PLEXUS CORP
Form 10-Q
May 10, 2007

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

þ **Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarter ended March 31, 2007

or

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission File Number 000-14824

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 reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

Yes o No þ

As of May 2, 2007, there were 46,332,532 shares of Common Stock of the Company outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

PLEXUS CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(in thousands, except per share data)
Unaudited

	Three Months Ended		Six Months Ended	
	March 31, 2007	April 1, 2006	March 31, 2007	April 1, 2006
Net sales	$ 360,175	$ 337,911	$ 741,010	$ 666,217
Cost of sales	328,533	300,870	669,713	597,901
Gross profit	31,642	37,041	71,297	68,316
Operating expenses:				
Selling and administrative expenses	20,572	19,301	40,918	36,530
Restructuring costs	419		932	
	20,991	19,301	41,850	36,530
Operating income	10,651	17,740	29,447	31,786
Other income (expense):				
Interest expense	(761)	(1,001)	(1,686)	(1,831)
Interest income	2,153	1,453	4,464	2,573
Miscellaneous	(82)	345	(631)	19
Income before income taxes	11,961	18,537	31,594	32,547
Income tax expense	1,803		6,319	253
Net income	$ 10,158	$ 18,537	$ 25,275	$ 32,294
Earnings per share:				
Basic	$ 0.22	$ 0.42	$ 0.55	$ 0.73
Diluted	$ 0.22	$ 0.40	$ 0.54	$ 0.71
Weighted average shares outstanding:				
Basic	46,296	44,633	46,269	44,265

Diluted	46,601	46,347	46,698	45,760
Comprehensive income:				
Net income	$ 10,158	$ 18,537	$ 25,275	$ 32,294
Foreign currency translation adjustments	220	1,912	1,203	743
Comprehensive income	$ 10,378	$ 20,449	$ 26,478	$ 33,037

See notes to condensed consolidated financial statements.

PLEXUS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)
Unaudited

	March 31, 2007	September 30, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 132,706	$ 164,912
Short-term investments	45,000	30,000
Accounts receivable, net of allowance of $1,000 and $1,100, respectively	194,442	209,737
Inventories	244,129	224,342
Deferred income taxes	10,378	10,232
Prepaid expenses and other	7,477	6,226
Total current assets	634,132	645,449
Property, plant and equipment, net	149,907	134,437
Goodwill	7,783	7,400
Deferred income taxes	4,606	4,542
Other	11,440	9,634
Total assets	$ 807,868	$ 801,462
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of capital lease obligations	$ 1,643	$ 997
Accounts payable	192,744	215,332
Customer deposits	7,601	7,091
Accrued liabilities:		
Salaries and wages	22,850	33,153
Other	30,022	29,808
Total current liabilities	254,860	286,381
Capital lease obligations, net of current portion	25,551	25,653
Other liabilities	9,434	7,861
Commitments and contingencies		
Shareholders equity:		
Preferred stock, $.01 par value, 5,000 shares authorized, none issued or outstanding		

Common stock, $.01 par value, 200,000 shares authorized, 46,328 and 46,217 shares issued and outstanding, respectively	463	462
Additional paid-in capital	322,762	312,785
Retained earnings	184,143	158,868
Accumulated other comprehensive income	10,655	9,452
	518,023	481,567
Total liabilities and shareholders equity	$ 807,868	$ 801,462

See notes to condensed consolidated financial statements.

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

	Six Months Ended	
	March 31, 2007	April 1, 2006
Cash flows from operating activities		
Net income	$ 25,275	$ 32,294
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,837	11,493
Gain on sale of property, plant and equipment	(410)	
Deferred income taxes	3,954	465
Stock based compensation expense	3,204	1,005
Changes in assets and liabilities:		
Accounts receivable	16,028	(8,589)
Inventories	(19,080)	(27,358)
Prepaid expenses and other	(2,699)	(1,681)
Accounts payable	(24,332)	35,415
Customer deposits	930	2,408
Accrued liabilities and other	(14,763)	(2,021)
Cash flows provided by operating activities	944	43,431
Cash flows from investing activities		
Purchases of short-term investments	(42,550)	(22,500)
Sales and maturities of short-term investments	27,550	7,500
Payments for property, plant and equipment	(30,057)	(21,453)
Proceeds from sales of property, plant and equipment	4,418	129
Cash flows used in investing activities	(40,639)	(36,324)
Cash flows from financing activities		
Proceeds from debt		1,292
Payments on debt and capital lease obligations	(781)	(1,093)
Proceeds from exercise of stock options	872	18,869
Income tax benefit of stock option exercises	5,683	184
Issuances of common stock under Employee Stock Purchase Plan	219	
Cash flows provided by financing activities	5,993	19,252

Effect of foreign currency translation on cash and cash equivalents	1,496	(413)
Net (decrease) increase in cash and cash equivalents	(32,206)	25,946
Cash and cash equivalents:		
Beginning of period	164,912	98,727
End of period	$ 132,706	$ 124,673

See notes to condensed consolidated financial statements.

