this time that any additional liabilities will result from the resolution of these matters that would have a material adverse effect on the Company's consolidated results of operations, financial position, or cash flows.

Stuyvesant Falls Power Litigation. The Company is currently involved in litigation with Niagara Mohawk Power Corporation d/b/a National Grid ("Niagara") and other parties, which provides electrical power to the Company's facility in Stuyvesant Falls, New York. In fiscal year 2011, Niagara began sending invoices to the Company for electricity used at the Company's Stuyvesant Falls plant. The Company maintains in its defense of the lawsuit that it is entitled to a certain amount of free electricity based on covenants running with the land which have been honored for more than a century. Niagara's attempts to collect such invoices were stopped in December 2010 by a temporary restraining order, although a court has not yet ruled on the merits of all of Niagara's claims. Among other things, Niagara seeks approximately \$469,000, which it alleges represents the value of electricity provided prior to the commencement of litigation going back to 2003. As of March 31, 2012, the Company has not recorded a provision for this matter as management intends to vigorously defend this allegation and believes the payment of this claim is not probable. The Company believes, however, that any liability it may incur would not have a material adverse effect on its financial condition or its result of operations.

Armstrong Medical Infringement Litigation. The Company is currently involved in litigation against Armstrong Medical Ltd., relating to the Company's marketing and sale of Litholyme® and a patent owned by Armstrong Medical regarding a carbon dioxide absorbent for use in anesthesiology. In this litigation, the Company asserts that Armstrong Medical's patent is invalid as being anticipated and obvious in light of material prior art and seeks a declaratory judgment that the marketing and sale of Litholyme® does not infringe Armstrong Medical's patent. Armstrong Medical has denied the Company's claims and counterclaimed for infringement. As of March 31, 2012, the Company cannot estimate a loss or range of loss for this matter because damages claimed by Armstrong Medical have not been specified and the proceedings are in early stages.

5. Financing

The Company is party to a Loan and Security Agreement, dated November 17, 2009, with Enterprise Bank & Trust (the "Credit Agreement") pursuant to which the Company obtained a secured revolving credit facility with borrowing availability of up to \$7,500,000 (the "Credit Facility"). The Company's obligations under the Credit Facility are secured by certain assets of the Company pursuant to the terms and subject to the conditions set forth in the Credit Agreement.

The Credit Facility was amended on November 11, 2011 extending the maturity date to November 13, 2012. The Credit Facility will be available on a revolving basis until it expires on November 13, 2012, at which time all amounts outstanding under the Credit Facility will be due and payable. Advances under the Credit Facility will be made pursuant to a Revolving Credit Note executed by the Company in favor of Enterprise Bank & Trust. Such advances will bear interest at a rate equal to LIBOR plus 3.50%. Advances may be prepaid in whole or in part without premium or penalty.

Under the Credit Agreement, advances are generally subject to customary borrowing conditions. The Credit Agreement also contains covenants with which the Company must comply during the term of the Credit Facility. Among other things, such covenants restrict the Company's ability to incur certain additional debt; make specified restricted payments, dividends and capital expenditures; authorize or issue capital stock; enter into certain transactions with affiliates; consolidate or merge with or acquire another business; sell certain of its assets or dissolve or wind up the Company. The Credit Agreement also contains certain events of default that are customary for financings of this type including, without limitation: the failure to pay principal, interest, fees or other amounts when due; the breach of specified representations or warranties contained in the loan documents; cross-default with certain other indebtedness of the Company; the entry of uninsured judgments that are not bonded or stayed; failure to comply with the observance or performance of specified agreements contained in the loan documents; commencement of bankruptcy or other insolvency proceedings; and the failure of any of the loan documents entered into in connection with the Credit Facility to be in full force and effect. After an event of default, and upon the continuation thereof, the principal amount of all loans made under the Credit Facility would bear interest at a rate per annum equal to 4.00% above the otherwise applicable interest rate (provided, that the interest rate may not exceed the highest rate permissible under law), and the lender would have the option to accelerate maturity and payment of the Company's obligations under the Credit Facility.

The 90-day LIBOR rate was 0.47% on March 31, 2012.

At March 31, 2012 the Company had no aggregate indebtedness, including capital lease obligations, short-term debt and long term debt.

