

PLEXUS CORP
Form 10-K
November 17, 2011
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 K

(mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended October 1, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 001-14423

PLEXUS CORP.

(Exact Name of Registrant as Specified in its Charter)

Wisconsin

(State or other jurisdiction of
incorporation or organization)

39-1344447

(I.R.S. Employer Identification No.)

One Plexus Way

Neenah, Wisconsin 54956

(920) 722-3451

(Address, including zip code, of principal executive offices and Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, \$.01 par value	The NASDAQ Global Select Market
Preferred Share Purchase Rights	The NASDAQ Global Select Market
Securities registered pursuant to Section 12(g) of the Act:	None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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

Edgar Filing: PLEXUS CORP - Form 10-K

past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of April 2, 2011, 37,928,077 shares of common stock were outstanding, and the aggregate market value of the shares of common stock (based upon the \$34.80 closing sale price on that date, as reported on the NASDAQ Global Select Market) held by non-affiliates (excludes 349,975 shares reported as beneficially owned by directors and executive officers does not constitute an admission as to affiliate status) was approximately \$1,307.7million.

As of November 11, 2011, there were 34,620,493 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Document
Proxy Statement for 2012 Annual
Meeting of Shareholders

Part of Form 10-K Into Which

Portions of Document are Incorporated

Part III

Table of Contents

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

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

the risk of customer delays, changes, cancellations or forecast inaccuracies in both ongoing and new programs
the poor visibility of future orders, particularly in view of current economic conditions
the economic performance of the industries, sectors and customers we serve
the effects of the volume of revenue from certain sectors or programs on our margins in particular periods, as well as varying margins across different programs
our ability to secure new customers, maintain our current customer base and deliver product on a timely basis
the risk that our revenue and/or profits associated with customers who are acquired by third parties will be negatively affected
the particular risks relative to new or recent customers and/or programs, which risks include customer and other delays, start-up costs, potential inability to execute, the establishment of appropriate terms of agreements and the lack of a track record of order volume and timing
the effects of a constrained supply environment, which has led and may lead to periods of shortages and delays in obtaining components, or result in our inability to secure raw materials required to complete product assemblies
raw materials and component cost fluctuations
the risks of concentration of work for certain customers and in a limited number of market sectors
our ability to successfully manage a complex business model characterized by high customer and product mix, low volumes and demanding quality, regulatory and other requirements
the risks of operating as a multinational corporation, including adverse local developments and currency risks
the risk that new program wins and/or customer demand may not result in the expected revenue or profitability
the fact that customer orders may not lead to long-term relationships
the risks associated with excess and obsolete inventory, including failures by customers to meet their related obligations
the weakness of the global economy and the continuing instability of the global financial markets and banking system, including the potential inability of our customers or suppliers to access credit facilities
the effect of changes in the pricing and margins of products
the effect of start-up costs of new programs and facilities, including our recent, planned and potential future expansions
the effects of increasingly extensive government regulation and third party certification requirements, and changes in tax laws
the risk of unanticipated costs, unpaid duties and penalties related to an ongoing audit of our import compliance by U.S. Customs and Border Protection
possible unexpected costs and operating disruptions in transitioning programs
the potential effect of fluctuations in the value of the currencies in which we transact business
the potential effect of world or local events or other events outside our control (such as drug cartel-related violence in Mexico, terrorism, war in the Middle East, and the continuing effects of the earthquake and tsunami in Japan and the floods in Thailand)
the challenges associated with managing information systems
the potential loss of key personnel or other personnel disruptions
the impact of increased competition, and
other risks detailed below in Risk Factors , otherwise herein, and in our Securities and Exchange Commission filings.

In addition, see Risk Factors in Part I, Item 1A and Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 for a further discussion of some of the factors that could affect future results.

