PLEXUS CORP
Form 10-K
November 17, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10–K
(mark one)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2017
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	39-1344447
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)
One Plexus Way Neenah, Wisconsin	54957
(Address of principal executive offices)	(Zip Code)

(920) 969-6000
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
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:	YES	NO
- if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.	ý	
- if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.		ý
- 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.	ý	
- 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).	ý	
- 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.	ý	

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

Large accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Emerging growth company ¨

- If an emerging growth company, if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

- whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ý

As of April 1, 2017, 33,735,321 shares of common stock were outstanding, and the aggregate market value of the shares of common stock (based upon the $57.80 closing sale price on that date, as reported on the Nasdaq Global Select Market) held by non-affiliates (excludes 526,153 shares reported as beneficially owned by directors and executive officers – does not constitute an admission as to affiliate status) was approximately $1.9 billion.

As of November 13, 2017, there were 33,585,056 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Parts of Registrant’s Proxy Statement for the 2018 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report.

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September 30, 2017

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

The statements contained in this Form 10-K that are guidance or which 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 periods which are not yet completed, are forward-looking statements that involve risks and uncertainties. These risks and uncertainties include, but are not limited to: the risk of customer delays, changes, cancellations or forecast inaccuracies in both ongoing and new programs; the lack of visibility of future orders, particularly in view of changing 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; our ability to secure new customers, maintain our current customer base and deliver product on a timely basis; the particular risks relative to new or recent customers, programs or services, 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 risks of concentration of work for certain customers; the effect of start-up costs of new programs and facilities; possible unexpected costs and operating disruption in transitioning programs, including transitions between Company facilities; 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; our ability to manage successfully and execute a complex business model characterized by high product mix, low volumes and demanding quality, regulatory, and other requirements; the ability to realize anticipated savings from restructuring or similar actions, as well as the adequacy of related charges as compared to actual expenses; increasing regulatory and compliance requirements; risks related to information technology systems and data security; the potential effects of regional results on our taxes and ability to use deferred tax assets and net operating losses; the effects of shortages and delays in obtaining components as a result of economic cycles or natural disasters; the risks associated with excess and obsolete inventory, including the risk that inventory purchased on behalf of our customers may not be consumed or otherwise paid for by the customer, resulting in an inventory write-off; the weakness of areas of the global economy; the effect of changes in the pricing and margins of products; raw materials and component cost fluctuations; the potential effect of fluctuations in the value of the currencies in which we transact business; the effects of changes in economic conditions, political conditions, trade protection measures, and tax matters in the United States and in the other countries in which we do business (including as a result of the United Kingdom’s pending exit from the European Union); the potential effect of other world or local events or other events outside our control (such as changes in energy prices, terrorism and weather events); the impact of increased competition; changes in financial accounting standards; and other risks detailed herein and in our other 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.

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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 partner with our customers to create the products that build a better world. Since 1979, Plexus has been partnering with companies to transform concepts into branded products and deliver them to the market. From idea to aftermarket and everything in between, Plexus is a global leader in providing support for all the facets of the product realization process - Design and Development, Supply Chain Solutions, New Product Introduction, Manufacturing, and Aftermarket Services. Plexus delivers comprehensive end-to-end solutions for customers in the Americas ("AMER"), Europe, Middle East, and Africa ("EMEA") and Asia-Pacific ("APAC") regions.

We specialize in working in industries with highly complex products and demanding regulatory environments. Plexus has partnerships with over 140 customers in the Healthcare and Life Sciences, Industrial and Commercial, Communications, and Aerospace and Defense (formerly known as Defense, Security and Aerospace) market sectors. We leverage our expertise to understand the unique needs of our customers' markets and have aligned our processes to provide flexibility, create efficiency and deliver superior quality. Our customers have stringent quality, reliability and regulatory requirements, requiring exceptional production and supply chain agility. Their products require complex configuration management, direct order fulfillment (to end customers), global logistics management and aftermarket services. To service the complexities that our customers' products demand, we utilize our full suite of solutions offerings to support our customers' products from concept to end of life.