The Company was in compliance with all of the financial covenants associated with the Credit Facility at March 31, 2012.

6. Baralyme® Agreement

A reconciliation of deferred revenue resulting from the agreement with Abbott Laboratories (“Abbott”), with the amounts received under the agreement, and amounts recognized as net sales is as follows:

	Three Months ended March 31,		Nine Months ended March 31,	
	2012	2011	2012	2011
Beginning balance	\$458,800	\$1,147,000	\$802,900	\$1,491,100
Revenue recognized as net sales	(172,050)	(172,050)	(516,150)	(516,150)
	286,750	974,950	286,750	974,950
Less - Current portion of deferred revenue	(286,750)	(688,200)	(286,750)	(688,200)
	\$0	\$286,750	\$0	\$286,750

In addition to the provisions of the agreement relating to the withdrawal of the Baralyme® product, Abbott has agreed to pay Allied up to \$2,150,000 in product development costs to pursue development of a new carbon dioxide absorption product for use in connection with inhalation anesthetics that does not contain potassium hydroxide and does not produce a significant exothermic reaction with currently available inhalation agents. As of March 31, 2012, \$2,150,000 has been received as a result of product development activities.

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

Results of Operations

Three months ended March 31, 2012 compared to three months ended March 31, 2011

Allied had net sales of \$10.7 million for the three months ended March 31, 2012, down from net sales of \$11.3 million in the prior year same quarter. Domestic sales were down 10.4% while international sales, which represented 24.5% of third quarter sales, were up 12.9% from the prior year same quarter.

Sales for the three months ended March 31, 2012 include \$172,050 for the recognition into income of payments resulting from the agreement with Abbott Laboratories to cease the production and distribution of Baralyme®. Income from the agreement will continue to be recognized at \$57,350 per month until the expiration of the agreement in August 2012. Allied continues to sell Carbolime® and newly developed Litholyme®. Both are carbon dioxide absorbents with a different formulation than Baralyme®. The Company ceased the sale of Baralyme® on August 27, 2004.

Orders for the Company's products for the three months ended March 31, 2012 of \$10.6 million were \$0.1 million or 1.0% higher than orders for the prior year same quarter of \$10.5 million. Domestic orders are down 2.9% over the prior year same quarter while international orders, which represented 24.7% of third quarter orders, were 17.6% higher than orders for the prior year same quarter. The Company believes the drop in domestic orders from the prior year is due to normal variations in customer order patterns and does not reflect a drop in market share or a further drop in aggregate demand.

Gross profit for the three months ended March 31, 2012 was \$2.3 million, or 21.5% of net sales, compared to \$2.6 million, or 23.0% of net sales, for the three months ended March 31, 2011. The decrease in gross profit is primarily the result of lower sales volume. The decrease in sales for the quarter also resulted in decreased production in comparison to the prior year and less utilization of fixed overhead cost. Gross profit during the third quarter was favorably impacted from the prior year by an approximately \$0.1 million reduction in shipping and other startup cost at its Stuyvesant Falls facility. The Company continues to implement changes to its operations to reduce the manufacturing cost in St. Louis and Stuyvesant Falls.

Selling, general and administrative expenses for the three months ended March 31, 2012 were \$2.6 million compared to selling, general and administrative expenses of \$2.5 million for the three months ended March 31, 2011. Research and development costs were approximately \$90,000 higher than in the prior year.

Loss from operations was \$0.2 million for the three months ended March 31, 2012 compared to income from operations of \$0.1 million for the three months ended March 31, 2011. Allied had a loss before benefit from income taxes in the third quarter of fiscal 2012 of \$0.2 million, compared to income before provision for income taxes of \$0.1 million in the prior year period. The Company recorded a tax benefit of \$89,353 for the three months ended March 31, 2012 compared to a tax provision of \$36,972 for the three months ended March 31, 2011.

Net loss for the third quarter of fiscal 2012 was \$145,787 or \$0.02 per basic and diluted share compared to net income of \$60,324 or \$0.01 per basic and diluted share for the third quarter of fiscal 2011. The weighted average number of common shares outstanding, used in the calculation of basic earnings per share for the third quarters of fiscal 2012 and 2011 were 8,124,386 and 8,113,434, respectively. The number of diluted shares outstanding for the three months ended March 31, 2012 and 2011 were 8,124,386 and 8,195,174, respectively.