* * *

Table of Contents

PART I

ITEM 1. BUSINESS
Overview

Plexus Corp. and its subsidiaries (together Plexus, the Company, or we) participate in the Electronic Manufacturing Services (EMS) industry. We deliver optimized Product Realization solutions through a unique Product Realization Value Stream services model. This customer focused services model seamlessly integrates innovative product conceptualization, design, commercialization, manufacturing, fulfillment and sustaining services to deliver comprehensive end-to-end solutions for customers in the Americas (AMER), European (EMEA) and Asia-Pacific (APAC) regions. Award-winning customer service is provided to over 130 branded product companies in the Wireline/Networking, Wireless Infrastructure, Medical, Industrial/Commercial and Defense/Security/Aerospace market sectors. Our customers products typically require exceptional production and supply-chain flexibility, necessitating an optimized demand-pull-based manufacturing and supply chain solution across an integrated global platform. Many of our customers products require complex configuration management and direct order fulfillment to their customers across the globe. In such cases we provide global logistics management and after-market service and repair. Our customers products may have stringent requirements for quality, reliability and regulatory compliance. We offer our customers the ability to outsource all phases of product realization, including product specifications; development, design and design verification; regulatory compliance support; prototyping and new product introduction; manufacturing test equipment development; materials sourcing, procurement and supply-chain management; product assembly/manufacturing, configuration and test; order fulfillment, logistics and service/repair.

Plexus is passionate about its goal to be the leading EMS company in the world at servicing mid-to-low volume, higher complexity customer programs characterized by unique flexibility, technology, quality and regulatory requirements. We have aligned our business operations, processes, workforce and financial metrics to support this strategy.

We operate flexible manufacturing facilities and processes designed to accommodate customers with multiple product-lines and configurations. Each of our customers are supported by a multi-disciplinary customer team and one or more uniquely configured focus factories supported by a supply-chain and logistics solution specifically designed to meet the flexibility and responsiveness required to support that customer s fulfillment requirements.

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

In addition, our financial model is aligned with our business strategy, with our primary focus to earn a return on invested capital (ROIC) 500 basis points in excess of our weighted average cost of capital (WACC). We review our internal calculation of WACC annually, and at the end of fiscal 2011 reduced our estimated WACC to 12.5%. Lower manufacturing volumes, flexibility and fulfillment requirements, our sector-based go-to-market strategy, and complex quality and regulatory compliance requirements typically result in higher investments in inventory and selling and administrative costs relative to our competitors, particularly those that provide EMS services for high-volume, less complex products with less stringent requirements (such as consumer electronics). By exercising discipline to generate a ROIC in excess of our WACC, our goal is to ensure that Plexus creates value for our shareholders.

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

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

Table of Contents

product assembly. Turnkey services require material procurement and warehousing, in addition to manufacturing, and involve greater resource investments than consignment services. Other than certain test equipment and software used for internal operations, we do not design or manufacture our own proprietary products.

Established in 1979 as a Wisconsin corporation, we have approximately 9,000 full-time employees, including approximately 1,700 engineers and technologists dedicated to product development and design, test equipment development and design, and manufacturing process development and control, all of whom operate from 24 active facilities in 15 locations, totaling approximately 2.6 million square feet. These facilities are strategically located to support the global supply chain, manufacturing and engineering needs of customers in our targeted market sectors.

We maintain a website at www.plexus.com. We make available through that website, free of charge, copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Reports on Form 8-K, and amendments to those reports, as soon as reasonably practical after we electronically file those materials with, or furnish them to, the Securities and Exchange Commission (SEC). Our Code of Conduct and Business Ethics is also posted on our website. You may access these SEC reports and the Code of Conduct and Business Ethics by following the links under Investor Relations at our website.

Services

Plexus offers a broad range of integrated services as more fully described below; our customers may utilize any, or all, of the following services and tend to use more of these services as their outsourcing strategies mature:

Product development and design. We provide comprehensive conceptual design and value-engineering services. These product design services include program management, feasibility studies, product conceptualization, specification development for product features and functionality, circuit design (including digital, microprocessor, power, analog, radio frequency (RF), optical and micro-electronics), field programmable gate array design (FPGA), printed circuit board layout, embedded software design, mechanical design (including thermal analysis, fluidics, robotics, plastic components, sheet metal enclosures, and castings), development of test specifications and product verification testing. We invest in the latest design automation tools and technology. We also provide comprehensive value-engineering services for our customers that extend the life cycles of their products. These value-added services include engineering change-order management, cost reduction redesign, component obsolescence management, product feature expansion, test enhancement and component re-sourcing.