Plexus is passionate about being 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. To deliver on our strategy, we align our operations, processes, workforce and financial metrics to create:

- A high performance, accountable organization with a talented workforce that is deeply passionate about driving growth through customer service excellence;
- Strategic growth by using customer driven, sector based go-to-market strategies; and
- Execution driven by a collaborative, customer centric culture that continuously evaluates and optimizes our business processes to strive to create shareholder value.

We operate flexible manufacturing facilities and design our processes to accommodate customers with multiple product lines and configurations. One or more uniquely configured "focus factories," supported by a tailored supply chain and logistics solution, are designed to meet the flexibility and responsiveness needed to support customer fulfillment requirements.

We accomplish our go-to-market strategy through the four market sectors we serve. Each sector has a market sector vice president and a business development and customer management leader who together oversee and provide leadership to teams that include business development directors, customer directors or managers, supply chain and manufacturing subject matter experts, and market sector analysts. These teams maintain expertise related to each market sector and execute sector strategies aligned to that market's unique quality and regulatory requirements.

Our market sector teams help define Plexus' strategy for growth with a particular emphasis on expanding the value-added solutions we offer customers. Our sales and marketing efforts focus on targeting new customers and expanding business with existing customers. We believe our ability to provide a full range of product realization services gives us a business advantage.

Our financial model aligns with our business strategy. Our primary focus is to earn a return on invested capital ("ROIC") 500 basis points over our weighted average cost of capital ("WACC"), which we refer to as "Economic Return." We review our internal calculation of WACC annually; for fiscal 2017 our WACC was 10.5%. We believe economic profit is a fundamental driver of shareholder value. Plexus measures economic profit by taking the difference between ROIC and WACC and multiplying it by invested capital. By exercising discipline to generate a ROIC in excess of our WACC, with focus on economic profit, our goal is to ensure that we create value for our shareholders. For more information regarding ROIC and Economic Return, which are non-GAAP financial measures, refer to "Management’s Discussion and Analysis of Financial Condition - Results of Operations - Return on Invested Capital ("ROIC") and Economic Return" in Part II, Item 7. For a reconciliation of ROIC and Economic Return to our financial statements that were prepared using accounting principles generally accepted in the U.S. ("U.S. GAAP" or "GAAP"), see Exhibit 99.1 to this annual report on Form 10-K, which exhibit is incorporated herein by reference.

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Relative to our competition, overriding factors such as lower manufacturing volumes, flexibility and fulfillment requirements, and complex regulatory requirements typically result in higher investments in inventory and selling and administrative costs for us. The cost variance from our competitors is especially evident relative to those that provide EMS services for high-volume, less complex products, with less stringent requirements (e.g., consumer electronics).

Plexus serves a diverse customer landscape that includes industry-leading, branded product companies, along with many other technology pioneering start-ups or emerging companies that may or may not maintain manufacturing capabilities. As a result of serving market sectors that rely on advanced electronics technology, our business is influenced by critical technological trends such as the level and rate of development of wired and wireless telecommunications infrastructure, communications data and data bandwidth growth, and internet usage. In addition to prime technology advancements, key government and policy trends impact our business, including the U.S. Food and Drug Administration’s ("FDA") approval of new medical devices, defense procurement practices, and other government and regulatory processes. Plexus may benefit from increasing outsourcing trends.

We provide most of our optimized solutions on a turnkey basis, and we procure some or all materials required for product assembly. We provide select services on a consignment basis, meaning the customer supplies the necessary materials and Plexus provides the labor and other services required for product assembly. In addition to manufacturing, turnkey service requires material procurement and warehousing and involves greater resource investments than consignment services. Other than certain test equipment, manufacturing 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 over 16,000 employees, including approximately 3,200 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 22 active facilities, totaling approximately 3.5 million square feet. Plexus' facilities are strategically located to support the global supply chain, engineering, manufacturing, and Aftermarket Service needs of customers in our targeted market sectors.

Plexus maintains a website at www.plexus.com. As soon as is reasonably practical, after we electronically file or furnish all reports to the Securities and Exchange Commission ("SEC"), we provide online copies, free of charge. These reports include: Proxy Statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Specialized Disclosure Reports on Form SD, and amendments to those reports. These reports are also accessible at the SEC's website at www.sec.gov. 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 "Investors" at our website.