Nine months ended March 31, 2012 compared to nine months ended March 31, 2011

Allied had net sales of \$32.8 million for the nine months ended March 31, 2012, down \$1.9 million, or 5.5% from net sales of \$34.7 million in the prior year same period resulting from lower order levels. Domestic sales were down 8.3% from the prior year same period while international sales were up 6.4% from the prior year same period. International business represented 21.6% of sales for the first nine months of fiscal 2012.

Sales for the nine months ended March 31, 2012 include \$516,150 for the recognition into income of payments resulting from the agreement with Abbott Laboratories to cease the production and distribution of Baralyme®. Income from the agreement will continue to be recognized at \$57,350 per month until the expiration of the agreement in August 2012. Allied continues to sell Carbolime® and newly developed Litholyme®. Both are carbon dioxide absorbents with a different formulation than Baralyme®. The Company ceased the sale of Baralyme® on August 27, 2004.

Orders for the Company's products for the nine months ended March 31, 2012 of \$31.3 million were \$2.0 million or 6.0% lower than orders for the prior year same period of \$33.3 million. Domestic orders are down 10.9% over the prior year same period while international orders, which represented 23.8% of orders for the first nine months of fiscal 2012, were 15.4% higher than orders for the prior year same period. The Company believes the improvement in international orders is due to the reorganization of its international sales efforts. The Coy written notice to the Corporation stating the number of shares being purchased and accompanied by the payment in full of the Option price for such shares. Such payment shall be made in cash, outstanding shares of the Common Stock which the Grantee, the Grantee's spouse or both have beneficially owned for at least six months prior to the time of exercise, or in combinations thereof. If shares of Common Stock are used in part or full payment for the shares to be acquired upon exercise of the Option, such shares shall be valued for the purpose of such exchange as of the date of exercise of the Option at the Fair Market Value of the shares. (b) SARs: SARs may be exercised from time to time only upon receipt by the Corporation of a written notice of election which shall be dated the date of such election which shall be deemed to be the date when such notice is sent by registered or certified mail or the date upon which receipt is acknowledged by the Corporation if hand delivered or sent other than by such mail. 15. Restricted Stock Awards. The Committee may, in its discretion, grant Restricted Stock to directors, officers and key employees of the Corporation and any of its subsidiaries. Restricted Stock Awards may consist of shares issued subject to forfeiture if specified conditions are not satisfied ("Restricted Stock Shares") or agreements to issue shares of Common Stock in the future if specified conditions are satisfied ("Restricted Stock Units"). The maximum number of shares of Restricted Stock which may be granted under the Plan shall be 600,000 and the maximum number of shares of Restricted Stock that can be granted to any Grantee in any calendar year shall be 200,000. The Committee may condition the grant of Restricted Stock upon the attainment of Performance Goals so that the grant qualifies as "performance-based compensation" within the meaning of Section 162(m) of the Code. The Committee may also condition the grant of Restricted Stock upon such other conditions, restrictions and contingencies as the Committee may determine. The provisions of Restricted Stock Awards need not be the same with respect to each recipient. Restricted Stock Awards shall be subject to the following terms and conditions: (a) Each Restricted Stock Award shall be confirmed by, and be subject to the terms of, an Award Agreement identifying the restrictions applicable to the Award. (b) Until the applicable restrictions lapse or the conditions are satisfied, the Grantee shall not be permitted to sell, assign, transfer, pledge or otherwise encumber the Restricted Stock Award. (c) Except to the extent otherwise provided in the applicable Award Agreement and (d)

below, the portion of the Restricted Stock Award still subject to restriction shall be forfeited by the Grantee upon termination of the Grantee's service for any reason. A-7 (d) In the event of hardship or other special circumstances of a Grantee whose service is terminated (other than for cause), the Committee may waive in whole or in part any or all remaining restrictions with respect to such Grantee's Restricted Stock Award. (e) If and when the applicable restrictions lapse, unlegended certificates for such shares shall be delivered to the Grantee. (f) A Grantee receiving an Award of Restricted Stock Shares shall have all of the rights of a shareholder of the Corporation, including the right to vote the shares and the right to receive any cash dividends. Unless otherwise determined by the Committee, cash dividends shall be paid in cash and dividends payable in stock shall be paid in the form of additional Restricted Stock Shares. (g) A Grantee receiving an Award of Restricted Stock Units shall not be deemed the holder of any shares covered by the Award, or have any rights as a shareholder with respect thereto, until such shares are issued to him/her.