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PLEXUS CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND SIX MONTHS ENDED MARCH 31, 2007 AND APRIL 1, 2006
Unaudited

NOTE 1 BASIS OF PRESENTATION

The condensed consolidated financial statements included herein have been prepared by Plexus Corp. and 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 consolidated financial statements reflect all adjustments, which include normal recurring adjustments necessary to present fairly the consolidated financial position of the Company as of March 31, 2007, and the results of operations for the three and six months ended March 31, 2007 and April 1, 2006, and the cash flows for the same six-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 2006 Annual Report on Form 10-K.

The Company s fiscal year ends on the Saturday closest to September 30. The Company 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. The accounting periods for the three and six months ended March 31, 2007 and April 1, 2006 each included 91 days and 182 days, respectively.

NOTE 2 INVENTORIES

The major classes of inventories are as follows (in thousands):

	March 31, 2007	September 30, 2006
Raw materials	$ 168,200	$ 148,856
Work-in-process	27,314	36,156
Finished goods	48,615	39,330
	$ 244,129	$ 224,342

NOTE 3 PROPERTY, PLANT AND EQUIPMENT

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

	March 31, 2007	September 30, 2006
Land, buildings and improvements	$ 91,129	$ 80,982
Machinery and equipment	163,298	152,933
Computer hardware and software	66,511	66,151
Construction in progress	7,284	3,263
	328,222	303,329
Less: accumulated depreciation and amortization	178,315	168,892
	$ 149,907	$ 134,437

NOTE 4 LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

On January 12, 2007, the Company entered into an amended and restated revolving credit facility (the Amended Credit Facility) with a group of banks which allows the Company to borrow up to $100 million. The Amended Credit Facility is unsecured and replaces the previous secured revolving credit facility (Secured Credit Facility). The Amended Credit Facility may be increased by an additional $100 million if there is no event of default existing

under the credit agreement and both the Company and the administrative agent consent to the increase. The Amended Credit Facility expires on January 12, 2012. Borrowings under the Amended Credit Facility may be either through revolving or swing loans or letters of credit obligations. As of March 31, 2007, there were no borrowings under the Amended Credit Facility.

The Amended 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, all as defined in the Amended Credit Facility. Interest on borrowing varies depending upon the Company s then-current total leverage ratio and begins at a defined base rate, or LIBOR plus 1.0 percent. Rates would increase upon unfavorable changes in specified Company financial metrics. The Company is also required to pay an annual commitment fee on the unused credit commitment which depends on its leverage ratio; the current fee is 0.25 percent. Origination fees and expenses associated with the Amended Credit Facility totaled approximately $0.3 million and have been deferred. These origination fees and expenses will be amortized over the five-year term of the Amended Credit Facility.

Interest expense related to the commitment fee and amortization of deferred origination fees and expenses totaled approximately $0.1 million and $0.4 million for the three and six months ended March 31, 2007, respectively, and $0.3 million and $0.6 million for the three and six months ended April 1, 2006, respectively.

NOTE 5 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		Six Months Ended	
	March 31, 2007	April 1, 2006	March 31, 2007	April 1, 2006
Basic and Diluted Earnings Per Share:				
Net income	$ 10,158	$ 18,537	$ 25,275	$ 32,294
Basic weighted average common shares outstanding	46,296	44,633	46,269	44,265
Dilutive effect of stock options	305	1,714	429	1,495
Diluted weighted average shares outstanding	46,601	46,347	46,698	45,760
Earnings per share:				
Basic	$ 0.22	$ 0.42	$ 0.55	$ 0.73
Diluted	$ 0.22	$ 0.40	$ 0.54	$ 0.71

For both the three and six months ended March 31, 2007, stock options to purchase approximately 1.9 million shares of common stock were outstanding but not included in the computation of diluted earnings per share because the options exercise prices were greater than the average market price of the common shares and, therefore, their effect would be anti-dilutive.

For the three and six months ended April 1, 2006, stock options to purchase approximately 0.6 million and 1.2 million shares of common stock, respectively, were outstanding but not included in the computation of diluted earnings per share because the options exercise prices were greater than the average market price of the common shares and, therefore, their effect would be anti-dilutive.

NOTE 6 STOCK-BASED COMPENSATION

Effective October 2, 2005, the Company adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment: An Amendment of Financial Accounting Standards Board Statements No. 123 and 95 (SFAS No. 123(R)). As a result of the adoption of SFAS No. 123(R), the Company recognized $1.3 million and $3.2 million of compensation expense associated with stock options for the three and six months ended March 31, 2007, respectively, and $0.2 million and $1.0 million for the three and six months ended April 1, 2006, respectively.

The Company continues to use the Black-Scholes valuation model to determine the fair value of stock options and recognizes the stock-based compensation expense over the stock options vesting period.

