

PLEXUS CORP  
Form 10-Q  
February 06, 2008

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

☒ **Quarterly Report Under Section 13 or 15 (d) of the Securities Exchange Act of 1934  
For the Quarter ended December 29, 2007**

**or**

☐ **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  
(State of Incorporation)

39-1344447  
(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 ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

Yes ☐ No ☒

As of February 1, 2008, there were 46,490,714 shares of Common Stock of the Company outstanding.

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

	Three Months Ended	
	December 29, 2007	December 30, 2006
Net sales	\$ 458,251	\$ 380,835
Cost of sales	402,697	341,180
Gross profit	55,554	39,655
Operating expenses:		
Selling and administrative expenses	23,626	20,346
Restructuring costs		513
	23,626	20,859
Operating income	31,928	18,796
Other income (expense):		
Interest expense	(735)	(925)
Interest income	2,548	2,310
Miscellaneous	(467)	(549)
Income before income taxes	33,274	19,632
Income tax expense	5,989	4,515
Net income	\$ 27,285	\$ 15,117
Earnings per share:		
Basic	\$ 0.59	\$ 0.33
Diluted	\$ 0.58	\$ 0.32
Weighted average shares outstanding:		
Basic	46,448	46,242

Diluted	47,053	46,779
Comprehensive income:		
Net income	\$ 27,285	\$ 15,117
Foreign currency translation adjustments	387	983
Comprehensive income	\$ 27,672	\$ 16,100

See notes to condensed consolidated financial statements.

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**PLEXUS CORP. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except per share data)

Unaudited

	December 29, 2007	September 29, 2007
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 158,547	\$ 154,109
Short-term investments	54,500	55,000
Accounts receivable, net of allowances of \$900 and \$900, respectively	249,064	230,826
Inventories	295,537	275,854
Deferred income taxes	12,217	12,932
Prepaid expenses and other	6,974	5,434
 Total current assets	 776,839	 734,155
 Property, plant and equipment, net	 163,616	 159,517
Goodwill	7,881	8,062
Deferred income taxes	2,323	2,310
Other	12,631	12,472
 Total assets	 \$ 963,290	 \$ 916,516
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of capital lease obligations	\$ 1,815	\$ 1,720
Accounts payable	245,150	237,034
Customer deposits	14,386	10,381
Accrued liabilities:		
Salaries and wages	30,371	23,149
Other	27,463	34,755
 Total current liabilities	 319,185	 307,039
 Capital lease obligations, net of current portion	 24,681	 25,082
Other liabilities	13,863	9,372
Deferred income taxes	769	1,758

Commitments and contingencies (Note 11)

Shareholders' equity:

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Preferred stock, \$.01 par value, 5,000 shares authorized, none issued or outstanding		
Common stock, \$.01 par value, 200,000 shares authorized, 46,479 and 46,402 shares issued and outstanding, respectively	465	464
Additional paid-in capital	340,457	336,603
Retained earnings	251,871	224,586
Accumulated other comprehensive income	11,999	11,612
	604,792	573,265
Total liabilities and shareholders' equity	\$ 963,290	\$ 916,516

See notes to condensed consolidated financial statements.

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

	Three Months Ended	
	December 29, 2007	December 30, 2006
<b>Cash flows from operating activities</b>		
Net income	\$ 27,285	\$ 15,117
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	6,993	6,330
Deferred income taxes	(149)	2,961
Stock based compensation expense	2,360	1,866
Changes in assets and liabilities:		
Accounts receivable	(18,081)	19,855
Inventories	(19,575)	(11,758)
Prepaid expenses and other	(1,694)	(3,620)
Accounts payable	10,335	(29,290)
Customer deposits	3,993	(897)
Accrued liabilities and other	5,169	(8,324)
 Cash flows provided by (used in) operating activities	 16,636	 (7,760)
 <b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	(13,635)	(14,047)
Proceeds from sales of property, plant and equipment	44	9
Purchases of short-term investments	(39,100)	(24,350)
Sales and maturities of short-term investments	39,600	9,350
 Cash flows used in investing activities	 (13,091)	 (29,038)
 <b>Cash flows from financing activities</b>		
Payments on debt and capital lease obligations	(309)	(215)
Proceeds from exercise of stock options	1,089	466
Income tax benefit of stock option exercises	406	3,239
Issuances of common stock under Employee Stock Purchase Plan		219
 Cash flows provided by financing activities	 1,186	 3,709
 Effect of foreign currency translation on cash and cash equivalents	 (293)	 1,049



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Net increase (decrease) in cash and cash equivalents	4,438	(32,040)
Cash and cash equivalents:		
Beginning of period	154,109	164,912
End of period	\$ 158,547	\$ 132,872

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 ENDED DECEMBER 29, 2007 AND DECEMBER 30, 2006**  
**Unaudited**

**NOTE 1 BASIS OF PRESENTATION**

The condensed consolidated financial statements included herein have been prepared by Plexus Corp. and its subsidiaries (Plexus or the Company) without audit and pursuant to the rules and regulations of the United States Securities and Exchange Commission (SEC). In the opinion of the Company, the consolidated financial statements reflect all adjustments, which include normal recurring adjustments necessary to present fairly the consolidated financial position of the Company as of December 29, 2007, and the results of operations for the three months ended December 29, 2007 and December 30, 2006, and the cash flows for the same three month periods.

Certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been condensed or omitted pursuant to the SEC rules and regulations dealing with interim financial statements. However, the Company believes that the disclosures made in the condensed consolidated financial statements included herein are adequate to make the information presented not misleading. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2007 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 months ended December 29, 2007 and December 30, 2006, each included 91 days.

**NOTE 2 INVENTORIES**

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

	December 29, 2007	September 29, 2007
Raw materials	\$ 212,752	\$ 194,596
Work-in-process	32,947	32,068
Finished goods	49,838	49,190
	\$ 295,537	\$ 275,854

**NOTE 3 PROPERTY, PLANT AND EQUIPMENT**

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

	December 29, 2007	September 29, 2007
Land, buildings and improvements	\$ 97,781	\$ 96,366
Machinery and equipment	179,032	171,392
Computer hardware and software	68,447	67,405
Construction in progress	10,397	10,696
	355,657	345,859
Less: accumulated depreciation and amortization	192,041	186,342
	\$ 163,616	\$ 159,517



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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 letter of credit obligations. As of December 29, 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 are amortized over the five year term of the Amended Credit Facility.

The Amended Credit Facility allows for the future payment of cash dividends or the future repurchase of shares to the extent that the Company is in compliance with the financial covenants therein. These covenants require that there be no event of default existing at the time of, or is caused by, the dividend payment or the share repurchase.

Interest expense related to the commitment fee and amortization of deferred origination fees and expenses totaled approximately \$0.1 million and \$0.3 million for the three months ended December 29, 2007 and December 30, 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	
	December 29, 2007	December 30, 2006
Basic and Diluted Earnings Per Share:		
Net income	\$ 27,285	\$ 15,117
Basic weighted average common shares outstanding	46,448	46,242
Dilutive effect of stock options	605	537
Diluted weighted average shares outstanding	47,053	46,779
Earnings per share:		
Basic	\$ 0.59	\$ 0.33
Diluted	\$ 0.58	\$ 0.32

For the three months ended December 29, 2007 and December 30, 2006, stock-based awards to purchase approximately 1.5 million and 1.6 million shares of common stock, respectively, were outstanding but not included in

the computation of diluted earnings per share because the stock-based awards' exercise prices were greater than the average market price of the common shares and therefore their effect would be anti-dilutive.

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**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 \$2.4 million and \$1.9 million of compensation expense associated with stock-based awards for the three months ended December 29, 2007 and December 30, 2006, respectively.