Prototyping and new product introduction services. We provide assembly of prototype products within our operating sites. We supplement our prototype assembly services with other value-added services, including materials management, analysis of the manufacturability and testability of a design, test implementation and pilot production runs leading to volume production. These services link our engineering and our customers engineering to our volume manufacturing facilities. These links facilitate an efficient transition from engineering to manufacturing. We believe that these services provide significant value to our customers by accelerating their products time-to-market schedule, reducing change activity and providing a robust product set.

Test equipment development. Enhanced product functionality has led to increasingly complex components and assembly techniques; consequently, there is a need to design and assemble increasingly complex in-circuit and functional test equipment for electronic products and assemblies. Our internal development of this test equipment allows us to rapidly specify, implement, maintain and enhance test solutions that efficiently test printed circuit assemblies, subassemblies, system assemblies and finished products. We also develop specialized equipment that allows us to environmentally stress-test products during functional testing to assure reliability. We believe that the internal design and production of test equipment is an important factor in our ability to provide technology-driven products of consistently high quality.

Material sourcing and procurement. We provide contract manufacturing services on either a turnkey basis, which means we source and procure the materials required for product assembly, or on a consignment basis, which means the customer supplies the materials necessary for product assembly. Turnkey services include materials procurement and warehousing in addition to manufacturing and involve greater resource investment and potential inventory risk than consignment services. Substantially all of our manufacturing services are currently on a turnkey basis.

Agile manufacturing services. We have the manufacturing services expertise required to assemble very complex electronic products that utilize multiple printed circuit boards and subassemblies. These manufacturing services, which we endeavor to provide on an agile and rapid basis, are typically configured to fulfill unique end-customer

Table of Contents

requirements and many are shipped directly to our customers' end users. We provide a range of higher level assembly services to our customers; these products typically fall into one of the following categories in our assembly spectrum:

Printed circuit board assembly – a printed circuit board (PCB) populated with electronic components.

Basic assembly – a sub-assembly that includes PCBs and other components.

System integration – a finished product or sub-system assembly that includes more complex components such as PCB s, basic assemblies, custom engineered components, displays, optics, metering and measurement or thermal management.

Mechatronic integration – more complex system integration that combines electronic controls with mechanical systems and processes such as motion control, robotics, drive systems, fluidics, hydraulics or pneumatics.

System integration and mechatronic integration products can be very large and could include products such as kiosks, finished medical products and complex electro-mechanical assemblies. These products often combine many of the other integrated services we provide and may require more unique facility configurations as well as supply chain solutions than we typically employ.

Fulfillment and logistic services. We provide fulfillment and logistic services to many of our customers. Direct Order Fulfillment (DOF) entails receiving orders from our customers that provide the final specifications required by the end-customer. We then Build to Order (BTO) and Configure to Order (CTO) and deliver the product directly to the end-customer. The DOF process relies on Enterprise Resource Planning (ERP) systems integrated with those of our customers to manage the overall supply chain from parts procurement through manufacturing and logistics.

After-market support. We provide service support for manufactured products requiring repair and/or upgrades, which may or may not be under a customer's warranty. In support of certain customers, we provide these services for some products which we did not originally manufacture. We provide in and out bound logistics required to support fulfillment and service.

Regulatory requirements. In addition, we have developed certain processes and tools to meet industry-specific requirements. Among these are the tools and processes to assemble finished medical devices that meet U.S. Food and Drug Administration Quality Systems Regulation requirements and similar regulatory requirements in other countries.