NOTE 7 INCOME TAXES

Income taxes for the three and six months ended March 31, 2007 were $1.8 million and $6.3 million, respectively. The effective tax rates for the three and six months ended March 31, 2007 were 15 percent and 20 percent, respectively. Income taxes for the three and six months ended April 1, 2006 were $0 and $0.3 million, respectively. The effective tax rates for the three and six months ended April 1, 2006 were 0 percent and 1 percent, respectively. The increase in the effective tax rates for the three and six months ended March 31, 2007 compared to the three and six months ended April 1, 2006, was because the Company recorded tax provisions associated with its U.S. pre-tax income during the current year periods whereas no such tax provisions were required for the prior year periods. In fiscal 2006, the Company continued to provide a full valuation allowance on its U.S. deferred income tax assets. Accordingly, no U.S. income tax provision was required throughout fiscal 2006. At the end of the fourth quarter of fiscal 2006, the Company reversed approximately $17.7 million of its previously recorded valuation allowance on its U.S. deferred income tax assets. As a result of the partial reversal of the Company s valuation allowance, the Company was required to record a U.S. income tax provision for the three and six months ended March 31, 2007.

NOTE 8 GOODWILL AND OTHER INTANGIBLE ASSETS

The Company no longer amortizes goodwill and intangible assets with indefinite useful lives, but instead, the Company tests those assets for impairment at least annually, and recognizes any related losses when incurred. Recoverability of goodwill is measured at the reporting unit level.

The Company is required to perform goodwill impairment tests at least on an annual basis. The Company has selected the third quarter of each fiscal year, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. No assurances can be given that future impairment tests of the Company s remaining goodwill will not result in additional impairment.

The changes in the carrying amount of goodwill for the fiscal year ended September 30, 2006 and for the six months ended March 31, 2007 for the European reportable segment were as follows (in thousands):

	Europe
Balance as of October 1, 2005	$ 6,995
Foreign currency translation adjustment	405
Balance as of September 30, 2006	7,400
Foreign currency translation adjustment	383
Balance as of March 31, 2007	$ 7,783

NOTE 9 BUSINESS SEGMENT, GEOGRAPHIC AND MAJOR CUSTOMER INFORMATION

Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS No. 131) establishes standards for reporting information about segments in financial statements. 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, general and administrative expenses, but excludes corporate and other costs, interest expense, other income (loss), and income tax expense. Corporate and other costs primarily represent corporate selling, general 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.

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Information about the Company s four reportable segments for the three and six months ended March 31, 2007 and April 1, 2006 were as follows (in thousands):

	Three Months Ended		Six Months Ended	
	March 31, 2007	April 1, 2006	March 31, 2007	April 1, 2006
Net sales:				
United States	$ 240,466	$ 242,281	$ 504,710	$ 480,215
Asia	107,929	64,972	207,180	123,084
Mexico	20,974	24,757	42,868	50,900
Europe	15,232	22,673	35,740	48,380
Elimination of inter-segment sales	(24,426)	(16,772)	(49,488)	(36,362)
	$ 360,175	$ 337,911	$ 741,010	$ 666,217
Depreciation and amortization:				
United States	$ 2,426	$ 2,353	$ 4,831	$ 4,977
Asia	1,993	1,398	3,749	2,524
Mexico	508	308	1,012	606
Europe	184	251	370	541
Corporate	1,395	1,347	2,875	2,845
	$ 6,506	$ 5,657	$ 12,837	$ 11,493
Operating income (loss):				
United States	$ 12,262	$ 23,941	$ 35,050	$ 43,227
Asia	11,338	5,376	21,290	9,811
Mexico	(1,774)	(541)	(3,146)	(878)
Europe	264	1,372	1,420	3,596
Corporate and other costs	(11,439)	(12,408)	(25,167)	(23,970)
	$ 10,651	$ 17,740	$ 29,447	$ 31,786
Capital expenditures:				
United States	$ 1,857	$ 4,515	$ 3,049	$ 7,538
Asia	8,356	6,658	20,054	11,029
Mexico	4,268	229	5,000	548
Europe	348	37	410	150
Corporate	1,181	486	1,544	2,188
	$ 16,010	$ 11,925	$ 30,057	$ 21,453

	March 31,	September 30,

	2007	2006
Total assets:		
United States	$ 306,799	$ 310,020
Asia	194,739	164,589
Mexico	44,819	32,112
Europe	87,890	91,416
Corporate	173,621	203,325
	$ 807,868	$ 801,462

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The following enterprise-wide information is provided in accordance with SFAS No. 131. Sales to unaffiliated customers are ascribed to a geographic region based on the Company s location providing product or services (in thousands):

	Three Months Ended		Six Months Ended	
	March 31, 2007	April 1, 2006	March 31, 2007	April 1, 2006
Net sales:				
United States	$ 240,466	$ 242,281	$ 504,710	$ 480,215
Malaysia	92,456	52,286	176,335	98,524
Mexico	20,974	24,757	42,868	50,900
United Kingdom	15,232	22,673	35,740	48,380
China	15,473	12,686	30,845	24,560
Elimination of inter-segment sales	(24,426)	(16,772)	(49,488)	(36,362)
	$ 360,175	$ 337,911	$ 741,010	$ 666,217

	March 31, 2007	September 30, 2006
Long-lived assets:		
United States	$ 30,246	$ 30,755
Malaysia	51,508	35,314
Mexico	6,930	2,941
United Kingdom	15,865	18,754
China	6,176	1,809
Corporate	46,965	52,264
	$ 157,690	$ 141,837

Long-lived assets as of March 31, 2007 and September 30, 2006 exclude other long-term assets and deferred income tax assets totaling $16.0 million and $14.2 million, respectively.