Solutions

With integrated Design and Development, Supply Chain Solutions, New Product Introduction, Manufacturing and Aftermarket Services, we proactively tackle tough challenges throughout the product lifecycle. It is how our teams strive to create innovative and efficient paths to get products to market.

Design and Development - Plexus was established with engineering as a core competency and has built a reputation for success. Our customers are able to partner with a collaborative team of more than 600 development engineers to create new products. Using the same tools and processes throughout our eight Design Centers worldwide, we leverage the latest technology and state-of-the-art design automation methodologies to provide comprehensive new product development and value engineering solutions.

Supply Chain Solutions - Delivering an optimal supply chain solution is more than simply getting a product where it needs to be on time. We take a unique approach. Our supply chain experts engage in all of Plexus’ integrated solutions,

working closely with our engineers to identify opportunities for supply chain optimization early in the design stage. At Plexus, we take pride in managing the full supply chain to minimize cost, mitigate risk and provide a flexible, scalable solution for our customers.

New Product Introduction - When introducing a new product, customers need to move quickly. Plexus offers a dedicated team focused on decreasing time to market with a full suite of integrated new product introduction services. Through early integration and collaboration, customers can take advantage of Plexus' capabilities, such as design for excellence (DFX), specialized design of test solutions and rapid prototyping, while the project is advanced by a dedicated Plexus transition management team.

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Manufacturing - Our approach to manufacturing focuses on innovation, continuous improvement and superior quality and delivery. With a global footprint and scalable operations, we aim to tailor our manufacturing environment to meet each customer's needs worldwide. We believe Plexus is positioned to support the complex technology and regulatory needs of the industries we serve and to provide customers with innovative and dependable manufacturing services.

Aftermarket Services - From product deployment all the way through a product's end of life, Plexus offers a full range of aftermarket services. We help our customers manage and extend the lifecycle of their products through an optimized level of service. With services such as depot repair, service parts logistics management, order management, distribution and warehousing, and recycling, we are committed to protecting the success of each customer's product.

Regulatory Requirements

All Plexus manufacturing and engineering facilities are certified to a baseline Quality Management System standard per ISO9001:2015. We have capabilities to assemble finished medical devices meeting FDA Quality Systems Regulation requirements and similar regulatory requirements in other countries.

We have additional certifications and/or registrations held by certain facilities in the following regions:

	AMER	APAC	EMEA
Medical Standard ISO 13485:2016	X	X	X
21 CFR Part 820 (FDA) (Finished Medical)	X	X	X
JMGP accreditation	X	X	X
GMP-Korea certification			X
ANVISA accreditation	X		
Environmental Standard ISO - 14001	X	X	X
Environmental Standard OSHAS 18001		X	X
ANSI/ESD (Electrostatic Discharge Control Program) S20.20	X	X	
Telecommunications Standard TL 9000	X		
ITAR (International Traffic and Arms Regulation) self-declaration	X		
Aerospace Standard AS9100	X	X	X
NADCAP certification	X	X	X
FAR 145 certification (FAA repair station)	X		
EASA repair approval	X		
ATEX/IECEx certification			X
IRIS certification (Railway)		X	
ISO 50001:2011 (energy management)			X

Customers and Market Sectors Served

Our customers range from large multinational companies to smaller emerging technology companies. During fiscal 2017, we served approximately 140 customers. We offer advanced design and production capabilities, allowing our customers to concentrate on their core competencies. Plexus helps accelerate our customers' time to market, reduce their investment in engineering and manufacturing capacity, and optimize total product cost.

General Electric Company ("GE") accounted for 12.2% of our net sales during fiscal 2017. GE, Micron Technology, Inc. ("Micron") and ARRIS Group, Inc. ("Arris") accounted for 11.1%, 10.4%, and 10.1%, respectively, of our net sales in fiscal 2016. Arris and GE accounted for 12.6% and 10.6% respectively, of our net sales in fiscal 2015. No other customers accounted for 10.0% or more of our net sales in any of the last three fiscal years.
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 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, including global economic conditions. Any material change in forecasts or

orders from these major accounts, or other customers, could materially affect our results of operations. The loss of any major customer could have a

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significant negative impact on our financial results. 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 the economic and business conditions affecting that sector. Many of our large customers contract with us through multiple independent divisions, subsidiaries, production facilities or locations. We believe that in most cases our sales to any one such division, subsidiary, facility or location are independent of sales to others.

