PLEXUS CORP
Form 10-Q
August 05, 2009

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

(X) Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended July 4, 2009
or
( ) Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number 001-14423

PLEXUS CORP.
(Exact name of registrant as specified in charter)

Wisconsin	39-1344447
(State of Incorporation)	(IRS Employer Identification No.)

55 Jewelers Park Drive
Neenah, Wisconsin 54957-0156
(Address of principal executive offices)(Zip Code)
(920) 722-3451
(Registrant s telephone number, including Area Code)

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

Yes ü No ____

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

Yes ____ No ____

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

Large accelerated filer ü	Accelerated filer ____
Non-accelerated filer ____ (Do not check if smaller reporting company)	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 ü

As of July 31, 2009, there were 39,478,946 shares of Common Stock of the Company outstanding.

PLEXUS CORP.
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PLEXUS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(in thousands, except per share data)
Unaudited

	Three Months Ended		Nine Months Ended	
	July 4, 2009	June 28, 2008	July 4, 2009	June 28, 2008
Net salest	$ 378,643	$ 456,352	$ 1,223,647	$ 1,365,651
Cost of sales	344,038	407,520	1,106,694	1,209,714
Gross profit	34,605	48,832	116,953	155,937
Operating expenses:				
Selling and administrative expenses	22,491	26,350	70,104	73,965
Goodwill impairment costs	-	-	5,748	-
Restructuring costs	-	-	2,823	-
	22,491	26,350	78,675	73,965
Operating income	12,114	22,482	38,278	81,972
Other income (expense):				
Interest expense	(2,680)	(2,262)	(8,343)	(3,720)
Interest income	448	1,827	1,851	6,365
Miscellaneous	370	(258)	712	(1,086)
Income before income taxes	10,252	21,789	32,498	83,531
Income tax expense	1,042	4,357	1,222	16,706
Net income	$ 9,210	$ 17,432	$ 31,276	$ 66,825
Earnings per share:				
Basic	$ 0.23	$ 0.42	$ 0.79	$ 1.50
Diluted	$ 0.23	$ 0.41	$ 0.79	$ 1.48
Weighted average shares outstanding:				
Basic	39,445	41,962	39,382	44,674

Diluted	39,712	42,481	39,550	45,191
Comprehensive income:				
Net income	$ 9,210	$ 17,432	$ 31,276	$ 66,825
Derivative instrument fair market value adjustment net of income tax	671	(1,140)	(3,491)	(1,140)
Foreign currency translation adjustments	831	174	(3,030)	1,868
Comprehensive income	$ 10,712	$ 16,466	$ 24,755	$ 67,553

See notes to condensed consolidated financial statements.

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

	July 4, 2009	September 27, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 215,493	$ 165,970
Accounts receivable, net of allowances of $1,300 and $2,500, respectively	205,440	253,496
Inventories	313,457	340,244
Deferred income taxes	13,482	15,517
Prepaid expenses and other	10,184	11,742
Total current assets	758,056	786,969
Property, plant and equipment, net	195,548	179,123
Goodwill	-	7,275
Deferred income taxes	7,423	2,620
Other	15,649	16,243
Total assets	$ 976,676	$ 992,230
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	$ 17,000	$ 16,694
Accounts payable	207,804	231,638
Customer deposits	27,180	26,863
Accrued liabilities:		
Salaries and wages	26,602	41,086
Other	32,589	31,611
Total current liabilities	311,175	347,892
Long-term debt and capital lease obligations, net of current portion	138,301	154,532
Other liabilities	18,932	15,861
Total non-current liabilities	157,233	170,393
Commitments and contingencies	-	-
Shareholders equity:		
	-	-

Preferred stock, $.01 par value, 2,000 shares authorized, none issued or outstanding		
Common stock, $.01 par value, 200,000 shares authorized, 46,905 and 46,772 shares issued, respectively, and 39,459 and 39,326 shares outstanding, respectively	469	468
Additional paid-in capital	362,672	353,105
Common stock held in treasury, at cost, 7,446 shares for both periods	(200,110)	(200,110)
Retained earnings	340,984	309,708
Accumulated other comprehensive income	4,253	10,774
	508,268	473,945
Total liabilities and shareholders equity	$ 976,676	$ 992,230

See notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	July 4, 2009	June 28, 2008
Cash flows from operating activities		
Net income	$ 31,276	$ 66,825
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	25,435	21,460
Gain on sale of property, plant and equipment	(13)	(48)
Goodwill impairment charges	5,748	-
Deferred income taxes	2,592	163
Stock based compensation expense	7,527	6,342
Changes in assets and liabilities:		
Accounts receivable	47,111	(9,314)
Inventories	26,071	(65,545)
Prepaid expenses and other	2,152	(2,189)
Accounts payable	(24,733)	18,571
Customer deposits	568	11,753
Accrued liabilities and other	(14,464)	16,906
Cash flows provided by operating activities	109,270	64,924
Cash flows from investing activities		
Purchases of short-term investments	-	(53,400)
Sales and maturities of short-term investments	-	106,400
Payments for property, plant and equipment	(42,195)	(37,879)
Proceeds from sales of property, plant and equipment	228	234
Cash flows (used in) provided by investing activities	(41,967)	15,355
Cash flows from financing activities		
Purchases of common stock	-	(181,025)
Proceeds from debt issuance	-	150,000
Payments on debt and capital lease obligations	(16,366)	(2,576)
Proceeds from exercises of stock options	1,933	3,894
Income tax benefit of stock option exercises	108	1,091
Issuances of common stock under Employee Stock Purchase Plan	-	177
Cash flows used in financing activities	(14,325)	(28,439)

Effect of foreign currency translation on cash and cash equivalents	(3,455)	550
Net increase in cash and cash equivalents	49,523	52,390
Cash and cash equivalents:		
Beginning of period	165,970	154,109
End of period	$ 215,493	$ 206,499

See notes to condensed consolidated financial statements.

PLEXUS CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS ENDED JULY 4, 2009 AND JUNE 28, 2008
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 condensed consolidated financial statements reflect all adjustments, which include normal recurring adjustments necessary for the fair-statement of the consolidated financial position of the Company as of July 4, 2009, and the results of operations for the three and nine months ended July 4, 2009 and June 28, 2008, and the cash flows for the same nine-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 2008 Annual Report on Form 10-K.

The Company s fiscal year ends on the Saturday closest to September 30. The Company also uses a 4-4-5 weekly accounting system for the interim periods in each quarter. Each quarter therefore ends on a Saturday at the end of the 4-4-5 period. Periodically, an additional week must be added to the fiscal year to re-align with the Saturday closest to September 30. Fiscal 2009 includes this additional week and the fiscal year-end will be on October 3, 2009. Therefore the accounting year for 2009 will include 371 days. The additional week was added to the first fiscal quarter, ended January 3, 2009, which included 98 days. The accounting periods for the three and nine months ended July 4, 2009, included 91 days and 280 days, respectively. The accounting periods for the three and nine months ended June 28, 2008 included 91 days and 273 days, respectively.

In preparing the accompanying condensed consolidated financial statements, the Company has reviewed, as determined necessary by the Company s management, events that have occurred after July 4, 2009, up until the issuance of the financial statements, which occurred on August 5, 2009.

NOTE 2 INVENTORIES

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

	July 4, 2009	September 27, 2008
Raw materials	$ 229,873	$ 241,041
Work-in-process	29,567	39,810
Finished goods	54,017	59,393
	$ 313,457	$ 340,244

Per contractual terms, customer deposits are received by the Company to offset obsolete and excess inventory risks.

NOTE 3 PROPERTY, PLANT AND EQUIPMENT

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

	July 4, 2009	September 27, 2008
Land, buildings and improvements	$ 107,738	$ 103,047
Machinery and equipment	215,516	200,001

Computer hardware and software	72,407	71,444
Construction in progress	22,541	11,827
	418,202	386,319
Less: accumulated depreciation and amortization	(222,654)	(207,196)
	$ 195,548	$ 179,123

NOTE 4 LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

On April 4, 2008, the Company entered into a second amended and restated credit agreement (the Amended Credit Facility) with a group of banks which allows the Company to borrow $150 million in term loans and $100 million in revolving loans. The $150 million in term loans was immediately funded and the $100 million revolving credit facility is currently available. The Amended Credit Facility is unsecured and the revolving credit facility may be increased by an additional $100 million (the accordion feature) if the Company has not previously terminated all or any portion of the Amended Credit Facility, there is no event of default existing under the Amended Credit Facility and both the Company and the administrative agent consent to the increase. The Amended Credit Facility expires on April 4, 2013. Borrowings under the Amended Credit Facility may be either through term loans or revolving or swing loans or letter of credit obligations. As of July 4, 2009, the Company has term loan borrowings of $131.3 million outstanding and no revolving borrowings under the Amended Credit Facility.