Our manufacturing and engineering facilities are ISO certified to 9001:2008 standards. We have additional certifications and/or registrations held by certain of our facilities in the following regions:

Medical Standard ISO 13485:2003 – AMER, APAC, EMEA
Environmental Standard ISO 14001 – AMER, APAC, EMEA
Environmental Standard OSHAS 18001 – APAC, EMEA
21 CFR Part 820 (FDA) (Medical) – AMER, APAC
Telecommunications Standard TL 9000 – AMER, APAC
Aerospace Standard AS9100 – AMER, APAC, EMEA
NADCAP certification – AMER, APAC
FAR 145 certification (FAA repair station) – AMER
ITAR (International Traffic and Arms Regulation) self-declaration – AMER
ANSI/ESD (Electrostatic Discharge Control Program) S20.20 – AMER, APAC
ATEX/IECEx certification – APAC, EMEA
SFDA (Medical) – APAC
JMGP accreditation – APAC, AMER, EMEA

Customers and Market Sectors Served

We provide services to a wide variety of customers, ranging from large multinational companies to smaller emerging technology companies. During fiscal 2011, we served approximately 130 customers. For many customers, we provide design and production capabilities, thereby allowing these customers to concentrate on research and development, concept development, distribution, marketing and sales. This helps accelerate their time to market, reduce their investment in engineering and manufacturing capacity and optimize total product cost.

Table of Contents

Juniper Networks, Inc. (Juniper) accounted for 17 percent of our net sales in fiscal 2011, 16 percent in fiscal 2010 and 20 percent in fiscal 2009. No other customer accounted for 10 percent or more of our net sales in fiscal 2011, 2010 or 2009. The loss of any of our major customers could have a significant negative impact on our financial results.

Many of our large customers contract with us through independent multiple divisions, subsidiaries, production facilities or locations. We believe that in most cases our sales to any one such division, subsidiary, facility or location are not dependent on sales to others.

The distribution of our net sales by market sectors is shown in the following table:

<u>Industry</u>	Fiscal years ended		
	October 1, 2011	October 2, 2010	October 3, 2009
Wireline/Networking	39%	43%	44%
Wireless Infrastructure	7%	12%	11%
Medical	21%	20%	22%
Industrial/Commercial	24%	18%	13%
Defense/Security/Aerospace	9%	7%	10%
	100%	100%	100%

Although our current business development focus is based on the end-market sectors noted above, we evaluate our financial performance and allocate our resources on a geographic basis (see Note 13 in Notes to Consolidated Financial Statements regarding our reportable segments). Our array of services for customers in each of these end markets is essentially the same and we do not dedicate operational equipment, personnel, facilities or other resources to particular end markets, nor do we internally track our costs and resources on this basis.

Materials and Suppliers

We typically purchase raw materials, including printed circuit boards and electronic components, from manufacturers and distributors. In addition, under certain circumstances, we will purchase components from brokers, customers or competitors. The key electronic components we purchase include specialized components such as application-specific integrated circuits, semiconductors, interconnect products, electronic subassemblies (including memory modules, power supply modules and cable and wire harnesses), inductors, resistors and capacitors. Along with these electronic components, we also purchase components used in manufacturing and higher-level assembly. These components include molded/formed plastics, sheet metal fabrications, aluminum extrusions, robotics, motors, vision sensors, motion/actuation, fluidics, displays, die castings and various other hardware and fastener components. All of these components range from standard to highly customized and vary widely in terms of market availability and price.

Occasional component shortages and subsequent allocations by suppliers are an inherent risk of the electronics industry. Components shortages have been an issue for the industry and for us in fiscal 2011 and fiscal 2010; these shortages are discussed more fully in **Risk Factors** in Part I, Item 1A herein. We actively manage our business to try to minimize our exposure to material and component shortages. We have a corporate sourcing and procurement organization whose primary purpose is to develop supply-chain sources and create strong supplier alliances to ensure, as much as possible, a steady flow of components at competitive prices. We also have a global expediting and escalation process that we believe provides Plexus the ability to effectively track and manage component shortages. Since we design products and therefore can influence the selection of components used in some new products, component manufacturers often provide us with priority access to materials and components, even during times of shortages. We have undertaken a series of initiatives, including the use of advanced supply chain solutions to improve continuity of supply and supply chain flexibility.