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

Industry	2017	2016	2015
Healthcare/Life Sciences	34%	31%	28%
Industrial/Commercial	31%	30%	26%
Communications	19%	23%	32%
Aerospace/Defense	16%	16%	14%
Total net sales	100%	100%	100%

Although our current business development focus is based on our targeted market sectors, we evaluate our financial performance and allocate our resources geographically (see Note 11 in Notes to Consolidated Financial Statements regarding our reportable segments). Plexus offers a uniform array of services for customers in each market sector and we do not dedicate operational equipment, personnel, facilities or other resources to particular market sectors, nor internally track our costs and resources per market sector.

Materials and Suppliers

We typically purchase raw materials, including PCBs and electronic components, from manufacturers and distributors. 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.

We also purchase non-electronic, typically custom engineered, 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. These components are sourced from both Plexus preferred suppliers and customer directed suppliers. Components range from standard to highly customized and vary widely in terms of market availability and price.

Component shortages and subsequent allocations by our suppliers are an inherent risk to the electronics industry, and have particularly been an issue for us and the industry from time to time. We discuss the causes of these shortages more fully in "Risk Factors" in Part I, Item 1A herein. We actively manage our business to minimize our exposure to material and component shortages.

Plexus' global supply chain management organization attempts to create strong supplier alliances and ensure a steady flow of components and products at competitive prices. We strive to achieve these goals through advanced supply chain solutions we develop in partnership with our customers, risk management tools and global expediting processes. Plexus can often influence the selection of new product components when engaged to provide design and development solutions.

Competition

Plexus operates in a highly competitive market, with a goal to be best-in-class at meeting the unique needs of our customers. We provide flexible solutions, timely order fulfillment, strong engineering, testing and production capabilities, and aftermarket services. A number of competitors may provide electronics manufacturing and engineering services similar to Plexus. Others may be more established in certain industry sectors, or have greater

financial, manufacturing or marketing resources. Smaller competitors compete mainly in specific sectors and within limited geographic areas. Plexus also competes with in-house capabilities of current and potential customers. Plexus maintains awareness and knowledge of our competitors' capabilities, in order to remain highly competitive within the broad scope of the EMS industry.

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Intellectual Property

We own various service marks that we use in our business, which 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 core solutions for manufacturing facilities include a single-instance Enterprise Resource Planning ("ERP") system, as well as Product Data Management and Advanced Planning and Scheduling systems, along with consistent solutions for warehouse management and shop floor execution, that support our global operations. This consistency augments our other management information systems, allowing us to standardize our ability to translate data from multiple production facilities into operational and financial information required by the business. The related software licenses are of a general commercial character on terms customary for these types of agreements. Enhancing cybersecurity is a priority and we have several initiatives underway that are intended to further advance our security posture.

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.

Social Responsibility

Plexus is committed to social responsibility throughout our global business operations. Our commitment to social responsibility extends to human rights, labor practices, the environment, worker health and safety, fair operating practices and the Company’s social impact in the communities where we operate. We consider a variety of standards for socially responsible practices, including local and federal legal requirements in the jurisdictions where we operate, the International Organization for Standardization’s "Guidance on Social Responsibility" (ISO 26000) and standards established by the Responsible Business Alliance (the "RBA") (formerly known as the Electronics Industry Citizenship Coalition). Plexus is a member of the RBA. Information about our corporate social responsibility efforts is available on our website at www.plexus.com.

Employees

We make a considerable effort to maintain a highly-qualified and engaged 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 development opportunities for employees with potential for advancement. We invest at all levels of the organization to ensure that employees are well trained and qualified for their positions. We have a policy of involvement and consultation with employees at every facility and strive for continuous improvement at all levels.

We employ over 16,000 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. Approximately 230 and 850 of our employees are covered by union agreements in the United Kingdom and Mexico, respectively. 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 China, Germany, Malaysia, Romania and the United States are not covered by union agreements. We have no history of labor disputes at any of our facilities, and we believe that our employee relationships are generally positive and stable.