16. Withholding. The Corporation shall have the power and the right to deduct or withhold, or require a Grantee to remit to the Corporation, an amount sufficient to satisfy Federal, state, and local taxes (including the Grantee's FICA obligation) required by law to be withheld with respect to any taxable event arising or as a result of this Plan. With respect to withholding required upon the exercise of Options or SARs, upon the lapse of restrictions on Restricted Stock, Grantees may elect, subject to the approval of the Committee, to satisfy the withholding requirement, in whole or in part, by having the Corporation withhold shares having a Fair Market Value on the date the tax is to be determined equal to the minimum statutory total tax which could be imposed on the transaction.

17. Deferral of Awards. The Committee may permit a Grantee to defer such Grantee's receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant by virtue of the exercise of the Option, or SAR, the lapse or waiver of restrictions with respect to Restricted Stock. If any such deferral election is required or permitted, the Committee shall, in its sole discretion, establish rules and procedures for such payment deferrals.

18. Effect of Change in Stock Subject to Plan. In the event of a reorganization, recapitalization, stock split, stock dividend, merger, consolidation, rights offering or like transaction, the Committee shall make or provide for such adjustment in the number of and class of shares which may be delivered under the Plan, and in the number and class of and/or price of shares subject to outstanding Options, SARs, and Restricted Stock granted under the Plan as it may, in its discretion, deem to be equitable; provided, however, in the event of the merger or consolidation of the Corporation with or into another corporation or corporations in which the Corporation is not the surviving corporation, the adoption of any plan for the dissolution of the Corporation, or the sale or exchange of all or substantially all the assets of the Corporation for cash or for shares of stock or other securities of another corporation, the Committee may, subject to the approval of the Board of Directors of the Corporation, or the board of directors of any corporation assuming the obligations of the Corporation hereunder, take action regarding each outstanding and unexercised Option pursuant to either clause (a) or (b) below: (a) Appropriate provision may be made for the protection of such Option by the substitution on an equitable basis of appropriate shares of the surviving corporation, provided that the excess of the aggregate Fair Market Value of the shares subject to such option immediately before such substitution over the exercise price thereof is not more than the excess of the aggregate fair market value of the substituted shares made subject to option immediately after such substitution over the exercise price thereof; or A-8 (b) The Committee may cancel such option. In the event any Option is canceled, the Corporation, or the corporation assuming the obligations of the Corporation hereunder, shall pay the employee an amount of cash (less normal withholding taxes) equal to the excess of the highest Fair Market Value per share of the Stock during the 60-day period immediately preceding the merger, consolidation or reorganization over the option exercise price, multiplied by the number of shares subject to such option. In the event any Option is canceled, the Corporation, or the corporation assuming the obligations of the Corporation hereunder, shall pay the Grantee an amount of cash or stock, as determined by the Committee, equal to the Fair Market Value per share of the Stock immediately preceding such cancellation over the Option exercise price, multiplied by the number of shares subject to such Option. In the event any SAR is canceled, the Corporation, or the corporation assuming the obligations of the Corporation hereunder, shall pay the Grantee an amount of cash or stock, as determined by the Committee, based upon the highest Fair Market Value per share of the Stock during the 60-day period immediately preceding the cancellation. Notwithstanding anything to the contrary, in the event a Change in Control should occur, all Options or SARs granted hereunder to a Grantee shall become immediately exercisable upon the later of the date of the Change in Control or six months after the date the respective Option or SAR was granted. Further, the Committee shall have the right to cancel such Options or SARs and pay the Grantee an amount determined under (b) above.