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 and six months ended March 31, 2007, the Company incurred restructuring costs of $0.4 million and $0.9 million, respectively, which were associated with the European and Mexican reportable segments.

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		Six Months Ended	
	March 31, 2007	April 1, 2006	March 31, 2007	April 1, 2006
Juniper Networks, Inc.	19%	20%	19%	21%
General Electric Corp.	10%	11%	12%	13%

No other customers accounted for 10 percent or more of net sales in either of the periods in either fiscal 2007 or 2006.

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 of the manufacturing 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 testing criteria 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 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. 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 2006 and for the six months ended March 31, 2007 (in thousands):

Limited warranty liability, as of October 1, 2005	$ 5,135
Accruals for warranties issued during the period	2,733
Settlements (in cash or in kind) during the period	(4,839)
Limited warranty liability, as of September 30, 2006	3,029
Accruals for warranties issued during the period	1,039
Settlements (in cash or in kind) during the period	(313)
Limited warranty liability, as of March 31, 2007	$ 3,755

NOTE 11 CONTINGENCIES

The Company is party to certain 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 RESTRUCTURING COSTS

Fiscal 2007 restructuring costs: For the three months ended March 31, 2007, the Company incurred $0.4 million of severance related to workforce reductions at its Kelso, Scotland and Juarez, Mexico facilities. The workforce reductions impacted 10 employees at each location.

For the six months ended March 31, 2007, the Company incurred $0.9 million of restructuring costs, which consisted of the following:

$0.5 million related to severance and retention costs for the Maldon, England facility closure

$0.3 million for severance costs at the Kelso, Scotland facility and

$0.1 million for severance costs at the Juarez, Mexico facility.

The Maldon facility ceased production on December 12, 2006 and resulted in a workforce reduction of 75 employees. During the three months ended March 31, 2007, the Company sold the Maldon facility for $4.4 million and recorded a nominal gain on this transaction.

The table below summarizes the Company s accrued restructuring liabilities as of March 31, 2007 (in thousands):

	Employee Termination and Severance Costs	Lease Obligations and Other Exit Costs	Total
Accrued balance, September 30, 2006	$ 461	$ 2,136	$ 2,597
Restructuring costs	956	(24)	932
Amounts utilized	(1,146)	(2,112)	(3,258)
Accrued balance, March 31, 2007	$ 271	$	$ 271

We expect to pay the remaining accrued restructuring liabilities in the next twelve months.

NOTE 13 NEW ACCOUNTING PRONOUNCEMENTS

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement 109 (FIN 48), that provides guidance on how a company should recognize, measure, present and disclose uncertain tax positions which a company has taken or expects to take. The effective date for FIN 48 is as of the beginning of fiscal years that start subsequent to December 15, 2006. The Company is currently assessing the impact of FIN 48 on its consolidated results of operations, financial position and cash flows.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157) that defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The effective date for SFAS No. 157 is as of the beginning of fiscal years that start subsequent to November 15, 2007. The Company is currently assessing the impact of SFAS No. 157 on its consolidated results of operations, financial position and cash flows.

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (SFAS No. 159). This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. The fair value option permits a company to choose to measure eligible items at specified election dates. A company will report unrealized gains and losses on items for which the fair value option has been elected in earnings after adoption. The effective date for SFAS 159 is as of the beginning of fiscal years that start subsequent to November 15, 2007. The Company is currently assessing the impact of SFAS No. 159 on its consolidated results of operations, financial position and cash flows.

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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 the 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 words and concepts, discussions of periods which are not yet completed) are forward-looking statements that involve risks and uncertainties, including, but not limited to:

- the continued uncertain economic outlook for the electronics and technology industries
- the risk of customer delays, changes or cancellations in both ongoing and new programs
- our ability to secure new customers and maintain our current customer base
- the results of cost reduction efforts
- the impact of capacity utilization and our ability to manage fixed and variable costs
- the effects of expanding, closing and restructuring facilities
- material cost fluctuations and the adequate availability of components and related parts for production
- the effect of changes in average selling prices
- the effect of start-up costs of new programs and facilities
- the effect of general economic conditions and world events
- the effect of increased competition and
- other risks detailed below, especially in Risk Factors , otherwise herein, and in our Securities and Exchange Commission filings.

OVERVIEW

The following information should be read in conjunction with our consolidated financial statements included herein and the Risk Factors section in Item 1A located in Part II Other Information.