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

**NOTE 7 INCOME TAXES**

Income taxes for the three months ended December 29, 2007 and December 30, 2006 were \$6.0 million and \$4.5 million, respectively. The effective tax rates for the three months ended December 29, 2007 and December 30, 2006 were 18 percent and 23 percent, respectively. The decrease in the effective tax rate for current year period compared to the prior year period was because the proportion of the Company's projected fiscal 2008 pre-tax income increased in Malaysia and China, where the Company benefits from tax holidays, when compared to fiscal 2007 pre-tax income.

In June 2006, the Financial Accounting Standards Board (the FASB ) issued interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 ( FIN 48 ). FIN 48 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements by standardizing the level of confidence needed to recognize uncertain tax benefits and the process for measuring the amount of benefit to recognize. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Effective at the beginning of fiscal 2008, September 30, 2007, the Company adopted FIN 48. Upon adoption, the Company recorded an increase in income tax liabilities for uncertain tax benefits and a decrease in valuation allowance of approximately \$0.8 million, which resulted in no cumulative effect adjustment to retained earnings. As of September 30, 2007, the total amount of unrecognized income tax benefits was approximately \$4.6 million. Of this amount, approximately \$3.8 million would reduce the Company's effective tax rate if recognized.

In addition, the Company has reclassified the amounts that it has recorded for uncertain tax benefits in the Condensed Consolidated Balance Sheet as other non-current liabilities to the extent that payment is not anticipated within one year. Prior year financial statements have not been reclassified.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. Upon adoption, total accrued penalties and net accrued interest with respect to income taxes was approximately \$0.1 million.

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

Upon adoption, the Company had tax years from fiscal 2004 and forward open and subject to examination by the IRS. For the major state tax jurisdictions, the Company has fiscal 2001 and forward open and subject to examination.

**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.

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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 fiscal 2007 and for the three months ended December 29, 2007 for the European reportable segment were as follows (in thousands):

	Europe
Balance as of September 30, 2006	\$ 7,400
Foreign currency translation adjustment	662
Balance as of September 29, 2007	8,062
Foreign currency translation adjustment	(181)
Balance as of December 29, 2007	\$ 7,881

**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 and administrative expenses, but excludes corporate and other costs, interest expense, other income (loss), and income taxes. Corporate and other costs primarily represent corporate selling and administrative expenses, and restructuring and impairment costs. These costs are not allocated to the segments, as management excludes such costs when assessing the performance of the segments. Inter-segment transactions are generally recorded at amounts that approximate arm's length transactions. The accounting policies for the regions are the same as for the Company taken as a whole.

Information about the Company's four reportable segments for the three months ended December 29, 2007 and December 30, 2006 were as follows (in thousands):

	Three Months Ended	
	December 29, 2007	December 30, 2006
Net sales:		
United States	\$ 334,354	\$ 264,244
Asia	115,354	99,251
Europe	18,287	20,508
Mexico	16,078	21,894
Elimination of inter-segment sales	(25,822)	(25,062)
	\$ 458,251	\$ 380,835





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	Three Months Ended	
	December 29, 2007	December 30, 2006
Depreciation and amortization:		
United States	\$ 2,201	\$ 2,405
Asia	2,800	1,756
Europe	210	186
Mexico	450	504
Corporate	1,332	1,479
	\$ 6,993	\$ 6,330
Operating income (loss):		
United States	\$ 37,498	\$ 22,788
Asia	11,701	9,952
Europe	2,024	1,156
Mexico	(395)	(1,372)
Corporate and other costs	(18,900)	(13,728)
	\$ 31,928	\$ 18,796
Capital expenditures:		
United States	\$ 4,712	\$ 1,192
Asia	8,004	11,698
Europe	314	62
Mexico	25	732
Corporate	580	363
	\$ 13,635	\$ 14,047
	December 29, 2007	September 29, 2007
Total assets:		
United States	\$ 410,287	\$ 381,947
Asia	229,175	224,135
Europe	95,044	94,814
Mexico	33,729	28,340
Corporate	195,055	187,280

\$ 963,290 \$ 916,516

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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	
	December 29, 2007	December 30, 2006
Net sales:		
United States	\$ 334,354	\$ 264,244
Malaysia	96,919	83,879
China	18,435	15,372
United Kingdom	18,287	20,508
Mexico	16,078	21,894
Elimination of inter-segment sales	(25,822)	(25,062)
	\$ 458,251	\$ 380,835

	December 29, 2007	September 29, 2007
Long-lived assets:		
United States	\$ 34,263	\$ 31,687
Malaysia	63,803	61,576
China	7,291	6,622
United Kingdom	16,116	16,290
Mexico	5,625	6,059
Corporate	44,399	45,345
	\$ 171,497	\$ 167,579

Long-lived assets as of December 29, 2007 and September 29, 2007 exclude other long-term assets totaling \$15.0 million and \$14.8 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 months ended December 29, 2007, the Company did not incur any restructuring costs.

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	
	December 29, 2007	December 30, 2006
Juniper Networks Inc.	19%	19%
Defense customer	12%	*

General Electric Corp.

\*

13%

\* Represents less  
than 10 percent  
of total net sales

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

#### NOTE 10 GUARANTEES

The Company offers certain indemnifications under its customer manufacturing agreements. In the normal course of business, the Company may from time to time be obligated to indemnify its customers or its customers' customers against damages or liabilities arising out of the Company's negligence, misconduct, breach of contract, or infringement of third party intellectual property rights. Certain 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

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furnished, or directed to be used, by its customers. The Company does not believe its obligations under such indemnities are material.

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

The Company provides for an estimate of costs that may be incurred under its limited warranty at the time product revenue is recognized and establishes additional reserves for specifically identified product issues. These costs primarily include labor and materials, as necessary, associated with repair or replacement. 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 2007 and for the three months ended December 29, 2007 (in thousands):

Limited warranty liability, as of September 30, 2006	\$ 3,029
Accruals for warranties issued during the period	2,571
Settlements (in cash or in kind) during the period	(557)
Limited warranty liability, as of September 29, 2007	5,043
Accruals for warranties issued during the period	307
Settlements (in cash or in kind) during the period	(412)
Limited warranty liability, as of December 29, 2007	\$ 4,938

**NOTE 11 CONTINGENCIES**

Two securities class action lawsuits were filed in the United States District Court for the Eastern District of Wisconsin on June 25 and June 29, 2007, against the Company and certain Company officers and/or directors. On November 7, 2007, the two actions were consolidated, and a consolidated class action complaint was filed on February 1, 2008. The consolidated complaint names the Company and the following individuals as defendants: Dean A. Foate, President, Chief Executive Officer and a Director of the Company; F. Gordon Bitter, the Company's former Senior Vice President and Chief Financial Officer; and Paul Ehlers, the Company's former Executive Vice President and Chief Operating Officer. The consolidated complaint alleges securities law violations and seeks unspecified damages relating generally to the Company's statements regarding its defense sector business in early calendar 2006.

The Company believes the allegations in the consolidated complaint are without merit and it intends to vigorously defend against them. Since these matters are in the preliminary stages, the Company is unable to predict the scope or outcome or quantify their eventual impact, if any, on the Company. At this time, the Company is also unable to estimate associated expenses or possible losses. The Company maintains insurance that may reduce its financial exposure for defense costs and liability for an unfavorable outcome, should it not prevail.

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.

**Table of Contents****NOTE 12 RESTRUCTURING COSTS**

*Fiscal 2008 restructuring costs:* For the three months ended December 29, 2007, the Company did not incur any restructuring costs.

*Fiscal 2007 restructuring costs:* For the three months ended December 30, 2006, the Company incurred pre-tax restructuring costs of \$0.5 million related to the closure of its Maldon, England facility. The facility ceased production on December 12, 2006, which resulted in severance and retention costs of approximately \$0.5 million related to approximately 75 employees. On January 31, 2007, the Company sold the Maldon facility to a third party for approximately \$4.5 million. The Company recorded a minimal gain in the second quarter of fiscal 2007 related to the sale.