19. Liquidation. Upon the complete liquidation of the Corporation, any unexercised

Options and SARs theretofore granted under this Plan shall be deemed canceled. 20. No Employment or Retention Agreement Intended. Neither the establishment of, nor the awarding of Awards under this Plan shall be construed to create a contract of employment or service between any Grantee and the Corporation or its subsidiaries; nor does it give any Grantee the right to continued service in any capacity with the Corporation or its subsidiaries or limit in any way the right of the Corporation or its subsidiaries to discharge any Grantee at any time and without notice, with or without cause, or to any benefits not specifically provided by this Plan, or in any manner modify the Corporation's right to establish, modify, amend or terminate any profit sharing or retirement plans. 21. Shareholder Rights. Grantee shall not, by reason of any Options granted hereunder, have any right of a shareholder of the Corporation with respect to the shares covered by his Options until shares of Stock have been issued to him. 22. Controlling Law. The law of the State of Wisconsin, except its law with respect to choice of law, shall be controlling in all matters relating to the Plan. 23. Indemnification. In addition to such other rights of indemnification as they may have, the members of the Committee and other Corporation employees administering the Plan and the Board members shall be indemnified by the Corporation against the reasonable expenses, including attorneys' fees actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any Option granted thereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Corporation) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such member acted in bad faith in the performance of his duties; provided that within A-9 20 days after institution of any such action, suit or proceeding, the member shall in writing offer the Corporation the opportunity, at its own expense, to handle and defend the same. 24. Use of Proceeds. The proceeds from the sale of shares of Common Stock pursuant to Options granted under the Plan shall constitute general funds of the Corporation. 25. Amendment of the Plan. The Board may from time to time amend, modify, suspend or terminate the Plan; provided, however, that no such action shall be made without shareholder approval where such change would be required in order to comply with Rule 16b-3 or the Code. 26. Effective Date of Plan. The Plan shall become effective on the date it approved by the shareholders of the Corporation (the "Effective Date"). 27. Termination of the Plan. The Plan shall terminate ten years following the Effective Date, and no Awards shall be granted after such date under the Plan; provided, however, that the Plan shall terminate at such earlier time as the Board may determine. Any such termination, either partially or wholly, shall not affect any Awards then outstanding under the Plan. A-10 EXHIBIT B PLEXUS CORP. 2005 EMPLOYEE STOCK PURCHASE PLAN Plexus Corp. (the "Company") establishes its Employee Stock Purchase Plan as follows: 1. PURPOSE OF THE PLAN; EFFECTIVE DATE. The purpose of this Plan is to provide eligible employees of the Company who wish to become shareholders in the Company a convenient method of doing so. It is believed that employee participation in the ownership of the business will be to the mutual benefit of both the employees and the Company. It is the intention of the Company to have the Plan qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code of 1986, as amended (the "Code"). The provisions of the Plan shall, accordingly, be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code. This Plan shall become effective July 1, 2005, subject to approval by the shareholders of the Company. 2. DEFINITIONS. 2.1 "Compensation" means gross cash compensation, including wages, bonuses, overtime payments, payments for incentive compensation, and other special payments except to the extent that any such item is specifically excluded by the Board of Directors of the Company (the "Board") or a committee appointed by the Board. 2.2 "Account" shall mean the funds accumulated with respect to an individual employee as a result of deductions from his or her paycheck for the purpose of purchasing stock under this Plan. The funds allocated to an employee's account shall remain the property of the respective employee at all times but may be commingled with the general funds of the Company. 2.3 "Shares" means the issued or unissued shares of the common stock, \$.01 par value, of the Company. 2.4 "Fair Market Value" means the mean between the highest and lowest sale prices on such date for sales made and reported through the National Market System of the National Association of Securities Dealers or such national stock exchange on which such stock may then be listed and which constitutes the principal market for such stock, or, if no sales of stock shall have been reported with respect to that date, on the next preceding date with respect to which sales were reported. 3. EMPLOYEES ELIGIBLE TO PARTICIPATE. An employee of the Company or any of its subsidiaries who is in the employ of the Company on one or more offering dates is eligible to participate in the Plan, provided that the employee has been employed by the

Company for 90 days (and has successfully completed the training period) as of the commencement date of an offering, except: (a) employees whose customary employment is less than 20 hours per week; (b) employees whose customary employment is for not more than five months in any calendar year; and (c) independent contractors, individuals employed through contract employment agencies or companies, interns, or any other temporary type worker. With respect to any employee subject to Section 16(b) of the Securities Exchange Act of 1934, as amended, the Company may impose such conditions on the grant or exercise of any rights hereunder necessary to satisfy the requirements of such statute or applicable regulations.