Plexus Corp. and its subsidiaries (together Plexus, the Company, or we) participate in the Electronic Manufacturing Services (EMS) industry. As a contract manufacturer, we provide product realization services to original equipment manufacturers (OEMs) and other technology companies in a number of industry sectors that are described in our Form 10-K. We provide advanced electronics design, manufacturing and testing services to our customers with a focus on complex and global fulfillment solutions, high technology manufacturing and test services, and high reliability products. We offer our customers the ability to outsource all stages of product realization, including development and design; materials sourcing, procurement and management; prototyping and new product introduction; testing; manufacturing; product configuration; logistics and test/repair. We are increasingly providing fulfillment and logistic services to many of our customers. Direct Order Fulfillment (DOF) entails receiving orders from our customers that provide the final specifications required by the end customer. We then build to order and configure to order and deliver the product directly to the end customer. The DOF process relies on Enterprise Resource Planning (ERP) systems integrated with those of our customers to manage the overall supply chain from parts procurement through manufacturing and logistics.

Our customers include both industry-leading OEMs and technology companies that have never manufactured products internally. As a result of our focus on serving industries that rely on advanced electronics technology, our business is influenced by technological trends such as the level and rate of development of telecommunications infrastructure and 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 OEM s.

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 manufacturing, we do not design or manufacture our own proprietary products.

EXECUTIVE SUMMARY

Three months ended March 31, 2007. Net sales for the three months ended March 31, 2007 increased by $22.3 million, or 6.6 percent, over the three months ended April 1, 2006 to $360.2 million. Virtually all of the net sales growth for the current period was within the wireline/networking sector.

Gross margins were 8.8 percent for the three months ended March 31, 2007, which compared unfavorably to 11.0 percent for the three months ended April 1, 2006. Gross margins in the current period were negatively impacted by the write-down of inventories for approximately $5.9 million due to financial concerns about a customer. Other factors such as increased fixed manufacturing costs and changes in customer mix also impacted gross margins unfavorably.

Selling and administrative expenses increased $1.3 million or 6.6 percent to $20.6 million for the three months ended March 31, 2007. The increase can be attributed primarily to higher compensation expense associated with additional salaries and expenses to augment business development activities as well as increased stock-based compensation expense.

Restructuring costs of approximately $0.4 million were incurred during the three months ended March 31, 2007 related to headcount reductions at both the Kelso, Scotland and Juarez, Mexico facilities.

Net income for the three months ended March 31, 2007 decreased to $10.2 million from $18.5 million in the prior year period, and diluted earnings per share decreased to $0.22 from $0.40 in the prior year period. In addition to the items noted above, net income was negatively impacted by a much higher effective tax rate of 15 percent in the current period as compared to 0 percent in the prior year period.

Six months ended March 31, 2007. Net sales for the six months ended March 31, 2007 increased by $74.8 million or 11.2 percent, over the six months ended April 1, 2006 to $741.0 million. The net sales growth for the current period was generated primarily by several customers within the wireline/networking sector.

Gross margins were 9.6 percent for the six months ended March 31, 2007, which compared unfavorably to 10.3 percent for the six months ended April 1, 2006. Gross margins in the current period were negatively impacted by the above mentioned $5.9 million write-down of inventories, increased fixed manufacturing costs and changes in customer mix.

Selling and administrative expenses increased $4.4 million or 12 percent to $40.9 million for the six months ended March 31, 2007. The increase can be attributed primarily to higher compensation expense associated with additional salaries and expenses to augment business development activities as well as increased stock-based compensation expense.

Restructuring costs of approximately $0.9 million were incurred during the six months ended March 31, 2007 related to the closure of the Maldon, England facility and headcount reductions at both the Kelso, Scotland and Juarez, Mexico facilities.

Net income for the six months ended March 31, 2007 decreased to $25.3 million from $32.3 million in the prior year period, and diluted earnings per share decreased to $0.54 from $0.71 in the prior year period. In addition to the items noted above, net income was negatively impacted by a much higher effective tax rate of 20 percent in the current period as compared to 1 percent in the prior year period.

Reportable Segments. A further discussion of financial performance by reportable segment is presented below:

United States: Net sales for the three months ended March 31, 2007 decreased $1.8 million, or 0.7 percent, from the three months ended April 1, 2006 to $240.5 million. This decrease in net sales was driven primarily by volume reductions with several customers due to the following: weakened end-market demand for some programs, the loss of some programs as these programs either went end-of-life or disengaged, and the transfer of two customer programs to one of our Asian sites. These reductions were offset by increased net sales with other significant existing customers. Operating income for the three months ended March 31, 2007 decreased $11.7 million from the three months ended April 1, 2006. The reduction in operating income was attributable, in part, to the above mentioned $5.9 million write-down of inventories. Operating income was also significantly impacted by changes in customer mix and lower pricing.