The table below summarizes the Company's accrued restructuring liabilities as of December 29, 2007 (in thousands):

	<b>Employee Termination and Severance Costs</b>
Accrued balance, September 29, 2007	\$ 989
Restructuring costs	
Amounts utilized	(848)
Accrued balance, December 29, 2007	\$ 141

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

**NOTE 13 NEW ACCOUNTING PRONOUNCEMENTS**

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141R, *Business Combinations* (SFAS No. 141R). SFAS No. 141R states that all business combinations (whether full, partial or step acquisitions) will result in all assets and liabilities of an acquired business being recorded at their fair values. Certain forms of contingent consideration and certain acquired contingencies will be recorded at fair value at the acquisition date. SFAS No. 141R also states acquisition costs will generally be expensed as incurred and restructuring costs will be expensed in periods after the acquisition date. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact of SFAS No. 141R on its consolidated results of operations, financial position and cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards 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 economic performance of the electronics, technology and defense industries

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

the poor visibility of future orders in the defense market sector and the uncertainty of defense appropriations and spending

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

our ability to secure new customers and maintain our current customer base

the risks of concentration of work for certain customers

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, including our expansions in Asia

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

the degree of success and the costs of efforts to improve the financial performance of our Mexican operations

possible unexpected costs and operating disruption in transitioning programs

the costs and inherent uncertainties of pending litigation

the effect of general economic conditions and world events (such as increases in oil prices, terrorism and war in the Middle East)

the impact of increased competition and

other risks detailed below, 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 offer our customers the ability to outsource any stages of the product realization process, including: design and product development; prototyping and new product introduction; optimal supply chain design, materials sourcing, procurement and inventory management; product assembly,

configuration and testing; order fulfillment and logistics; and service and repair. Other than certain test equipment and software used for internal manufacturing, we do not design or manufacture our own proprietary products.

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 assembly, configuration and order fulfillment, and involve greater resource investments than consignment services.

We are increasingly providing order fulfillment and logistics services to many of our customers. Direct Order Fulfillment ( DOF ) entails receiving orders from our customers that provide the final specifications required



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by the end customer. We then build, configure and test the final product and deliver it 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 assembly and order fulfillment.

Our customers include both industry-leading original equipment manufacturers ( OEMs ) and other technology companies that have never manufactured products internally. Plexus sales and marketing focus is on the networking/wireline, wireless infrastructure, medical, industrial/commercial and defense/security/aerospace market sectors. Within these market sectors, Plexus specializes in customer products and programs that typically have a higher-mix of assemblies or configurations, that are typically produced in mid- to low volumes (such as network routers, ultrasound devices, and semiconductor test equipment, as opposed to high-volume products such as consumer devices, handsets or computers), and often have stringent quality, regulatory and reliability requirements.

As a result, 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, regulatory approval of new medical devices, defense procurement practices and other governmental approval and regulatory processes can affect our business. Our business has also benefited from the trend to increased outsourcing by OEMs.

### **EXECUTIVE SUMMARY**

Net sales for the three months ended December 29, 2007 increased by \$77.5 million, or 20.3 percent, over the three months ended December 30, 2006 to \$458.3 million. The net sales growth in the current year period was driven by increased demand from several existing customers, with particularly strong demand from an unnamed defense customer and Juniper Networks, Inc. ( Juniper ) as well as the addition of net sales from several new customers.

Gross margins were 12.1 percent for the three months ended December 29, 2007, which compared favorably to 10.4 percent for the three months ended December 30, 2006. Gross margins in the current year period benefited from operating leverage gained on our net sales growth from the customers noted above and changes in customer mix, along with only moderate increases in fixed manufacturing costs.

Selling and administrative expenses for the three months ended December 29, 2007 were \$23.6 million, an increase of \$3.3 million or 16.1 percent increase over the three months ended December 30, 2006. The current year period had increased salaries and benefits, reflecting additional headcount, annual wage increases, and additional compensation expense for variable incentive and stock-based compensation.

Net income for the three months ended December 29, 2007 increased to \$27.3 million from \$15.1 million for the three months ended December 30, 2006, and diluted earnings per share increased to \$0.58 in the current year period from \$0.32 in the prior year period. Net income benefitted from a lower effective tax rate in the current year period. The effective tax rate in the current year period was 18 percent versus a 23 percent effective tax rate in the prior year period. The decrease in the effective tax rate from the prior year period was because the proportion of our projected fiscal 2008 pre-tax income increased in Malaysia and China when compared to fiscal 2007 pre-tax income. We currently benefit from tax holidays in Malaysia and China.

We currently expect the annual effective tax rate for fiscal 2008 to be approximately 18 percent, which is 3 percent higher than we originally anticipated due to an increase in expected U.S. pre-tax income for fiscal 2008.

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

	Three Months Ended			
	December 29, 2007	December 30, 2006	Dollar Variance	Percentage Variance
Net sales:				
United States	\$ 334.4	\$ 264.2	\$ 70.2	26.5%
Asia	115.3	99.3	16.0	16.2%
Europe	18.3	20.5	(2.2)	(10.8)%
Mexico	16.1	21.9	(5.8)	(26.6)%
Elimination of inter-segment sales	(25.8)	(25.1)	(0.7)	(0.3)%
	\$ 458.3	\$ 380.8	\$ 77.5	

	Three Months Ended			
	December 29, 2007	December 30, 2006	Dollar Variance	Percentage Variance
Operating income (loss):				
United States	\$ 37.5	\$ 22.8	\$ 14.7	64.6%
Asia	11.7	9.9	1.8	17.6%
Europe	2.0	1.2	0.8	75.1%
Mexico	(0.4)	(1.4)	1.0	71.2%
Corporate and other costs	(18.9)	(13.7)	(5.2)	(38.0)%
	\$ 31.9	\$ 18.8	\$ 13.1	

United States: Net sales growth reflected increased demand with several customers, including our unnamed defense customer, Juniper and another wireline/networking customer as well as the addition of a new wireline/networking customer. Our net sales to an unnamed defense customer increased \$52.3 million over the prior year period and were approximately \$56 million in the current year period. In addition, net sales to our largest customer, Juniper, increased by 27 percent over the prior year period. Operating income improved primarily as a result of higher revenues from the customers noted above and operational efficiencies.

Asia: Net sales growth reflected increased net sales to several customers with the most significant customer growth coming from one customer in the medical sector. Operating income improved as a result of the net sales growth.

Europe: Net sales decreased due primarily to a customer program in the defense/security/aerospace sector going end-of-life. Operating income increased primarily due to reduced fixed manufacturing costs associated with the closure of the Maldon, England facility in fiscal 2007 and the recognition of \$0.3 million of revenue related to the cash collection and subsequent shipment of previously written-down inventories.

Mexico: Net sales decrease was primarily driven by a wireline/networking customer program and an industrial/commercial customer program going end-of-life. Operating loss decreased primarily due to the recognition of revenue related to the shipping of approximately \$1.0 million of previously written-down inventories.

For our significant customers, we generally manufacture product in more than one location. Net sales to Juniper, our largest customer, occur in the United States and Asia. Net sales to our significant unnamed defense customer occur all in the United

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States. Net sales to GE, a significant customer in prior periods, occur in the United States, Europe, 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 2008 outlook.* Our financial goal for the current fiscal year is for continued profitable organic growth in net sales. We have disclosed a net sales growth target for fiscal 2008 of approximately 15 percent to 18 percent over fiscal 2007. Our performance in the first quarter of fiscal 2008 suggests that the near-term objective is achievable, yet we are mindful of the growing economic uncertainty that could derail end-market demand and impact actual results. With this in mind and based on our current customer indications of expected demand, we currently expect second quarter of fiscal 2008 net sales to be in the range of \$440 million to \$460 million; however, results will ultimately depend upon the actual level of customer orders and production. It is important to note that the forecasted net sales in the second quarter of fiscal 2008 include significantly reduced demand from our significant unnamed defense customer. We currently anticipate net sales of approximately \$28 million in the second quarter for this program. Quarters with a large concentration of orders from this program tend to reflect a positive impact on gross margins, which is reflected in the EPS guidance below. There are currently no significant follow-on orders for that unnamed defense customer past the second quarter of fiscal 2008. Assuming that net sales are in the range of \$440 million to \$460 million, we would currently expect to earn between \$0.46 to \$0.51 per diluted share in the second quarter of fiscal 2008, excluding any restructuring or asset impairment costs.