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

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- the life-cycle of our customers' technology-dependent products
- customers' operating results and business conditions
- changes in our, and our customers', sales mix, as well as the volatility of these changes
- variations in sales and margins among geographic regions and market sectors
- varying gross margins among different programs, including as a result of pricing concessions to certain customers
- failure of our customers to pay amounts due to us
- claims alleging defective goods or services or breaches of contractual requirements
- challenges associated with the engagement of new customers or additional programs or services for existing customers
- customer disengagements
- changes in customer supply chain strategies
- the timing of our expenditures in anticipation of future orders
- our effectiveness in planning and executing production, and managing inventory, fixed assets and manufacturing processes
- changes in the cost and availability of labor and components
- changes in exchange rates
- changes in accounting rules
- changes in tax laws, potential tax disputes, or negative or unforeseen tax consequences, 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 a major customer or if there are challenges 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 55.5% of our net sales for the fiscal year ended September 30, 2017, and 58.8% of our net sales for the fiscal year ended October 1, 2016. During the fiscal years ended September 30, 2017 and October 1, 2016, there were one and three customers, respectively, that each represented 10.0% or more of our net sales.

Our major customers may vary from period to period, and our major customers may not continue to purchase services from us at current levels, or at all, particularly given the volatile nature of certain programs. We have experienced from time to time, and in the future may experience, significant customer or program disengagements, adverse changes in customer supply chain strategies and the end of life of significant programs. Especially given our discrete number of customers, significant reductions in net sales to any of our major customers, the loss of major customers or our failure to make appropriate choices as to the customers we serve could seriously harm our business and results of operations.

In addition, we focus our sales efforts on customers in only a few market sectors. Each of these sectors is subject to macroeconomic conditions as well as trends and conditions that are sector specific. Economic, business or regulatory conditions that affect the sector, or the Company’s failure to choose appropriate sectors, can particularly impact Plexus. For instance, sales in the Healthcare/Life Sciences sector are substantially affected by trends in the healthcare industry, such as government reimbursement rates and uncertainties relating to the financial health of, and changes in the structure of, the U.S. healthcare sector generally, including as a result of developments related to the Patient Protection and Affordable Care Act (the "Affordable Care Act").

Further, potential reductions in U.S. government agency spending, including those due to budget cuts or other political developments or issues, could affect opportunities in all of our market sectors. Any weakness in our customers' end markets could affect our business and results of operations.

We rely on timely and regular payments from our customers; therefore, deterioration in the payment experience with or credit quality of our major customers could have a material adverse effect on our financial condition and results of operations. The inability or failure of our major customers to meet their obligations to us or their bankruptcy, insolvency or liquidation may adversely affect our business, financial condition and results of operations.

From time to time, our customers, including formerly major customers, have been affected by merger and acquisition activity. While these transactions may present Plexus with opportunities to capture new business, they also create the risk that these customers will partially reduce their purchases or completely disengage from us as a result of transitioning such business to Plexus' competitors or deciding to manufacture the products internally.

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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 represent a majority of our net sales and operating income, with a particular concentration in Malaysia. In addition, a significant amount of our cash balances are currently held outside of the U.S., also with a particular concentration in Malaysia. We 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
- transportation delays or interruptions
- exchange rate fluctuations
- potential disruptions or restrictions on our ability to access cash amounts held outside of the U.S.
- changes in labor markets, such as government-mandated wage increases, limitations on immigration or the free movement of labor or restrictions on the use of migrant workers, and difficulties in appropriately staffing and managing personnel in diverse cultures
- compliance with laws, such as the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and the E.U. General Data Protection Regulation, applicable to companies with global operations
- changes in the taxation of earnings both in the U.S. and in other countries
- reputational risks related to, among other factors, varying standards and practices among countries
- changes in duty rates
- significant natural disasters and other events or factors impacting local infrastructure
- the impact of the United Kingdom’s pending exit from the European Union ("Brexit")
- the effects of other international political developments, such as embargoes, sanctions, boycotts, energy disruptions, trade agreements and changes in trade policies, including those which may be effected by the current U.S. presidential administration, and
- regulatory requirements and potential changes to those requirements.