Net sales for the six months ended March 31, 2007 increased $24.5 million, or 5.1 percent, over the six months ended April 1, 2006 to $504.7 million. This growth reflected increased net sales to several existing customers offset by volume reductions with other customers due to weakened end-market demand as well as for the reasons noted above. Operating income for the six months ended March 31, 2007 decreased $8.2 million from the six months ended April 1, 2006, primarily as a result of the write-down of inventories for $5.9 million as well as the other above mentioned items.

Asia: Net sales for the three months ended March 31, 2007 increased $43.0 million, or 66.1 percent, over the three months ended April 1, 2006 to $107.9 million. This growth reflected increased net sales to several customers with the most significant customer growth coming from customers in the wireline/ networking sector and a customer in the wireless infrastructure sector. Operating income for the three months ended March 31, 2007 improved $6.0 million over the three months ended April 1, 2006 as a result of increased net sales and operating efficiencies attendant higher production levels. Operating income expansion was tempered by the increased fixed manufacturing costs associated with the expansion of facilities and additional administrative costs incurred during the current period to support growth. We expect the third Penang facility to become profitable late in the third quarter of fiscal 2007 and to operate profitably in the fourth quarter of fiscal 2007.

Net sales for the six months ended March 31, 2007 increased $84.1 million, or 68.3 percent, over the six months ended April 1, 2006 to $207.2 million. This growth reflected increased net sales to several customers with the most significant customer growth coming from customers in the wireline/networking sector and a customer in the wireless infrastructure sector. Operating income for the six months ended March 31, 2007 improved $11.5 million over the six months ended April 1, 2006, primarily as a result of higher net sales and operating efficiencies attendant higher production levels. Expansion of operating income was tempered by the items noted above during the current year period.

Mexico: Net sales for the three months ended March 31, 2007 decreased $3.8 million or 15.3 percent, from the three months ended April 1, 2006 to $21.0 million. The decrease was primarily driven by the loss of a significant customer program in the wireless infrastructure sector. Operating loss for the three months ended March 31, 2007 widened by $1.2 million over the three months ended April 1, 2006, primarily as a result of lower net sales and lower pricing for certain customers. Slower than expected development of new business for this reportable segment will delay attainment of break-even operating income beyond the current fiscal year.

Net sales for the six months ended March 31, 2007 decreased $8.0 million, or 15.8 percent, from the six months ended April 1, 2006 to $42.9 million. The decrease was primarily attributable to the loss of a significant customer program in the wireless infrastructure sector. Operating loss for the six months ended March 31, 2007 increased $2.3 million over the six months ended April 1, 2006 to $3.1 million, primarily as

a result of lower net sales and lower pricing for certain customers.

Europe: Net sales for the three months ended March 31, 2007 decreased $7.4 million, or 32.8 percent to $15.2 million, from the three months ended April 1, 2006. The lower net sales were a result of three customer programs going end-of-life. Operating income for the three months ended March 31, 2007 decreased by nearly $1.1 million to $0.3 million from the prior year period due primarily to lower net sales.

Net sales for the six months ended March 31, 2007 decreased $12.6 million, or 26.1 percent to $35.7 million, from the six months ended April 1, 2006. The reduction in net sales can be attributed to three customer programs going end-of-life. Operating income for the six months ended March 31, 2007 decreased $2.2 million from the six months ended April 1, 2006 primarily as a result of lower net sales.

For our significant customers, we generally manufacture product in more than one location. Net sales to Juniper Networks, Inc. (Juniper), our largest customer, occur in the United States and Asia. Net sales to General Electric Corp. (GE), a significant customer, occur in the United States, Asia and Mexico. 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.

Fiscal 2007 outlook. Our financial goal for the current fiscal year is for continued profitable organic growth in net sales. We recently announced a revised net sales growth target for fiscal 2007 of approximately 6 percent to 8 percent over fiscal 2006. Our prior expectations of 8 percent to 12 percent net sales growth have been tempered by recent indications of weakening end-market demand across all industry sectors. Based on customer indications of expected demand, we currently expect fiscal third quarter 2007 net sales to be in the range of $365 million to $375 million. These net sales include a follow-on defense sector order received late in the second quarter for which we expect most of the net sales to occur in the third and fourth quarters of fiscal 2007. However, results will ultimately depend upon the timing and actual level of customer orders. Assuming that net sales are in that range, we would currently expect to earn between $0.25 to $0.30 per diluted share, excluding any restructuring or impairment costs.

Our primary financial metric for measuring financial performance is after-tax return on capital employed (ROCE), which we currently anticipate will exceed our estimated 15 percent weighted average cost of capital in fiscal 2007. We define after-tax ROCE as tax-effected operating income, excluding restructuring costs, divided by average capital employed, which is equity plus debt, less cash and cash equivalents and short-term investments. Annualized after-tax ROCE for the six months ended March 31, 2007 was 14.1 percent.