**RESULTS OF OPERATIONS**

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

	Three months ended		Increase	
	December 29, 2007	December 30, 2006		
Net Sales	\$458.3	\$ 380.8	\$77.5	20.3%

Our net sales increase of 20.3 percent reflected increased demand in all sectors except the medical sector. Demand from our two largest customers, an unnamed defense customer and Juniper, was particularly strong in the current year period. Net sales to our unnamed defense customer increased \$52.3 million over the prior year period. However, we currently expect demand with this customer to drop to \$28 million in the second quarter of fiscal 2008. As a result, future net sales in the defense/security/aerospace sector will vary significantly. Net sales to Juniper increased 23 percent over the prior year period. Net sales in the medical sector were unfavorably impacted by a significant decline in demand from GE.

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

Market Sector	Three months ended	
	December 29, 2007	December 30, 2006
Wireline/Networking	38%	42%
Wireless Infrastructure	9%	9%
Medical	21%	27%
Industrial/Commercial	15%	16%
Defense/Security/Aerospace	17%	6%

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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 three months ended December 29, 2007 and December 30, 2006 were as follows:

	Three months ended	
	December 29, 2007	December 30, 2006
Juniper	19%	19%
Defense customer	12%	*
GE	*	13%
Top 10 customers	63%	60%

\* Represents less than 10 percent of total net sales

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

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

	Three months ended			
	December 29, 2007	December 30, 2006		
Gross Profit	\$55.6	\$ 39.7	\$15.9	40.1%
Gross Margin	12.1%	10.4%		

For the three months ended December 29, 2007, gross profit and gross margin were affected by the following factors:

increased net sales in the U.S. and Asian reportable segments, along with favorable changes in customer mix, including the large defense program discussed above, which helped to improve operating efficiencies; recognition of \$1.3 million of net sales in the Mexican and European reportable segments associated with the shipments of previously written-down inventories and a moderate increase of fixed manufacturing costs in the U.S. and Asian reportable segments primarily due to higher salaries and benefits as a result of additional employees to support net sales growth.

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

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

reimbursed by our customers and we consider these amounts immaterial.

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

	Three months ended			
	December	December		
	29,	30,		
	2007	2006		Increase
S&A	\$23.6	\$ 20.3	\$3.3	16.1%
Percent of net sales	5.2%	5.3%		

For the three months ended December 29, 2007, the dollar increase in S&A was due primarily to increased salaries and benefits of approximately \$2.4 million, which reflects additional employees, annual wage increases and increased compensation costs related to variable incentive and stock-based compensation. Also, during the current year period, we experienced increased costs associated with legal and outside professional services. The percentage decrease in S&A was driven by the increased net sales in the current year period.

*Restructuring Actions.* During the three months ended December 29, 2007, we did not incur any restructuring charges. During the three months ended December 30, 2006, we incurred \$0.5 million of restructuring costs associated with the closure of our Maldon facility in the United Kingdom.

As of December 29, 2007, we have a remaining restructuring liability of approximately \$0.1 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	
	December	December
	29,	30,
	2007	2006
Income tax expense	\$6.0	\$ 4.5
Effective tax rate	18%	23%

The decrease in the effective tax rate for the three months ended December 29, 2007 compared to the three months ended December 30, 2006 was because the proportion of our projected fiscal 2008 pre-tax income increased in Malaysia and China when compared to fiscal 2007 pre-tax income. We currently benefit from tax holidays in Malaysia and China.

We currently expect the annual effective tax rate for fiscal 2008 to be approximately 18 percent, which is 3 percent higher than we originally anticipated due to an increase in expected U.S. pre-tax income for fiscal 2008.

**LIQUIDITY AND CAPITAL RESOURCES**

*Operating Activities.* Cash flows provided by operating activities were \$16.6 million for the three months ended December 29, 2007, compared to cash flows used in operating activities of \$7.8 million for the three months ended December 30, 2006. During the three months ended December 29, 2007, cash flows provided by operating activities were primarily generated by increased earnings (after adjusting for the non-cash effects of depreciation and amortization expense and stock-based compensation) and increased accounts payable. These positive cash flow effects were offset, in part, by increased accounts receivable and inventories.

As of December 29, 2007, days sales outstanding for the current year period in accounts receivable were 49 days which compared favorably to the 54 days sales outstanding for fiscal 2007.

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Our inventory turns improved to 5.6 turns for the three months ended December 29, 2007 from 5.5 turns for fiscal 2007. Inventories increased \$19.7 million during the three months ended December 29, 2007 primarily as a result of anticipated net sales growth in fiscal 2008.

*Investing Activities.* Cash flows used in investing activities totaled \$13.1 million for the three months ended December 29, 2007 and were for additions to property, plant and equipment, primarily in Asia as we continue to expand in that region. See Note 9 in Notes to the Condensed Consolidated Financial Statements for further information regarding our first quarter of fiscal 2008 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 2008 to be in the range of \$45 million to \$50 million, of which \$13.6 million of expenditures were made during the first quarter of fiscal 2008.

*Financing Activities.* Cash flows provided by financing activities totaled \$1.2 million for the three months ended December 29, 2007, which primarily represented proceeds from exercises of stock options.

On January 12, 2007, we entered into an amended and restated revolving credit facility (the Amended Credit Facility ) with a group of banks which allows us 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 letter of credit obligations. As of December 29, 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 its 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 leasing capabilities should be sufficient to meet our working capital and fixed capital requirements, as noted above, through fiscal 2008; other borrowing arrangements may be needed in the event of other initiatives. Although our net sales growth anticipated for the remainder of fiscal 2008 will increase our working capital needs, we currently do not anticipate having to use our Amended Credit Facility to finance this growth. As our financing needs increase, we may need to arrange additional debt or equity financing. We therefore evaluate and consider from time to time various financing alternatives to supplement our capital resources. However, we cannot be certain that we will be able to make any such arrangements on acceptable terms.

We have a common stock buyback program that currently permits us to acquire up to 6 million shares of our common stock for an amount up to \$25 million. To date, no shares have been repurchased under this program. We are considering whether to update our common stock buyback program to increase the number of shares and/or the amount of funds to be utilized if we were to repurchase shares. Any increase to the common stock buyback program would require approval by the Company's Board of Directors.

We have not paid cash dividends in the past and do not anticipate paying them in the foreseeable future.



**Table of Contents****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 December 29, 2007 (dollars in millions):

		Payments Due by Fiscal Period			
	Total	Remaining in 2008	2009-2010	2011-2012	2013 and thereafter
Contractual Obligations					
Current Portion of Long-Term Debt Obligations	\$	\$	\$	\$	\$
Capital Lease Obligations	40.3	3.2	8.0	8.4	20.7
Operating Lease Obligations	43.6	7.3	14.5	9.4	12.4
Purchase Obligations (1)	243.8	241.1	2.7		
Other Long-Term Liabilities on the Balance Sheet (2)	8.2	0.6	1.5	1.0	5.1
Other Long-Term Liabilities not on the Balance Sheet (3)	2.2	0.6	1.6		
 Total Contractual Cash Obligations	 \$ 338.1	 \$ 252.8	 \$ 28.3	 \$ 18.8	 \$ 38.2

(1) - As of December 29, 2007, purchase obligations consist of purchases of inventory and equipment in the ordinary course of business.

(2) - As of December 29, 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 related to FASB Interpretation No. 47, Accounting for

Conditional Asset Retirement Obligations. We have excluded, from the above table, the impact of approximately \$4.4 million as of December 29, 2007 related to unrecognized income tax benefits, due to the adoption of FASB interpretation No. 48,

Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. The Company cannot make reliable estimates of the future cash flows by period related to this obligation.