We continue to monitor our risk associated with foreign currency and have entered into limited forward contracts to address this risk. As our international operations expand, our failure to appropriately address foreign currency transactions 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, developments affecting particular countries can adversely affect our ability to access cash or other assets held in such countries.

A significant portion of our operations currently occurs in, and cash balances are held in, the APAC region, particularly in Malaysia. The concentration of our operations, assets and profitability in that region exposes us to adverse developments, economic, political or otherwise, in those countries.

Changes in policies by the U.S. or other governments could negatively affect our operating results due to changes in duties, tariffs or taxes, or limitations on currency or fund transfers, as well as government-imposed restrictions on producing certain products in, or shipping them to, specific countries. For example, our facility in Mexico operates under the Mexican Maquiladora ("IMMEX") program. This program provides for reduced tariffs and eased import regulations. We could be adversely affected by changes in the IMMEX 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.

Companies in our industry must respond quickly to the requirements of their customers in both design and production. 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 engineering or other service requirements, change production quantities, delay production, or revise or fail to meet their forecasts for a number of reasons that are beyond our control. In addition, customers may also fail to meet their commitments to us or our expectations. 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 from time to time and may continue to occur in the future.

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 (including inventory) management, facility and capacity 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 their future requirements. Because certain of our operating expenses are fixed, a reduction in customer demand can harm our operating results. Moreover, because 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, which could result in a loss of business from such customers.

We have a complex business model, and our failure to properly manage or execute on that model, as well as an inability to maintain our engineering, technological and manufacturing process expertise, could adversely affect our operations, financial results and reputation.

Our business model focuses on products and services in the mid-to-low-volume, higher-complexity segment of our industry. Our customers' products typically require significant production and supply-chain flexibility, in some cases necessitating optimized demand-pull-based manufacturing and supply chain solutions across an integrated global platform. The products we manufacture are also typically complex, heavily regulated, and require complicated configuration management and direct order fulfillment capabilities to global end customers. In addition, we offer Aftermarket Services to our customers, which add to the complexity of our business model. Our business model requires a great degree of attention, flexibility and resources. These resources include working capital, management and technical personnel, and the development and maintenance of systems and procedures to manage diverse manufacturing, regulatory and service requirements for multiple programs of varying sizes simultaneously, including in multiple locations and geographies. We also depend on securing and ramping new customers and programs and on transitioning production for new customers and programs, which creates added complexities related to managing the start-up risks of such projects, especially for companies that did not previously outsource such activities.

The complexity of our service model, which encompasses a broad range of services including conceptualization, design, commercialization, manufacturing, fulfillment and Aftermarket Services, 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 result in claims against us or adversely 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.

If we fail to effectively manage or execute 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.

Many of the markets for our manufacturing, engineering, aftermarket and other services are characterized by rapidly changing technology and evolving process developments. Our internal 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, and attract additional qualified personnel
- maintain and enhance our technological capabilities
- choose and maintain appropriate technological and service capabilities
- successfully manage the implementation and execution of information systems
- develop and market services that meet changing customer needs
- effectively execute our services and perform to our customers' expectations, 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 maintain or develop the capabilities required by our customers in the future. The emergence of new technologies, industry standards or customer requirements may render our equipment, inventory or processes obsolete or noncompetitive. In addition, we may have to acquire new design, assembly and testing technologies and equipment to remain competitive. The acquisition and implementation of new technologies and equipment, and the offering of new or additional services to our customers,

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, or to perform to their expectations or standards, as well as our need to maintain our personnel and other resources during times of fluctuating demand, could have an adverse effect on our business.