RESULTS OF OPERATIONS

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

	Three Months Ended		Variance		Six Months Ended		Variance	
	March 31, 2007	April 1, 2006	Increase/ (Decrease)		March 31, 2007	April 1, 2006	Increase/ (Decrease)	
Net Sales	$360.2	$337.9	$22.3	7%	$741.0	$666.2	$74.8	11%

The increase in net sales for both the three and six months ended March 31, 2007, primarily reflected increased demand in the wireline/networking sector. Net sales in this sector increased $37.1 million and $68.6 million, respectively, for the three and six months ended March 31, 2007 as compared to the prior year periods. The net sales growth in the wireline/networking sector was associated with increased demand from several customers. Our largest customer, Juniper, contributed additional net sales of $3.1 million and $3.0 million, respectively, for the three and six months ended March 31, 2007, compared to the prior year periods.

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

	Three Months Ended		Six Months Ended	
Industry	March 31, 2007	April 1, 2006	March 31, 2007	April 1, 2006
Wireline/Networking	45%	37%	44%	38%
Wireless Infrastructure	8%	11%	8%	11%
Medical	25%	26%	26%	28%
Industrial/Commercial	16%	20%	16%	18%
Defense/Security/Aerospace	6%	6%	6%	5%

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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 indicated periods were as follows:

	Three Months Ended		Six Months Ended	
	March 31, 2007	April 1, 2006	March 31, 2007	April 1, 2006
Juniper	19%	20%	19%	21%
GE	10%	11%	12%	13%
Top 10 customers	59%	58%	59%	59%

Sales to our 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. 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 become increasingly dependent upon economic and business conditions affecting that sector.

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

	Three Months Ended		Variance		Six Months Ended		Variance	
	March 31, 2007	April 1, 2006	Increase/ (Decrease)		March 31, 2007	April 1, 2006	Increase/ (Decrease)	
Gross Profit	$31.6	$37.0	$(5.4)	15%	$71.3	$68.3	$3.0	4%
Gross Margin	8.8%	11.0%			9.6%	10.3%		

For the three months ended March 31, 2007, gross profit and gross margin were impacted by the following:

- A $5.9 million write-down of inventories due to financial concerns about a customer
- A 5.8 percent increase in fixed manufacturing costs as a result of our facility expansion in Penang, Malaysia
- Other factors such as reduced net sales in each of our geographical regions other than Asia, changes in customer mix and price reductions impacted gross margins unfavorably.

For the six months ended March 31, 2007, gross profit and gross margin were impacted by the following:

- A $5.9 million write-down of inventories as noted above
- A 4.2 percent increase in fixed manufacturing costs due to facility expansion in Penang, Malaysia
- Other factors such as reduced net sales in our European and Mexican reportable segments, changes in customer mix and price reductions impacted gross margins unfavorably.

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 attendant 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. 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 expanding gross margins, there can be no assurance that gross margins will not decrease in future periods.

Most of the research and development we conduct is paid for by our customers and is, therefore, included in both sales and cost of sales. We conduct our own research and development, but that research and development is not

specifically identified, and we believe such expenses are less than one percent of our net sales.

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

	Three Months Ended		Variance		Six Months Ended		Variance	
	March 31, 2007	April 1, 2006	Increase/ (Decrease)		March 31, 2007	April 1, 2006	Increase/ (Decrease)	
S&A	$20.6	$19.3	$1.3	7%	$40.9	$36.5	$4.4	12%
Percent of net sales	5.7%	5.7%			5.5%	5.5%		

The dollar increase in S&A for the three months ended March 31, 2007 was due to a number of factors: an increase in compensation expense of approximately $1.0 million related to additional headcount to augment business development activities and increased bad debt expense of $0.3 million. S&A as a percentage of net sales remained relatively flat as a result of the increased net sales in the three months ended March 31, 2007 as compared to the prior year period.

The dollar increase in S&A for the six months ended March 31, 2007 can be contributed to the following: an increase in compensation expense of $1.9 million related to additional headcount to augment business development activities; increased stock based compensation of $1.5 million and increased bad debt expense of $0.6 million. S&A as a percentage of net sales remained relatively flat as a result of increased net sales in the six months ended March 31, 2007 as compared to the prior year period.

Restructuring Actions: For the three months ended March 31, 2007, the Company incurred $0.4 million of severance related to workforce reductions at its Kelso, Scotland and Juarez, Mexico facilities. The workforce reductions impacted 10 employees at each location.

For the six months ended March 31, 2007, the Company incurred $0.9 million which consisted of the following:

$0.5 million related to severance and retention costs for the Maldon, England facility closure

$0.3 million for severance costs at the Kelso, Scotland facility and

$0.1 million for severance costs at the Juarez, Mexico facility.

The Maldon facility ceased production on December 12, 2006 and resulted in a workforce reduction of 75 employees. During the three months ended March 31, 2007, the Company sold the Maldon facility for $4.4 million and recorded a nominal gain on this transaction.