(3) - As of December 29, 2007, other long-term obligations not on the balance sheet consist of a commitment for salary continuation in the event employment of one executive officer of the Company is terminated without cause. We did not have, and were not subject to, any lines of credit, standby letters of credit, guarantees, standby repurchase obligations, other

off-balance sheet  
arrangements or  
other commercial  
commitments that  
are material.

#### **DISCLOSURE ABOUT CRITICAL ACCOUNTING POLICIES**

Our accounting policies are disclosed in our 2007 Report on Form 10-K. During the first quarter of fiscal 2008, there were no material changes to these policies. Our more critical accounting policies are as follows:

*Impairment of Long-Lived Assets* In accordance with Statement of Financial Accounting Standards ( SFAS ) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which was effective for fiscal years beginning after December, 2001, we review property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of property, plant and equipment is measured by comparing its carrying value to the projected cash flows the property, plant and equipment are expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying value of the property exceeds its fair market value. The impairment analysis is based on significant assumptions of future results made by management, including revenue and cash flow projections. Circumstances that may lead to impairment of property, plant and equipment include reduced expectations for future performance or industry demand and possible further restructurings.

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**Intangible Assets** Under SFAS No. 142, Goodwill and Other Intangible Assets, which was effective October 1, 2002, we no longer amortize goodwill and intangible assets with indefinite useful lives, but instead we test those assets for impairment, at least annually, and recognize any related losses when incurred. We perform goodwill impairment tests annually during the third quarter of each fiscal year or more frequently if an event or circumstance indicates that an impairment has occurred.

We measure the recoverability of goodwill under the annual impairment test by comparing a reporting unit's carrying amount, including goodwill, to the reporting unit's estimated fair market value, which is primarily estimated using the present value of expected future cash flows, although market valuations may also be employed. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired and a second test is performed to measure the amount of impairment. Circumstances that may lead to impairment of goodwill include, but are not limited to, the loss of a significant customer or customers and unforeseen reductions in customer demand, future operating performance or industry demand.

**Revenue** Net sales from manufacturing services are recognized when the product has been shipped, the risk of ownership has transferred to the customer, the price to the buyer is fixed and determinable, and recoverability is reasonably assured. This point depends on contractual terms and generally occurs upon shipment of the goods from Plexus. Generally, there are no formal customer acceptance requirements or further obligations related to manufacturing services; if such requirements or obligations exist, then a sale is recognized at the time when such requirements are completed and such obligations fulfilled.

Net sales from engineering design and development services, which are generally performed under contracts of twelve months or less duration, are recognized as costs are incurred utilizing a percentage-of-completion method; any losses are recognized when anticipated.

Sales are recorded net of estimated returns of manufactured product based on management's analysis of historical rates of returns, current economic trends and changes in customer demand. Net sales also include amounts billed to customers for shipping and handling, if applicable. The corresponding shipping and handling costs are included in cost of sales.

**Income Taxes** Deferred income taxes are provided for differences between the bases of assets and liabilities for financial and income tax reporting purposes. We record a valuation allowance against deferred income tax assets when management believes it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Realization of deferred income tax assets is dependent on our ability to generate sufficient future taxable income.

## **NEW ACCOUNTING PRONOUNCEMENTS**

See Note 13 in Notes to Condensed Consolidated Financial Statements for further information regarding new accounting pronouncements.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

### **Foreign Currency Risk**

We do not use derivative financial instruments for speculative purposes. Our policy is to selectively hedge our foreign currency denominated transactions in a manner that substantially offsets the effects of changes in foreign currency exchange rates. Historically, we have used foreign currency contracts to hedge only those currency exposures associated with certain assets and liabilities denominated in non-functional currencies. Corresponding gains and losses on the underlying transaction generally offset the gains and losses on these foreign currency hedges. Our international operations create potential foreign exchange risk. As of December 29, 2007, we had no foreign currency contracts outstanding.

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Our percentages of transactions denominated in currencies other than the U.S. dollar for the indicated periods were as follows:

	Three months ended	
	December 29, 2007	December 30, 2006
Net Sales	4%	6%
Total Costs	10%	11%

**Interest Rate Risk**

We have financial instruments, including cash equivalents and short-term investments, which are sensitive to changes in interest rates. We consider the use of interest-rate swaps based on existing market conditions. We currently do not use any interest-rate swaps or other types of derivative financial instruments to hedge interest rate risk.

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

Our only material interest rate risk is associated with our secured credit facility for which we currently have no borrowings. A 10 percent change in the weighted average interest rate on our average long-term borrowings would have had only a nominal impact on net interest expense in the first quarter of fiscal 2008 and fiscal 2007, respectively.

**ITEM 4. CONTROLS AND PROCEDURES**

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

*Changes in Internal Control Over Financial Reporting:* During the first quarter of fiscal 2008, there have been no changes to the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 13d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

*Limitations on the Effectiveness of Controls:* Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls and internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent

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limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

## **PART II OTHER INFORMATION**

### **ITEM 1. Legal Proceedings**

Two securities class action lawsuits were filed in the United States District Court for the Eastern District of Wisconsin on June 25 and June 29, 2007, against the Company and certain Company officers and/or directors. On November 7, 2007, the two actions were consolidated, and a consolidated class action complaint was filed on February 1, 2008. The consolidated complaint names the Company and the following individuals as defendants: Dean A. Foate, President, Chief Executive Officer and a Director of the Company; F. Gordon Bitter, the Company's former Senior Vice President and Chief Financial Officer; and Paul Ehlers, the Company's former Executive Vice President and Chief Operating Officer. The consolidated complaint alleges securities law violations and seeks unspecified damages relating generally to the Company's statements regarding its defense sector business in early calendar 2006.

The Company believes the allegations in the consolidated complaint are without merit and it intends to vigorously defend against them. Since these matters are in the preliminary stages, the Company is unable to predict the scope or outcome or quantify their eventual impact, if any, on the Company. At this time, the Company is also unable to estimate associated expenses or possible losses. The Company maintains insurance that may reduce its financial exposure for defense costs and liability for an unfavorable outcome, should it not prevail.

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

### **ITEM 1A. Risk Factors**

#### **Our net sales and operating results may vary significantly from quarter to quarter.**

Our quarterly and annual results may vary significantly depending on various factors, many of which are beyond our control. These factors include:

- the volume and timing of customer orders relative to our capacity

- the typical short life-cycle of our customers' products

- customers' operating results and business conditions

- changes in our customers' sales mix

- failures of our customers to pay amounts due to us

- volatility of customer orders for certain programs for the Defense sector

- possible non-compliance with the statutes and regulations covering the design, development, testing, manufacturing and labeling of medical devices

- the timing of our expenditures in anticipation of future orders

- our effectiveness in planning production and managing inventory, fixed assets and manufacturing processes

changes in cost and availability of labor and components and

changes in U.S. and global economic and political conditions and world events.

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**The majority of our net sales come from a relatively small number of customers and a limited number of market sectors; if we lose any of these customers or there are problems in those market sectors, our net sales and operating results could decline significantly.**

Net sales to our ten largest customers have represented a majority of our net sales in recent periods. Our ten largest customers accounted for approximately 63 percent and 60 percent of our net sales for the three months ended December 29, 2007 and December 30, 2006, respectively. For the three months ended December 29, 2007, there were two customers which represented 10 percent or more of our net sales. Our principal customers may vary from period to period, and our principal customers may not continue to purchase services from us at current levels, or at all. Significant reductions in net sales to any of these customers, or the loss of other major customers, could seriously harm our business.

In addition, we focus our net sales to customers in only a few market sectors. For example, net sales to customers in the wireline/networking sector recently have increased significantly in absolute dollars, making us more dependent upon the performance of that sector and the economic and business conditions that affect it. In addition, net sales in the defense/security/aerospace sector have become increasingly important in some periods; however, net sales in this sector are particularly susceptible to significant period-to-period variations. Any weakness in the market sectors in which our customers are concentrated could affect our business and results of operations.