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Our products and services are for end markets that require technologically advanced products.
Factors affecting the technology-dependent end markets that we serve could adversely affect our customers and, as a result, Plexus. These factors include:

- the inability of our customers to adapt to rapidly changing technologies and evolving industry standards that can result in short product life-cycles
- the inability of our customers to develop and market their products, some of which are new and untested
- the potential that our customers’ products may become obsolete, and
- the potential 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, or services offered to, them, can affect our production cycles, inventory management and results of operations.
Challenges associated with the engagement of new customers or programs, or the provision of new services, could affect our operations and financial results.
Our engagement with new customers, as well as the addition of new programs or types of services (including expansion of our Aftermarket Services capabilities) 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, program or service, including evaluating whether the customer, program or service fits with our value proposition as well as its potential 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. The failure to make prudent engagement decisions 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 anticipated revenue from a new program or service; these factors can sometimes extend for a significant period. Some new programs or services 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 or services on a timely basis. Further, the success of new programs may depend heavily on factors such as product reliability, market acceptance, regulatory approvals 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 or service’s requirements, could result in lost financial opportunities and adversely affect our results of operations.
Start-up costs and inefficiencies related to new, recent or transferred programs can adversely affect our operating results.
In recent years, our revenue growth has been more heavily dependent on ramping new program wins as compared to end-market growth of mature programs. The management of resources in connection with the establishment of new or recent programs and customer relationships, as well as program transfers between facilities and geographies, and the need to estimate required resources in advance of production can adversely affect our gross and operating margins and level of working capital. These factors are particularly evident in the early stages of the life-cycle of new programs, which typically lack a track record of order volume and timing as well as production efficiencies in the early stages. We typically manage multiple new programs at any given time; therefore, we are exposed to these factors in varying magnitudes. In addition, if any of these programs or customer relationships were terminated, our operating results could be negatively impacted, particularly in the short-term.
The effects of these start-up costs and inefficiencies can also occur when we transfer programs between locations and geographies. We conduct these transfers on a regular basis to meet customer needs, seek long-term efficiencies or respond to market conditions, as well as due to facility openings and closures. Although we try to minimize the potential losses arising from transitioning customer programs between our facilities and geographies, there are inherent risks that such transitions can result in operational inefficiencies and the disruption of programs and customer relationships.
While these factors tend to affect new, recent or transferred programs, they can also impact more mature, or maturing programs and customer relationships, especially programs where end-market demand can be somewhat volatile.

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Failure to manage periods of growth or contraction may seriously harm our business.
Our industry frequently sees periods of expansion and contraction to adjust to customers' needs and market demands. We regularly contend with these issues and must carefully manage our business to meet customer and market requirements. If we fail to manage these growth and contraction decisions effectively, as well as fail to realize the anticipated benefits of these decisions, we can find ourselves with either excess or insufficient resources and our business, as well as our profitability, may suffer.
Expansion and consolidation, including the transfer of operations to other facilities or due to acquisitions, can inherently include additional costs and start-up inefficiencies. If we are unable to effectively manage our recent or future expansions and consolidations, 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 expansions, acquisitions and consolidations include:

- the inability to successfully integrate additional facilities or incremental capacity and to realize anticipated efficiencies, economies of scale or other value
- challenges faced as a result of transitioning programs
- incurrence of restructuring or other charges that may be insufficient or may not have their intended effects
- additional fixed or other costs, or selling, general and administrative ("SG&A") expenses, 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, as well as the increased costs associated with opening 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.

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 excess capacity or higher levels of employment entail short-term costs, reductions in capacity or employment could impair our ability to respond to new opportunities and programs, 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, as we did in fiscal 2016 and fiscal 2015.
In addition, to meet our customers' needs, particularly when the production requirements of certain products are site-specific, or to achieve increased efficiencies, we sometimes require additional capacity in one location while reducing capacity in another. 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. We may also encounter situations where our lack of a physical presence in certain locations may limit or foreclose opportunities.
An inability to successfully manage the procurement, development, implementation or execution of information systems, or to adequately maintain these systems and their security, as well as to protect data and other confidential information, may adversely affect our business and reputation.
As a global company with a complex business model, we are heavily dependent on our information systems to support our customers' requirements and to successfully manage our business. In particular, we are currently in the process of evaluating the potential replacement of our ERP system. Any inability to successfully manage the procurement, development, implementation, execution or maintenance of our information systems, including matters related to system and data security, privacy, reliability, compliance, performance and access, as well as any inability of these systems to fulfill their intended purpose within our business, could have an adverse effect on our business.
In the ordinary course of business, we collect and store sensitive data and information, including our proprietary and regulated business information and that of our customers, suppliers and business partners, as well as personally