4. OFFERINGS. Generally, there will be ten separate consecutive six-month offerings pursuant to the Plan. The first offering shall commence on July 1, 2005 and extend through December 31, 2005. Thereafter, offerings shall commence on each subsequent January 1 and July 1, and the final offering under this Plan shall commence on January 1, 2010 and terminate on June 30, 2010. In order to become eligible to purchase shares, an employee must sign an Enrollment Agreement, and any other necessary papers on or before the commencement date of the particular offering in which he wishes to participate. Participation in one offering under the Plan shall neither limit, nor require, participation in any other offering.

B-1 5. PRICE. Unless otherwise determined by the Board, the purchase price per share shall be the lesser of (1) 85% of the Fair Market Value of the stock on the offering date; or (2) 85% of the Fair Market Value of the stock on the last business day of the offering. The Board shall have the right to change the formula or method used to determine the purchase price per share for any offering commencing after the date of the Board action authorizing the change.

6. OFFERING DATE. The "offering date" as used in this Plan shall be the commencement date of the offering, if such date is a regular business day, or the first regular business day following such commencement date. A different date may be set by the Board or a committee appointed by the Board.

7. NUMBER OF SHARES TO BE OFFERED. Subject to adjustment as provided herein, the number of Shares that may be issued under the Plan shall not exceed 1,200,000 Shares (as such number may be adjusted by any stock split, dividend or similar change in the Company's capital stock approved by the Board of Directors). The shares to be sold to participants under the Plan will be common stock of the Company. If the total number of shares for which options are to be granted on any date in accordance with Section 10 exceeds the number of Shares then available under the Plan (after deduction of all Shares for which options have been exercised or are then outstanding), the Company shall make a pro rata allocation of the Shares remaining available in as nearly a uniform manner as shall be practicable and as it shall determine to be equitable. In such event, the payroll deductions to be made pursuant to the authorizations therefor shall be reduced accordingly and the Company shall give written notice of such reduction to each employee affected thereby.

8. PARTICIPATION. 8.1 An eligible employee may become a participant by completing an Enrollment Agreement provided by the Company and filing it with the Human Resources Department prior to the commencement of the offering to which it relates. 8.2 Payroll deductions for a participant shall commence on the offering date, and shall end on the termination date of such offering unless earlier terminated by the employee as provided in Section 14.

9. PAYROLL DEDUCTIONS. 9.1 At the time a participant files his authorization for a payroll deduction, he shall elect to have deductions made from his pay on each payday during the time he is a participant in an offering at a percentage of his Compensation as may be from time to time set by the Board or a committee appointed by the Board; provided such percentage shall not exceed 10%. 9.2 All payroll deductions made for a participant shall be credited to his account under the Plan. A participant may not make any separate cash payment into such account nor may payment for Shares be made other than by payroll deduction. 9.3 A participant may discontinue his participation in the Plan and receive the entire balance of his deductions as provided in Section 14, but no other change can be made during an offering and, specifically, a participant may not alter the rate of his payroll deductions for that offering.

10. GRANTING OF OPTION. On the offering date, this Plan shall be deemed to have granted to the participant an option for as many full and/or fractional shares as he will be able to purchase with the payroll deductions credited to his account during his participation in that offering. Notwithstanding the foregoing, no participant may purchase stock the fair market value of which exceeds \$25,000 during any calendar year.

11. EXERCISE OF OPTION. Each employee who continues to be a participant in an offering on the last business day of that offering shall be deemed to have exercised his option on such date and shall be deemed to have purchased from the Company such number of full and/or fractional shares of common stock reserved for the purpose of the Plan as his accumulated payroll deductions on such date will pay for at the option price.