**Our customers do not make long-term commitments and may cancel or change their production requirements.**

EMS companies must respond quickly to the requirements of their customers. We generally do not obtain firm, long-term purchase commitments from our customers. Customers also cancel requirements, change production quantities or delay production for a number of reasons that are beyond our control. The success of our customers products in the market and the strength of the markets themselves affect our business. Cancellations, reductions or delays by a significant customer, or by a group of customers, could seriously harm our operating results. Such cancellations, reductions or delays have occurred and may continue to occur.

In addition, we make significant decisions based on our estimates of customers requirements, including determining the levels of business that we will seek and accept, production schedules, component procurement commitments, facility requirements, personnel needs and other resource requirements. The short-term nature of our customers commitments and the possibility of rapid changes in demand for their products reduce our ability to accurately estimate the future requirements of those customers. Since many of our operating expenses are fixed, a reduction in customer demand can harm our operating results. Moreover, since our margins vary across customers and specific programs, a reduction in demand with higher margin customers or programs will have a more significant adverse effect on our operating results.

Rapid increases in customer requirements may stress personnel and other capacity resources. We may not have sufficient resources at any given time to meet all of our customers demands or to meet the requirements of a specific program.

**Our manufacturing services involve inventory risk.**

Most of our contract manufacturing services are provided on a turnkey basis, under which we purchase some, or all, of the required raw materials. Excess or obsolete inventory could adversely affect our operating results.

In our turnkey operations, we order raw materials based on customer forecasts and/or orders. Suppliers may require us to purchase raw materials in minimum order quantities that may exceed customer requirements. A customer s cancellation, delay or reduction of forecasts or orders can also result in excess inventory or additional expense to us. Engineering changes by a customer may result in obsolete raw material. While we attempt to cancel, return or otherwise mitigate excess and obsolete raw materials and require customers to reimburse us for excess and obsolete inventory, we may not actually be reimbursed timely or be able to collect on these obligations.

In addition, we provide managed inventory programs for some of our key customers under which we hold and manage finished goods or work-in-process inventories. These managed inventory programs may result in higher inventory levels, further reduce our inventory turns and increase our financial exposure with such customers.



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Even though our customers generally have contractual obligations to purchase such inventories from us, we remain subject to the risk of enforcing those obligations.

### **We may experience raw material shortages and price fluctuations.**

We do not have any long-term supply agreements. At various times, we have experienced component shortages due to supplier capacity constraints or their failure to deliver. At times, component shortages have been prevalent due to industry-wide conditions, and such shortages can be expected to recur from time to time. World events, such as foreign government policies, terrorism, armed conflict and epidemics, could also affect supply chains. We rely on a limited number of suppliers for many of the components used in the assembly process and, in some cases, may be required to use suppliers that are the sole provider. Such suppliers may encounter quality problems or financial difficulties which could preclude them from delivering components timely or at all. Supply shortages and delays in deliveries of components have resulted in delayed production of assemblies, which have increased our inventory levels and adversely affected our operating results. An inability to obtain sufficient components on a timely basis could also harm relationships with our customers.

Component supply shortages and delays in deliveries have also resulted in increased component pricing. While many of our customers permit quarterly or other periodic adjustments to pricing based on changes in component prices and other factors, we typically bear the risk of component price increases that occur between any such repricings or, if such repricing is not permitted, during the balance of the term of the particular customer contract. Conversely, component price reductions have contributed positively to our operating results in the past. Our inability to continue to benefit from such reductions in the future could adversely affect our operating results.

### **Failure to manage periods of growth or contraction, if any, may seriously harm our business.**

Our industry frequently sees periods of expansion and contraction to adjust to customers' needs and market demands. Plexus regularly contends with these issues and must carefully manage its business to meet customer and market requirements. If we fail to manage these growth and contraction decisions effectively, we can find ourselves with either excess or insufficient capacity and our business and profitability may suffer.

Expansion can inherently include additional costs and start-up inefficiencies. We are currently contemplating possible expansion of our operations to other countries. In fiscal 2007, we expanded our operations in Asia, including the recent addition of a third facility in Penang, Malaysia, as well as the doubling of capacity in our existing facility in Xiamen, China. If we are unable to effectively manage the currently anticipated growth, or the anticipated net sales are not realized, our operating results could be adversely affected. In addition, we may expand our operations in new geographical areas where currently we do not operate. Other risks of current or future expansion include:

- the inability to successfully integrate additional facilities or incremental capacity and to realize anticipated synergies, economies of scale or other value

- additional fixed costs which may not be fully absorbed by new business

- difficulties in the timing of expansions, including delays in the implementation of construction and manufacturing plans

- diversion of management's attention from other business areas during the planning and implementation of expansions

- strain placed on our operational, financial, management, systems and other resources and

- inability to locate sufficient customers, employees or management talent to support the expansion.

Periods of contraction or reduced net sales create other challenges. We must determine whether facilities remain viable, whether staffing levels need to be reduced, and how to respond to changing levels of customer demand. While maintaining multiple facilities or higher levels of employment entail short-term costs, reductions in employment could impair our ability to respond to market improvements or to maintain customer relationships. Our decisions to reduce costs and capacity can affect our short-term and long-term results. When we make decisions to reduce capacity or to

close facilities, we frequently incur restructuring charges.

In addition, to meet our customers' needs, or to achieve increased efficiencies, we sometimes require additional capacity in one location while reducing capacity in another. Since customers' needs and market

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conditions can vary and change rapidly, we may find ourselves in a situation where we simultaneously experience the effects of contraction in one location and expansion in another location, such as those noted above.

**Operating in foreign countries exposes us to increased risks, including foreign currency risks.**

We have operations in China, Malaysia, Mexico and the United Kingdom, which in the aggregate represented approximately 33 percent of our revenues in the quarter ended December 29, 2007. We also purchase a significant number of components manufactured in foreign countries. These international aspects of our operations subject us to the following risks that could materially impact our operating results:

economic or political instability

transportation delays or interruptions

foreign exchange rate fluctuations

difficulties in staffing and managing foreign personnel in diverse cultures

the effects of international political developments and

foreign regulatory requirements.

We do not generally hedge foreign currencies. As our foreign operations expand, our failure to adequately hedge foreign currency transactions and/or the currency exposures associated with assets and liabilities denominated in non-functional currencies could adversely affect our consolidated financial condition, results of operations and cash flows.

In addition, changes in policies by the U.S. or foreign governments could negatively affect our operating results due to changes in duties, tariffs, taxes or limitations on currency or fund transfers. For example, our facility in Mexico operates under the Mexican Maquiladora program, which provides for reduced tariffs and eased import regulations; we could be adversely affected by changes in that program. Also, the Malaysian and Chinese subsidiaries currently receive favorable tax treatments from these governments which extend for approximately 12 years and 6 years, respectively, which may not be extended. Finally, China and Mexico have passed new tax laws which took effect on January 1, 2008. These new laws do not impact our tax rates in fiscal 2008, but may result in higher tax rates on our operations in those countries in future periods.

**We and our customers are subject to extensive government regulations.**

Government regulation and procurement practices significantly affect both our operations and the market sectors in which our customers operate. These requirements can, in turn, affect our operations and costs. Failure by us or our customers to comply with these regulations and practices could seriously affect our operations and profitability.

*Extensive government regulation affects our operations.*

We are subject to extensive regulation as to how we conduct our business. These regulations affect every aspect of our business, including our labor, employment, workplace safety, environmental and import/export practices, as well as many other facets of our operations. At the corporate level, we are subject to increasingly stringent regulation and requirements as a publicly-held company; recent accounting and corporate governance practices and the Sarbanes-Oxley Act have led to more stringent securities regulation and disclosure requirements.

We are also subject to environmental regulations relating to air emission standards and the use, storage, discharge, recycling and disposal of hazardous chemicals used in our manufacturing processes. If we fail to comply with present and future regulations, we could be subject to future liabilities or the suspension of business. These regulations could restrict our ability to expand our facilities or require us to acquire costly equipment or incur significant expense. While we are not currently aware of any material violations, we may have to spend funds to comply with present and future regulations or be required to perform site remediation.