New Business Development

Our new business development is organized around end markets, or market sectors. Each market sector has a team of dedicated resources including a business development vice president, a customer management vice president, sales account executives, customer directors, customer managers, engineering and manufacturing subject matter experts, and market sector analysts. Our sales and marketing efforts focus on both targeting new customers and expanding business with existing customers. We believe our ability to provide a full range of product realization

Edgar Filing: PLEXUS CORP - Form 10-K

services is a marketing advantage; our sector teams participate in marketing through direct customer contact and participation in industry events and seminars.

Table of Contents

Competition

The market for the services we provide is highly competitive. We compete primarily on the basis of meeting the unique needs of our customers, and providing flexible solutions, timely order fulfillment and strong engineering, testing and production capabilities. We have many competitors in the EMS industry. Larger and more geographically diverse competitors have substantially more resources than we do. Other, smaller competitors primarily compete only in specific sectors, typically within limited geographical areas. We also compete against companies that design or manufacture items in-house. In addition, we compete against foreign, low-labor cost manufacturers. This foreign, low-labor cost competition tends to focus on commodity and consumer-related products, which is not our focus.

Intellectual Property

We own various service marks that we use in our business; these marks are registered in the trademark offices of the United States and other countries. Although we own certain patents, they are not currently material to our business. We do not have any material copyrights.

Information Technology

Our integrated ERP platform serves all of our manufacturing sites. This ERP platform augments our other management information systems and includes various software systems to enhance and standardize our ability to translate information from multiple production facilities into operational and financial information as well as create a consistent set of core business applications at our facilities worldwide. We believe the related software licenses are of a general commercial character on terms customary for these types of agreements.

Environmental Compliance

We are subject to a variety of environmental regulations relating to air emission standards and the use, storage, discharge and disposal of hazardous chemicals used during our manufacturing process. We believe that we are in compliance with all federal, state and foreign environmental laws and do not anticipate any significant expenditures in maintaining our compliance; however, there can be no assurance that violations will not occur which could have a material adverse effect on our financial results.

Employees

Our employees are one of our primary strengths, and we make a considerable effort to maintain a well-qualified and motivated work force. We have been able to offer enhanced career opportunities to many of our employees. Our human resources department identifies career objectives and monitors specific skill developments for employees with potential for advancement. We invest at all levels of the organization to ensure that employees are well trained. We have a policy of involvement and consultation with employees at every facility and strive for continuous improvement at all levels.

We employ approximately 9,000 full-time employees. Given the quick response times required by our customers, we seek to maintain flexibility to scale our operations as necessary to maximize efficiency. To do so, we use skilled temporary labor in addition to our full-time employees. In the United Kingdom, approximately 140 of our employees are covered by union agreements. These union agreements are typically renewed at the beginning of each year, although in a few cases these agreements may last two or more years. Our employees in the United States, Romania, Germany, Malaysia, China and Mexico are not covered by union agreements. We have no history of labor disputes at any of our facilities. We believe that our employee relationships are good.

Table of Contents

ITEM 1A. RISK FACTORS

Our net sales and operating results may vary significantly from period to period.

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 demand relative to our capacity
- the typical short life-cycle of our customers' products
- customers' operating results and business conditions
- changes in our, and our customers', sales mix
- varying gross margins among different programs
- failures of our customers to pay amounts due to us
- volatility of customer demand for certain programs and sectors
- challenges associated with the engagement of new customers or additional work from existing customers
- 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.

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 if 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 55 percent of our net sales for the fiscal year ended October 1, 2011, and 57 percent of our net sales for the fiscal year ended October 2, 2010. For the fiscal year ended October 1, 2011, there was one customer that 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. Especially given our discrete number of customers, significant reductions in net sales to any of these customers, the loss of major customers or our failure to make appropriate choices as to the customers we serve could seriously harm our business.