As of March 31, 2007, we have a remaining restructuring liability of approximately $0.3 million, which is expected to be paid within the next twelve months. See Note 12 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		Six Months Ended	
	March 31, 2007	April 1, 2006	March 31, 2007	April 1, 2006
Income tax expense	$1.8	$	$6.3	$0.3
Effective annual tax rate	15%	%	20%	1%

The increase in our effective tax rates for the three and six months ended March 31, 2007 compared to the three and six months ended April 1, 2006 was because we recorded a tax provision associated with our U.S. pre-tax income for the current year periods whereas no such tax provision was required for the prior year periods. In fiscal 2006, we had a full valuation allowance on our U.S. deferred income tax assets. Accordingly, no U.S. income tax provision was required throughout fiscal 2006. At the end of the fourth quarter of fiscal 2006, we reversed approximately $17.7 million of the previously recorded valuation allowance on U.S. deferred income tax assets. As a result of the partial reversal of our valuation allowance, we were required to record a U.S. income tax provision for the three and six

months ended March 31, 2007.

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We currently expect the annual effective tax rate for fiscal 2007 to be approximately 20 percent.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities. Cash flows provided by operating activities were $0.9 million for the six months ended March 31, 2007, compared to cash flows provided by operating activities of $43.4 million for the six months ended April 1, 2006. The reduction in cash flows provided by operating activities during the six months ended March 31, 2007 was primarily due to lower earnings, increased inventories and reductions in accounts payable and other accrued liabilities, partially moderated by reductions in accounts receivable.

As of March 31, 2007, quarterly days sales outstanding in accounts receivable were 49 days as compared to the 48 quarterly days sales outstanding as of September 30, 2006.

Inventory turnover decreased to 5.7 turns for the six months ended March 31, 2007 from 6.4 turns for the fiscal year ended September 30, 2006. Inventory increased $19.8 million during the six-month period ended March 31, 2007 as a result of increased finished goods held on our customers behalf and increased raw material held in anticipation of higher production levels in the second half of the fiscal year.

Investing Activities. Cash flows used in investing activities totaled $40.6 million for the six months ended March 31, 2007 and were used principally for additions to property, plant and equipment, primarily in Asia as we continue to expand operations in that region. See Note 9 in Notes to the Condensed Consolidated Financial Statements for further information regarding our 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 2007 to be in the range of $65 million to $75 million of which $30.1 million were made during the first half of fiscal 2007. The sale of an excess facility in the United Kingdom provided approximately $4.4 million of cash proceeds.

Financing Activities. Cash flows provided by financing activities totaled $6.0 million for the six months ended March 31, 2007, which primarily represented the proceeds and related income tax benefits of stock option exercises.

On January 12, 2007, we entered into an amended and restated revolving credit facility (the Amended Credit Facility) with our bank group, which allows us to borrow up to $100 million. Our previous secured revolving credit facility was amended on an unsecured basis. The Amended Credit Facility provides lower fees and interest rates. It also can be increased by an additional $100 million, if there is no event of default existing under the Amended Credit Facility agreement and both the Company and the administrative agent consent to the increase. The Amended Credit Facility expires on January 12, 2012. Borrowings under the Amended Credit Facility may be either through revolving or swing loans or letters of credit obligations. As of April 30, 2007, there were no borrowings under the Amended Credit Facility.

The Amended 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, all as defined in the Amended Credit Facility. Interest on borrowing varies depending upon our then-current total leverage ratio and begins at a defined base rate, or LIBOR plus 1.0 percent. Rates would increase upon unfavorable changes in specified financial metrics. We are also required to pay an annual commitment fee on the unused credit commitment which depends on our total leverage ratio; the current fee is 0.25 percent.

We believe that our projected cash flows from operations, available cash and short-term investments, the Amended Credit Facility, and our leasing capabilities should be sufficient to meet our working capital and fixed capital requirements through fiscal 2007. Although net sales growth anticipated for the second half of fiscal 2007 is expected to increase our working capital, we currently do not anticipate having to use our Amended Credit Facility to finance this growth. 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, 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 anticipate paying them in the foreseeable future.

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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 March 31, 2007 (dollars in millions):

	Payments Due by Fiscal Period				
	Total	Remaining in 2007	2008-2009	2010-2011	2012 and thereafter
Current Portion of Long-Term Debt Obligations	$	$	$	$	$
Capital Lease Obligations	42.7	2.0	8.0	8.0	24.7
Operating Lease Obligations	47.1	4.6	15.5	10.1	16.9
Purchase Obligations (1)	247.3	233.6	13.6	0.1	
Other Long-Term Liabilities on the Balance Sheet (2)	8.8	0.6	1.3	1.6	5.3
Other Long-Term Liabilities not on the Balance Sheet (3)	1.7	0.3	1.4		
Total Contractual Cash Obligations	$ 347.6	$ 241.1	$ 39.8	$ 19.8	$ 46.9

(1) As of March 31, 2007, purchase obligations consisted of purchases of inventory and equipment in the ordinary course of business.

(2) As of March 31, 2007, 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.

(3) As of March 31, 2007, other long-term obligations not on the balance sheet consisted of a commitment for salary continuation in the event employment of one executive officer of the Company is terminated. 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.

DISCLOSURE ABOUT CRITICAL ACCOUNTING POLICIES

Our accounti