B-2 12. EMPLOYEE'S RIGHTS. No participating employee shall have any right as a shareholder with respect to any shares until the shares have been purchased in accordance with Section 11 above and the stock has been issued by the Company. Neither the adoption of this Plan nor the granting of rights pursuant to it shall be deemed to create any right in any employee to be retained

or continued in the employment of the Company or any subsidiary. 13. EVIDENCE OF STOCK OWNERSHIP. 13.1 Promptly following the end of each offering, the number of shares of common stock purchased by each participant shall be deposited into an account established in the participant's name at a stock brokerage or other financial services firm designated by the Company (the "ESPP Broker"). 13.2 The participant may direct, by written notice to the Company at the time of his enrollment in the Plan, that his ESPP Broker account be established in the names of the participant and one other person designated by the participant, as joint tenants with right of survivorship, tenants in common, or community property, to the extent and in the manner permitted by applicable law. 13.3 A participant shall be free to undertake a disposition (as that term is defined in Section 424(c) of the US Internal Revenue Code of 1986, as amended (the "Code")) of the shares in his account at any time, whether by sale, exchange, gift, or other transfer of legal title, but in the absence of such a disposition of the shares, the shares must remain in the participant's account at the ESPP Broker until the holding period set forth in Section 423(a) of the Code has been satisfied. With respect to shares for which the Section 423(a) holding period has been satisfied, the participant may move those shares to another brokerage account of participant's choosing or request that a stock certificate be issued and delivered to him. 13.4 A participant who is not subject to payment of U.S. income taxes may move his shares to another brokerage account of his choosing or request that a stock certificate be issued and delivered to him at any time, without regard to the satisfaction of the Section 423(a) holding period. 14. WITHDRAWAL. 14.1 An employee may withdraw from an offering, in whole but not in part, at any time prior to the last business day of such offering by delivering a Withdrawal Notice to the Company, in which event the Company will refund the entire balance of his deductions as soon as practicable thereafter. 14.2 To re-enter the Plan, an employee who has previously withdrawn must file a new Enrollment Agreement in accordance with Section 8.1. The employee's re-entry into the Plan will not become effective before the beginning of the next offering following his withdrawal, and if the withdrawing employee is an officer of the Company within the meaning of Section 16 of the Securities Exchange Act of 1934 he may not re-enter the Plan before the beginning of the second offering following his withdrawal. 15. CARRYOVER OF ACCOUNT. At the termination of each offering the Company shall automatically re-enroll the employee in the next offering, and the balance in the employee's account shall be used for option exercises in the new offering, unless the employee has advised the Company otherwise. Upon termination of the Plan, the balance of each employee's account shall be refunded to him. 16. INTEREST. No interest will be paid or allowed on any money in the accounts of participating employees. 17. RIGHTS NOT TRANSFERABLE. No employee shall be permitted to sell, assign, transfer, pledge, or otherwise dispose of or encumber either the payroll deductions credited to his account or any rights with regard to the exercise of an option or to receive shares under the Plan other than by will or the laws of descent and distribution, and such right and interest shall not be liable for, or subject to, the debts, contracts, or liabilities of the employee. If any such action is taken by the employee, or any claim is asserted by any other party in respect of such right and interest whether by garnishment, levy, attachment or otherwise, such action or claim will be treated as an election to withdraw funds in accordance with Section 14. B-3 18. TERMINATION OF EMPLOYMENT. Upon termination of employment for any reason whatsoever, including but not limited to death or retirement, the balance in the account of a participating employee shall be paid to the employee or his estate. 19. AMENDMENT OR DISCONTINUANCE OF THE PLAN. The Board shall have the right to amend, modify, or terminate the Plan at any time without notice, provided that no employee's existing rights under any offering already completed under Section 4 hereof may be adversely affected thereby, and provided further that no such amendment of the Plan shall, except as provided in Section 20, increase the total number of Shares to be offered unless shareholder approval is obtained therefor. If the Plan is terminated during an offering, the balance in the accounts of participating employees shall be paid to the employees. 20. CHANGES IN CAPITALIZATION. In the event of reorganization, recapitalization, stock split, dividend, combination of shares, merger, consolidation, offerings of rights, or any other change in the structure of the common shares of the Company, the Board may make such adjustment, if any, as it may deem appropriate in the number, kind, and the price of Shares available for purchase under the Plan, and in the number of Shares which an employee is entitled to purchase under any outstanding option. 21. SHARE OWNERSHIP. Notwithstanding anything herein to the contrary, no employee shall be permitted to subscribe for any Shares under the Plan if such employee, immediately after such subscription, owns shares (including all Shares which may be purchased under outstanding subscriptions under the Plan) possessing 5% or more of the total combined voting power or value of all classes of shares of the Company or of its parent or subsidiary corporations. 22. ADMINISTRATION. The Plan shall be administered by the Board. The Board shall be vested with full authority to make, administer, and interpret such rules

and regulations as it deems necessary to administer the Plan, and any determination, decision, or action of the Board in connection with the construction, interpretation, administration, or application of the Plan shall be final, conclusive, and binding upon all participants and any and all persons claiming under or through any participant. The Board may delegate any or all of its authority hereunder to such committee as it may designate. 23. NOTICES. All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received by the Human Resources Department of the Company or when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof. 24.