In addition, we focus our net sales to customers in only a few market sectors, and we endeavor to carefully choose those sectors. Each of these sectors is subject to macroeconomic conditions as well as trends and conditions that are sector specific. Shifts in the performance of a sector served by Plexus, as well as the economic and business conditions that affect the sector, or our failure to choose appropriate sectors can particularly impact Plexus. For instance, sales in the medical sector are substantially affected by trends in that industry, such as government reimbursement rates and uncertainties relating to the financial health of, and pending changes in the structure of, the U.S. health care sector generally. Further, potential reductions in U.S. defense spending could substantially affect our opportunities in our Defense/Security/Aerospace sector. Any weakness in the market sectors in which our customers are concentrated could affect our business and results of operations.

In the current economic environment, we are seeing increased merger and acquisition activity that has already affected, and may continue to impact, our customers. Specifically, two of our significant customers were acquired in the first quarter of fiscal 2010 and substantially disengaged in fiscal 2011.

Instability in the global credit markets and continuing economic weakness may adversely affect our earnings, liquidity and financial condition.

Global financial and credit markets have been, and continue to be, unstable and unpredictable. Worldwide economic conditions have been weak and may deteriorate further. For example, substantial credit issues have arisen in the European Union as a result of the sovereign debt crisis and other factors affecting economies worldwide. The instability of the markets and weakness of the economy could continue to affect the demand for our customers' products, the amount, timing and stability of their product demand from us, the financial strength of our customers and suppliers, their ability or willingness to do business with us, our willingness to do business with them, and/or our suppliers' and customers' ability to fulfill their obligations to us and/or the ability of us, our customers or our suppliers to obtain credit. Further, global credit market and economic challenges may affect the ability of counterparties to our agreements, including our credit agreement and interest rate swap agreements, to perform their obligations under those

Table of Contents

agreements. These factors could adversely affect our operations, earnings and financial condition.

We may experience raw material and component parts shortages and price fluctuations.

We do not have any long-term supply agreements. At various times, including fiscal 2011, we have experienced raw material and component parts shortages due to supplier capacity constraints or their failure to deliver. Part shortages were prevalent during portions of fiscal 2011 and fiscal 2010 across the EMS industry, based on the relatively quick recovery of the demand for technological equipment and the resulting capacity constraints at suppliers; shortages have continued into, and are expected to persist in the future. Such constraints can also be caused by world events, such as government policies, terrorism, armed conflict and economic recession. In addition, the March 2011 earthquake and tsunami in Japan disrupted the global supply chain for certain components manufactured in Japan that are incorporated in the products we manufacture and the flooding in Thailand during our fiscal fourth quarter of 2011 had a similar impact. While we have yet to experience material adverse effects resulting from these events, the magnitude and duration of the impact on us resulting from these events are not yet known. We rely on a limited number of suppliers for many of the raw materials and component parts used in the assembly process and, in some cases, may be required to use suppliers that are the sole provider of a particular raw material or component part. Such suppliers may encounter quality problems or financial difficulties which could preclude them from delivering raw materials or component parts timely or at all. Some suppliers have ceased doing business due to economic or other circumstances, and more may do so in the future. Supply shortages and delays in deliveries of raw materials or component parts have in some cases resulted in delayed production of assemblies, which have increased our inventory levels and adversely affected our operating results in certain periods. An inability to obtain sufficient inventory on a timely basis could also harm relationships with our customers.

In addition, raw material and component parts that are delivered to us may not meet our specifications or other quality criteria. Certain materials provided to us may be counterfeit or violate the intellectual property rights of others. The need to obtain replacement materials and parts may negatively affect our manufacturing operations. The inadvertent use of any such parts or products may also give rise to liability claims.

Raw material and component part supply shortages and delays in deliveries can also result in increased pricing. While many of our customers permit quarterly or other periodic adjustments to pricing based on changes in raw material or component part prices and other factors, we typically bear the risk of price increases that occur between any such repricing or, if such repricing is not permitted, during the balance of the term of the particular customer contract. Conversely, raw material and component part 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.

Plexus is a multinational corporation and operating in multiple countries exposes us to increased risks, including adverse local developments and currency risks.