*Government regulations also affect our customers and their industries, which could affect our net sales.*

In addition, our customers are also required to comply with various government regulations and legal requirements. Their failure to comply could affect their businesses, which in turn would affect our sales to them.



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The processes we engage in for these customers must comply with the relevant regulations. In addition, if our customers are required by regulation or other legal requirements to make changes in their product lines, these changes could significantly disrupt particular projects for these customers and create inefficiencies in our business.

Some of the sectors in which our customers operate are subject to particularly stringent government regulation or are particularly affected by government practices. In those sectors, both our customers and ourselves need to assure compliance with those regulations, and failure to do so could affect both our business and profitability as more specifically discussed below.

*Medical* Our net sales to the medical sector, which represented approximately 21 percent of our net sales for the first quarter of fiscal 2008, is subject to substantial government regulation, primarily from the federal Food and Drug Administration ( FDA ) and similar regulatory bodies in other countries. We must comply with statutes and regulations covering the design, development, testing, manufacturing and labeling of medical devices and the reporting of certain information regarding their safety. Failure to comply with these regulations can result in, among other things, fines, injunctions, civil penalties, criminal prosecution, recall or seizure of devices, or total or partial suspension of production. The FDA also has the authority to require repair or replacement of equipment, or refund of the cost of a device manufactured or distributed by our customers. Violations may lead to penalties or shutdowns of a program or a facility. Failure or noncompliance could have an adverse effect on our reputation as well as our net sales.

*Defense* - In recent periods, our net sales to the defense/security/aerospace sector have significantly increased. Companies that design and manufacture for this sector face governmental, security and other requirements. Failure to comply with those requirements could materially affect their financial condition and results of operations. In addition, defense contracting can be subject to extensive procurement processes and other factors that can affect the timing and duration of contracts and orders. For example, defense orders are subject to continued Congressional appropriations for these programs, as well as continued determinations by the Department of Defense to continue them. Products for the military are also subject to continued testing of their operations in the field and changing military operational needs, which could affect the possibility and timing of future orders.

While those arrangements may result in a significant amount of net sales in a short period of time as happened in the first quarter of fiscal 2008, and that we currently anticipate occurring to a lesser extent in the second quarter of fiscal 2008, they may or may not result in continuing long-term relationships. Even in the case of continuing long-term relationships, orders in the defense sector can be episodic and vary significantly from period to period.

*Wireline/Wireless* The end-markets for most of our customers in the wireline/networking and wireless infrastructure sectors are subject to regulation by the Federal Communications Commission, as well as by various state and foreign government agencies. The policies of these agencies can directly affect both the near-term and long-term demand and profitability of the sector and therefore directly impact the demand for products that we manufacture.

### **If we are unable to maintain our engineering, technological and manufacturing process expertise, our results may be adversely affected.**

The markets for our manufacturing and engineering services are characterized by rapidly changing technology and evolving process developments. Our manufacturing and design processes are also subject to these factors. The continued success of our business will depend upon our continued ability to:

retain our qualified engineering and technical personnel

maintain and enhance our technological capabilities

successfully manage the implementation and execution of information systems

develop and market manufacturing services which meet changing customer needs and

successfully anticipate, or respond to, technological changes on a cost-effective and timely basis.

Although we believe that our operations utilize the assembly and testing technologies, equipment and processes that are currently required by our customers, we cannot be certain that we will develop the capabilities required by our

customers in the future. The emergence of new technology, industry standards or customer requirements may render our equipment, inventory or processes obsolete or noncompetitive. In addition, we may

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have to acquire new design, assembly and testing technologies and equipment to remain competitive. The acquisition and implementation of new technologies and equipment may require significant expense or capital investment that could reduce our liquidity and negatively affect our operating results. Our failure to anticipate and adapt to our customers' changing technological needs and requirements could have an adverse effect on our business.

We are nearing completion of a multi-year project to install a common ERP platform and associated information systems at most of our manufacturing sites. As of December 29, 2007, facilities representing approximately 97 percent of our net sales are currently managed on the common ERP platform. In October 2007, we added our final manufacturing site to the common ERP platform. We plan to extend the common ERP platform to the engineering entities over the next year; however, the conversion timetable for the remaining Plexus entities and project scope are subject to change based upon our evolving needs. Any delay in the implementation or execution of the common ERP platform, as well as other information systems, could result in material adverse consequences, including disruption of operations, loss of information and unanticipated increases in expense.

### **Start-up costs and inefficiencies related to new or transferred programs can adversely affect our operating results.**

The management of labor and production capacity in connection with the establishment of new programs and new customer relationships, and the need to estimate required resources in advance of production can adversely affect our gross margins and operating margins. These factors are particularly evident in the early stages of the life-cycle of new products and new programs or program transfers. We are managing a number of new programs at any given time. Consequently, we are exposed to these factors. In addition, if any of these new programs or new customer relationships were terminated, our operating results could worsen, particularly in the short term.

The effects of these start-up costs and inefficiencies can also occur when we transfer programs between locations. Although we try to minimize the potential losses arising from transitioning customer programs between Plexus facilities, there are inherent risks that such transitions can result in operational inefficiencies and the disruption of programs and customer relationships.

### **There may be problems with the products we design or manufacture that could result in liability claims against us and reduced demand for our services.**

The products which we design or manufacture may be subject to liability claims in the event that defects are discovered or alleged. We design and manufacture products to our customers' highly complex specifications. Despite our quality control and quality assurance efforts, problems may occur, or be alleged to have occurred, in the design and/or manufacturing of these products. Problems in the products we manufacture, whether real or alleged, whether caused by faulty customer specifications or in the design or manufacturing processes or by a component defect, and whether or not we are responsible, may result in delayed shipments to customers and/or reduced or cancelled customer orders. If these problems were to occur in large quantities or too frequently, our business reputation may also be tarnished. In addition, problems may result in liability claims against us, whether or not we are responsible. Even if customers or third parties such as component suppliers are responsible for defects, they may not, or may not be able to, assume responsibility for any such costs or required payments to us. We occasionally incur costs defending claims, and disputes could affect our business relationships.

### **Intellectual property infringement claims against our customers or us could harm our business.**

Our design and manufacturing services and the products offered by our customers involve the creation and use of intellectual property rights, which subject us and our customers to the risk of claims of intellectual property infringement from third parties. In addition, our customers may require that we indemnify them against the risk of intellectual property infringement. If any claims are brought against us or our customers for infringement, whether or not these have merit, we could be required to expend significant resources in defense of those claims. In the event of an infringement claim, we may be required to spend a significant amount of money to develop non-infringing alternatives or obtain licenses. We may not be successful in developing alternatives or obtaining licenses on reasonable terms or at all. Infringement by our customers could cause them to discontinue production of some of their products, potentially with little or no notice, which may reduce our net sales to them and disrupt our production.

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Additionally, if third parties, such as component manufacturers, are responsible for the infringement, they may or may not have the resources to assume responsibility for any related costs or required payments to us, and we may incur costs defending claims. While third parties may be required to indemnify us against claims of intellectual property infringement, if those third parties are unwilling or unable to indemnify us, we may be exposed to additional costs.

### **We are defendants in securities class action lawsuits.**

Two securities class action lawsuits were filed against us and several of our current or former officers and/or directors during June 2007. The two actions were consolidated, and a consolidated class action complaint was filed on February 1, 2008. The consolidated complaint alleges securities law violations and seeks unspecified damages relating generally to the Company's statements regarding its defense sector business in early calendar 2006. We could be subject to additional or related lawsuits or other inquiries in connection with this matter. The defense of these lawsuits could result in the diversion of management's time and attention away from business operations and negative developments with respect to the lawsuits and the costs incurred defending ourselves could have an adverse impact on our business and our stock price. Adverse outcomes or settlements could also require us to pay damages or incur liability for other remedies that could have a material adverse effect on our consolidated results of operations, financial position and cash flows.