TERMINATION OF THE PLAN. This Plan shall terminate at the earliest of the following: (a) June 30, 2010; (b) the date the Board acts to terminate the Plan in accordance with Section 19 above; or (c) the date when all shares reserved under the Plan have been purchased. 25. LIMITATION ON SALE OF STOCK PURCHASED UNDER THE PLAN.

The Plan is intended to provide common stock for investment and not for resale. The Company does not, however, intend to restrict or influence any employee in the conduct of his own affairs. An employee, therefore, may sell stock purchased under this Plan at any time he chooses, subject to compliance with any applicable federal or state securities laws. THE EMPLOYEE ASSUMES THE RISK OF ANY MARKET FLUCTUATIONS IN THE PRICE OF THE STOCK. 26. GOVERNMENTAL REGULATION AND REGISTRATION OF SHARES. The Company's obligation to sell and deliver shares of the Company's common stock under this plan is subject to the approval of, or registration of shares of common stock with, applicable governmental authorities required in connection with the authorization, issuance, or sale of such shares. B-4 PLEXUS CORP. PROXY FOR 2005 ANNUAL MEETING OF

SHAREHOLDERS THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS The undersigned hereby appoints John L. Nussbaum, Dean A. Foate and Joseph D. Kaufman, and any of them, proxies, with full power of substitution, to vote all shares of stock which the undersigned is entitled to vote at the annual meeting of shareholders of Plexus Corp. to be held in the KC Theater at the Fox Cities Performing Arts Center, located at 400 West College Avenue, Appleton, Wisconsin, on Wednesday, February 9, 2005 at 10:00 a.m. Central Time, or at any adjournment thereof, as follows, hereby revoking any proxy previously given: (Continued and to be signed on reverse side) ANNUAL MEETING OF SHAREHOLDERS OF PLEXUS CORP. FEBRUARY 9, 2005 PLEASE DATE, SIGN AND MAIL YOUR PROXY CARD IN THE ENVELOPE PROVIDED AS SOON AS POSSIBLE. -Please detach along perforated line and mail in the envelope provided.- (1) Election of Directors: [] FOR ALL NOMINEES [] WITHHOLD AUTHORITY [] FOR ALL EXCEPT FOR ALL NOMINEES (See instructions below) Nominees: - Ralf R. Boer, - Stephen P. Cortinovic, - David J. Drury, - Dean A. Foate, - John L. Nussbaum, - Thomas J. Prosser, - Charles M. Strother INSTRUCTION: To withhold authority to vote for any individual nominee(s), mark "FOR ALL EXCEPT" and fill in the circle next to each nominee you wish to withhold, as shown here: (2) Approval of the Plexus Corp. 2005 Equity Incentive Plan: [] FOR [] AGAINST [] ABSTAIN (3) Approval of the Plexus Corp. 2005 Employee Stock Purchase Plan: [] FOR [] AGAINST [] ABSTAIN (4) Ratification of PricewaterhouseCoopers as Independent Auditors: [] FOR [] AGAINST [] ABSTAIN (5) In their discretion on such other matters as may properly come before the meeting or any adjournment thereof; all as set out in the Notice and Proxy Statement relating to the annual meeting, receipt of which is hereby acknowledged. This proxy when properly executed will be voted in the manner directed herein by the undersigned shareholder(s). If you do not provide a direction, this proxy will be voted "FOR" each of the nominees for director who are listed in Proposal (1) and "FOR" Proposals (2), (3) and (4). _____ To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note [] that changes to the registered name(s) on the account may not be submitted via this method.

Shareholder _____ Date _____ Signature of Shareholder _____

Date _____ NOTE: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.