We have operations in many countries; operations outside of the U.S. in the aggregate now represent a majority of our revenues. We also purchase a significant number of components manufactured in various countries. These international aspects of our operations, which are likely to increase over time, subject us to the following risks that could materially impact our operations and operating results:

- economic, political or civil instability, including significant drug cartel-related violence in Juarez, Mexico
- transportation delays or interruptions
- exchange rate fluctuations
- difficulties in staffing and managing personnel in diverse cultures
- compliance with laws, such as the U.S. Foreign Corrupt Practices Act and the U.K. Anti-Bribery Act, applicable to companies with global operations
- significant natural disasters
- the effects of international political developments and regulatory requirements and potential changes to those requirements.

We continue to monitor our risk associated with foreign currency translation and have entered into limited forward contracts to address this risk. As our international 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 other 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

Table of Contents

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 or our failure to comply with its requirements.

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, and frequently do not have visibility as to their future demand. Customers also cancel requirements, change production quantities, delay production or revise their forecasts 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 and negatively affect our working capital levels. 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, working capital management, 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.

Defense contracting can be subject to extensive procurement processes and other factors that can affect the timing and duration of contracts as well as product demand. For example, defense procurement is subject to continued Congressional appropriations for these programs, as well as continued determinations by the Department of Defense regarding whether 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, they may or may not result in continuing long-term programs or relationships. Even in the case of continuing long-term programs or relationships, orders in the defense sector can be episodic, can vary significantly from period to period, and are subject to termination.

We have a complex business model, and our failure to properly manage that model could affect our operations and financial results.

Our business model focuses on products and services in the mid-to-lower-volume, higher-mix segment of the EMS market. Our customers' products typically require significant production and supply-chain flexibility, necessitating optimized demand-pull-based manufacturing and supply chain solutions across an integrated global platform. The products we manufacture are also typically complex, highly regulated, and require complicated configuration management and direct order fulfillment capabilities to global end customers. Relative to many of our competitors that manufacture more standardized products with larger production runs, our business model requires a greater degree of attention and resources, including working capital, management and technical personnel, and the development and maintenance of systems and procedures to manage diverse manufacturing, regulatory, and service requirements. If we fail to effectively manage our business model, we may lose customer confidence and our reputation may suffer. The Company's reputation is the foundation of our relationships with key stakeholders. If we are unable to effectively manage real or perceived issues, which could negatively impact sentiments toward the Company, our ability to maintain or expand business opportunities could be impaired and our financial results could suffer on a going-forward basis.

In addition, the complexity of our service model often results in complex and challenging contractual obligations as well as commitments from us to our customers. If we fail to meet those obligations, it could affect our reputation and our ability to obtain future business, as well as impair our ability to enforce our rights (including those related to payment) under those contracts.

Challenges associated with the engagement of new customers or programs could affect our operations and financial results.

Our engagement with new customers, as well as the addition of new work for existing customers, can present challenges in addition to opportunities. We must initially determine whether it would be in our interests from a business perspective to pursue a particular potential new customer or program, including evaluating the customer's

Table of Contents

and/or program s fit with our value proposition as well as their end market success. If we make the decision to proceed, we need to ensure that our terms of engagement, including our pricing and other contractual provisions, appropriately reflect the anticipated costs, risks, and rewards of an opportunity. The failure to make prudent engagement decisions and/or to establish appropriate terms of engagement could adversely affect our profitability and margins.

Also, there are inherent risks associated with the timing and ultimate realization of a new program s anticipated revenue; these factors can sometimes extend for a significant period. Some new programs require us to devote significant capital and personnel resources to new technologies and competencies. We may not meet customer expectations, which could damage our relationships with the affected customers and impact our ability to deliver conforming product on a timely basis. Further, the success of new programs may depend heavily on factors such as product reliability, market acceptance, regulatory approvals and/or economic conditions. The failure of a new program to meet expectations on these factors, or our inability to effectively execute on a new program s requirements, could result in lost financial opportunities and adversely affect our results of operations.

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 and component parts. Excess or obsolete inventory, or other failures to manage our working capital, could adversely affect our operating results, including our return on invested capital.