The Amended Credit Facility amended and restated the Company s prior revolving credit facility (Revolving Credit Facility) with a group of banks that allowed the Company to borrow up to $200 million of which $100 million was committed. The Revolving Credit Facility was due to expire on January 12, 2012 and was also unsecured. It also contained other terms and financial conditions, which were substantially similar to those 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 test, all as defined in the agreement. As of July 4, 2009, the Company was in compliance with all debt covenants. If the Company incurs an event of default, as defined in the Amended Credit Facility (including any failure to comply with a financial covenant), the group of banks has the right to terminate the Amended Credit Facility and all other obligations, and demand immediate repayment of all outstanding sums (principal and accrued interest). Interest on borrowing varies depending upon the Company s then-current total leverage ratio; as of July 4, 2009, the Company could elect to pay interest at a defined base rate or the LIBOR rate plus 1.25%. Rates would increase upon negative changes in specified Company financial metrics and would decrease upon reduction in the current total leverage ratio to no less than LIBOR plus 1.00%. The Company is also required to pay an annual commitment fee on the unused credit commitment based on its leverage ratio; the current fee is 0.30 percent. Unless the accordion feature is exercised, this fee applies only to the initial $100 million of availability (excluding the $150 million of term borrowings). Origination fees and expenses associated with the Amended Credit Facility totaled approximately $1.3 million and have been deferred. These origination fees and expenses will be amortized over the five-year term of the Amended Credit Facility. Equal quarterly principal repayments of the term loan of $3.75 million per quarter began June 30, 2008 and end on April 4, 2013 with a balloon repayment of $75.0 million.

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

Interest expense related to the commitment fee and amortization of deferred origination fees and expenses for the Amended Credit Facility totaled approximately $0.2 million and $0.5 million for the three and nine months ended July 4, 2009, respectively, and $0.2 million and $0.4 million for the three and nine months ended June 28, 2008, respectively. The fair value of the Company s term loan debt was $110.2 million as of July 4, 2009. The Company uses quoted market prices when available or discounted cash flows to calculate these fair values.

NOTE 5 DERIVATIVES AND FAIR VALUE MEASUREMENT

All derivatives are recognized in the Condensed Consolidated Balance Sheets at their estimated fair value. On the date a derivative contract is entered into, the Company designates the derivative as a hedge of a recognized asset or liability (a fair value hedge), a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (a cash flow hedge), or a hedge of the net investment in a foreign operation. The Company does not enter into derivatives for speculative purposes. Changes in the fair value of a derivative that qualify as a fair value hedge are recorded in earnings along with the gain or loss on the hedged asset or liability. Changes in the fair value of a derivative that qualifies as a cash flow hedge are recorded in Accumulated other comprehensive income in the Condensed Consolidated Balance Sheets until earnings are affected by the variability of cash flows. Changes in the fair value of a derivative used to hedge the net investment in a foreign operation are recorded in the Accumulated other comprehensive income account within shareholders equity.

In June 2008, the Company entered into three interest rate swap contracts related to the $150 million in term loans under the Amended Credit Facility that have a total notional value of $150 million and mature on April 4, 2013. These interest rate swap contracts will pay the Company variable interest at the three month LIBOR rate, and the Company will pay the counterparties a fixed interest rate. The fixed interest rates for each of these contracts are 4.415%, 4.490% and 4.435%, respectively. These interest rate swap contracts were entered into to convert $150 million of the variable rate term loan under the Amended Credit Facility into fixed rate debt. The notional amount of the interest rate swap contracts declines over time at the same rate as the term loans. Based on the terms of the interest rate swap contracts and the underlying debt, these interest rate contracts were determined to be effective, and thus qualify as a cash flow hedge. As such, any changes in the fair value of these interest rate swaps are recorded in Accumulated other comprehensive income on the accompanying Condensed Consolidated Balance Sheets until earnings are affected by the variability of cash flows. The total fair value of these interest rate swap contracts is $9.0 million at July 4, 2009, and the Company has recorded this in Other current liabilities and Other liabilities in the accompanying Condensed Consolidated Balance Sheets. As of July 4, 2009, the total combined notional amount of the Company s three receive-variable/pay-fixed interest rate swaps was $131.3 million.

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

Fair Values of Derivative Instruments

In thousands of dollars

	Asset Derivatives				Liability Derivatives			
	July 4, 2009		June 28, 2008		July 4, 2009		June 28, 2008	
Derivatives designated as hedging instruments under Statement 133	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate swaps		-		-	Current liabilities - Other	$ 2,239	Current liabilities - Other	$ 392
Interest rate swaps		-		-	Other liabilities	$ 6,717	Other liabilities	$ 1,568

The Effect of Derivative Instruments on the Statements of Operations

for the Three Months Ended

In thousands of dollars

Amount of Gain or	Location of Gain or	Amount of Gain or (Loss)