### **Our products are for the electronics industry, which produces technologically advanced products with relatively short life-cycles.**

Factors affecting the electronics industry, in particular short product life-cycles, could seriously affect our customers and, as a result, ourselves. These factors include:

- the inability of our customers to adapt to rapidly changing technology and evolving industry standards that result in short product life-cycles

- the inability of our customers to develop and market their products, some of which are new and untested and

- the potential that our customers' products may become obsolete or the failure of our customers' products to gain widespread commercial acceptance.

Even if our customers successfully respond to these market challenges, their responses, including any consequential changes we must make in our business relationships with them and our production for them, can affect our production cycles, inventory management and results of operations.

### **Increased competition may result in reduced demand or reduced prices for our services.**

The EMS industry is highly competitive and has become more so as a result of excess capacity in the industry. We compete against numerous U.S. and foreign EMS providers with global operations, as well as those which operate on only a local or regional basis. In addition, current and prospective customers continually evaluate the merits of manufacturing products internally and may choose to manufacture products themselves rather than outsource that process. Consolidations and other changes in the EMS industry result in a changing competitive landscape. The consolidation trend in the industry also results in larger and more geographically diverse competitors that may have significantly greater resources with which to compete against us.

Some of our competitors have substantially greater managerial, manufacturing, engineering, technical, financial, systems, sales and marketing resources than ourselves. These competitors may:

- respond more quickly to new or emerging technologies

- have greater name recognition, critical mass and geographic and market presence

- be better able to take advantage of acquisition opportunities

- adapt more quickly to changes in customer requirements

- devote greater resources to the development, promotion and sale of their services and



be better positioned to compete on price for their services.

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We may operate at a cost disadvantage compared to other EMS providers which have lower internal cost structures or have greater direct buying power with component suppliers, distributors and raw material suppliers. Our manufacturing processes are generally not subject to significant proprietary protection, and companies with greater resources or a greater market presence may enter our market or become increasingly competitive. Increased competition could result in price reductions, reduced sales and margins or loss of market share.

### **We depend on certain key personnel, and the loss of key personnel may harm our business.**

Our success depends in large part on the continued services of our key technical and management personnel, and on our ability to attract and retain qualified employees, particularly highly skilled design, process and test engineers involved in the development of new products and processes and the manufacture of existing products. The competition for these individuals is significant, and the loss of key employees could harm our business.

During fiscal 2007, our Chief Operating Officer passed away after an extended illness. Also in fiscal 2007, our Chief Financial Officer retired, consistent with a previously established succession plan for this position, and we designated several new executive officers. In January 2008, our Chief Technology and Strategy Officer began a long-term disability leave. From time to time, there also are other changes and developments affecting our executive officers and other key employees. Transitions of responsibilities among officers and key employees inherently can cause disruptions to our business and operations, which could have an effect on our results.

### **Energy price increases may reduce our profits.**

We use some components made with petroleum-based materials. In addition, we use various energy sources transporting, producing and distributing products. Energy prices have recently been subject to increases and volatility caused by market fluctuations, supply and demand, currency fluctuation, production and transportation disruption, world events, and changes in governmental programs.

Energy price increases raise both our material and operating costs. We may not be able to increase our prices enough to offset these increased costs. Increasing our prices also may reduce our level of future customer orders and profitability.

### **We may fail to successfully complete future acquisitions and may not successfully integrate acquired businesses, which could adversely affect our operating results.**

We have previously grown, in part, through acquisitions. If we were to pursue future growth through acquisitions, this would involve significant risks that could have a material adverse effect on us. These risks include:

Operating risks, such as:

the inability to integrate successfully our acquired operations businesses and personnel

the inability to realize anticipated synergies, economies of scale or other value

the difficulties in scaling up production and coordinating management of operations at new sites

the strain placed on our personnel, systems and resources

the possible modification or termination of an acquired business customer programs, including the loss of customers and the cancellation of current or anticipated programs and

the loss of key employees of acquired businesses.

Financial risks, such as:

the use of cash resources, or incurrence of additional debt and related interest expense

the dilutive effect of the issuance of additional equity securities

the inability to achieve expected operating margins to offset the increased fixed costs associated with acquisitions, and/or inability to increase margins of acquired businesses to our desired levels

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the incurrence of large write-offs or write-downs

the impairment of goodwill and other intangible assets and

the unforeseen liabilities of the acquired businesses.

### **We may fail to secure or maintain necessary financing.**

Our credit facility allows us to borrow up to \$100 million depending upon compliance with its defined covenants and conditions. However, we cannot be certain that the credit facility will provide all of the financing capacity that we will need in the future or that we will be able to change the credit facility or revise covenants, if necessary or appropriate in the future, to accommodate changes or developments in our business and operations.

Our future success may depend on our ability to obtain additional financing and capital to support possible future growth and future initiatives. We may seek to raise capital by issuing additional common stock, other equity securities or debt securities, modifying our existing credit facilities or obtaining new credit facilities or a combination of these methods.

We may not be able to obtain capital when we want or need it, and capital may not be available on satisfactory terms. If we issue additional equity securities or convertible securities to raise capital, it may be dilutive to shareholders' ownership interests. Furthermore, any additional financing may have terms and conditions that adversely affect our business, such as restrictive financial or operating covenants, and our ability to meet any financing covenants will largely depend on our financial performance, which in turn will be subject to general economic conditions and financial, business and other factors.

### **If we are unable to maintain effective internal control over our financial reporting, investors could lose confidence in the reliability of our financial statements, which could result in a reduction in the value of our common stock.**

As required by Section 404 of the Sarbanes-Oxley Act, the SEC adopted rules requiring public companies to include a report of management on the company's internal control over financial reporting in their annual reports on Form 10-K; that report must contain an assessment by management of the effectiveness of our internal control over financial reporting. In addition, the independent registered public accounting firm auditing a company's financial statements must attest to and report on the effectiveness of the company's internal control over financial reporting.

We are continuing our comprehensive efforts to comply with Section 404 of the Sarbanes-Oxley Act. If we are unable to maintain effective internal control over financial reporting, this could lead to a failure to meet our reporting obligations to the SEC, which in turn could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements.

### **The price of our common stock has been and may continue to be volatile.**

Our stock price has fluctuated significantly in recent periods. The price of our common stock may fluctuate in response to a number of events and factors relating to us, our competitors and the market for our services, many of which are beyond our control.

In addition, the stock market in general, and share prices for technology companies in particular, have from time to time experienced extreme volatility, including weakness, that sometimes has been unrelated to the operating performance of these companies. These broad market and industry fluctuations may adversely affect the market price of our common stock, regardless of our operating results. Our stock price and the stock price of many other technology companies remain below their peaks.

Among other things, volatility and weakness in our stock price could mean that investors may not be able to sell their shares at or above the prices that they paid. Volatility and weakness could also impair our ability in the future to offer common stock or convertible securities as a source of additional capital and/or as consideration in the acquisition of other businesses.

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**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

There were no repurchases of shares by the Company during the first quarter of fiscal 2008.

Plexus has a common stock buyback program that permits it to acquire up to 6 million shares of its common stock for an amount up to \$25 million. To date, no shares have been repurchased under this program. Plexus is considering updating its common stock buyback program to increase the number of shares and/or the amount of funds to be utilized if it were to repurchase shares.

**ITEM 6. Exhibits**

- 10.1 Form of Plexus Corp. Long-Term Cash Agreement
- 31.1 Certification of Chief Executive Officer pursuant to Section 302(a) of the Sarbanes Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to section 302(a) of the Sarbanes Oxley Act of 2002.
- 32.1 Certification of the CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

2/6/08

/s/ Dean A. Foate

Date

Dean A. Foate  
President and Chief Executive Officer

2/6/08

/s/ Ginger M. Jones

Date

Ginger M. Jones  
Vice President and  
Chief Financial Officer

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