In our turnkey operations, we order materials and components based on customer forecasts and/or orders. Suppliers may require us to purchase materials and components 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 materials or component parts. While we attempt to cancel, return or otherwise mitigate excess and obsolete materials and components 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 customers under which we hold and manage finished goods or work-in-process inventories. These managed inventory programs result in higher inventory levels, further reduce our inventory turns and increase our financial exposure with such customers. Even though our customers generally have contractual obligations to purchase such inventories from us, we remain subject to the risk of enforcing those obligations.

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 resources and our business, as well as our profitability, may suffer.

Expansion can inherently include additional costs and start-up inefficiencies. We expect to open a new manufacturing facility in Malaysia (Penang) during the first quarter of fiscal 2012 and anticipate completing a new manufacturing facility in China (Xiamen) in the second half of fiscal 2012. We have also announced our intention to construct a facility in Romania (Oradea) to replace a leased facility and further expand employment in Germany (Darmstadt). If we are unable to effectively manage our currently anticipated growth, or related 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
- a reduction of our return on invested capital, including as a result of excess inventory or excess capacity at new facilities
- 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 and other systems and resources and
- inability to locate sufficient customers, employees or management talent to support the expansion.

Table of Contents

Periods of contraction or reduced net sales, or other factors affecting particular sites, 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 facilities and/or 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. For example, in early fiscal 2009 we ceased operations at our former Ayer, Massachusetts facility and reduced headcount in Juarez, Mexico and other North American facilities, even though we continued to expand in other areas. Since customers' needs and market 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.

Changes in tax laws, and potential tax disputes, could affect our results.

The Company has been granted tax holidays for its Malaysian and Xiamen, China subsidiaries. These tax holidays expire in 2024 and 2013, respectively, and are subject to certain conditions with which the Company expects to comply and would risk adverse tax consequences if we do not. The Malaysian Investment Development Authority granted approval to extend our tax holiday in Malaysia for a period of five years through December 31, 2024, subject to certain conditions. Mexico adopted tax reform legislation that took effect on January 1, 2010, and provides for a temporary increase in its income tax and value added tax rates from 28% to 30% and 15% to 16%, respectively, along with certain other changes. While we continue to analyze the impact of this legislation, we do not currently believe it will have a material impact on our effective income tax rate in future periods. Given the scope of our international operations and our international tax arrangements, proposed changes to the manner in which U.S. based multinational companies are taxed in the U.S. could have a material impact on our operating results and competitiveness.

We may experience negative or unforeseen tax consequences.

The Company reviews the probability of the realization of our net deferred tax assets each period based on forecasts of taxable income in both the U.S. and foreign jurisdictions. This review uses historical results, projected future operating results based upon approved business plans, eligible carryforward periods, tax planning opportunities and other relevant considerations. Adverse changes in the profitability and financial outlook in the U.S. or foreign jurisdictions may require the creation of a valuation allowance to reduce our net deferred tax assets. Such changes could result in material non-cash expenses in the period in which the changes are made.

We and our customers are subject to increasingly extensive government regulations and third party certification requirements.

We are subject to extensive government regulation relating to the products we design and manufacture and as to how we conduct our business. These regulations affect the sectors we serve and every aspect of our, and our customers', business, including our labor, employment, workplace safety, environmental and import/export practices, as well as many other facets of our operations. In addition, as a result of customer requirements and the need to enhance our competitive position, we seek to obtain and maintain various certifications from third parties relating to our quality systems and standards. The regulatory climate in the U.S. and other countries has become increasingly complex and regulatory activity has increased in recent periods, which can affect both our operations as well as the opportunities in the markets we serve due to the effects on our customers and their end users. The regulatory climate can itself affect the demand for our services, and our failure to comply with regulations and certifications could seriously affect our operations, customer relationships, reputation and profitability.

Our medical sector business 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 the 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 results of operations. In addition, government reimbursement rates and other regulations, as well as the financial health of health care providers, and pending changes in how health care in the U.S. is structured and how medical