identifiable information about our employees. Our information systems, like those of other companies, are susceptible to malicious damage, intrusions and outages due to, among other events, viruses, cyber threats, industrial espionage (internal or external), hacking, break-ins and similar events, other breaches of security, natural disasters, power loss or telecommunications failures. We have taken steps

to maintain adequate data security and address these risks and uncertainties by implementing security technologies, internal controls, network and data center resiliency, redundancy and recovery processes, as well as by purchasing insurance; however, these measures may not be sufficient. Moreover, we are subject to increasing expectations and data security requirements from our customers, including those related to Federal Acquisition Regulation compliance. Any operational failure or breach of security from increasingly sophisticated cyber threats could lead to the loss or disclosure of our or our customers' financial, product or other confidential information, result in adverse regulatory or other legal actions and have a material adverse effect on our business and reputation.

Changes in tax laws, potential tax disputes, negative or unforeseen tax consequences or further developments affecting our deferred tax assets could adversely affect our results.

The Company's effective tax rate is highly dependent upon the geographic mix of earnings across the jurisdictions where we operate. Changes in tax laws or tax rates in those jurisdictions, including, but not limited to, as a result of actions by the current U.S. presidential administration or Brexit, could have a material impact on our operating results. The Company's effective tax rate may also be impacted by tax holidays and other various tax credits granted by local taxing authorities. All incentives, including a tax holiday granted to our Malaysian subsidiary, are subject to certain terms and conditions. While we expect to comply with these conditions, we would experience adverse tax consequences if we are found to not be in compliance or if the terms and conditions of the tax holiday are unfavorably altered by the local taxing authorities.

The Company's taxable income in any jurisdiction is dependent upon the local taxing authority's acceptance of our operational and intercompany transfer pricing practices as being at "arm's length." Due to inconsistencies among jurisdictions in the application of the arm's length standard, the Company's transfer pricing methods may be challenged and, if not upheld, could increase our income tax expense. Risks associated with transfer pricing adjustments are further highlighted by the global initiative from the Organisation for Economic Cooperation and Development ("OECD") called the Base Erosion and Profit Shifting ("BEPS") project. The BEPS project is challenging longstanding international tax norms regarding the taxation of profits from cross-border business. Given the scope of the Company's international operations and the fluid and uncertain nature of how the BEPS project might ultimately lead to future legislation, it is difficult to assess how any changes in tax laws would impact the Company's income tax expense.

The Company reviews the probability of the realization of our net deferred tax assets each period based on forecasts of taxable income by jurisdiction. 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 each of our jurisdictions may require the creation of an additional 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.

Brexit and related negative developments in the European Union could adversely affect our business and financial results.

The United Kingdom's pending exit from the European Union has resulted in currency exchange rate fluctuations and volatility. The terms of Brexit are not yet known. Given the lack of comparable precedent, the implications of Brexit, or how such implications might affect the Company, remain unclear at this time. Brexit could, among other impacts, disrupt trade and the movement of goods, services and people between the United Kingdom and the European Union or other countries, disrupt the stability of the European Union generally, as well as create legal and global economic uncertainty. These and other potential implications could adversely affect the Company's business and financial results.

In the Brexit referendum, Scotland voted to remain in the European Union, while England and Wales voted to exit. The disparity has renewed the Scottish independence movement. Scottish leaders have publicly stated that a second independence referendum will not be held until after the terms of the Brexit are clear; however, plans may change. Political issues and a potential breakup of the United Kingdom could create legal and economic uncertainty in the region and have a material adverse effect on the Company, which has operations in Scotland.

We and our customers are subject to increasingly extensive government regulations and industry standards; a failure to comply with current and future regulations and standards could have an adverse effect on our business, customer

relationships, reputation and profitability.

We are subject to extensive government regulation and industry standards (as well as customer-specific standards) relating to the products we design, manufacture and service as well as how we conduct our business, including regulations and standards relating to labor and employment practices, workplace health and safety, the environment, sourcing and import/export

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practices, the market sectors we support and many other facets of our operations. The regulatory climate in the U.S. and other countries has become increasingly complex and fragmented, and regulatory activity has increased in recent periods. A failure to comply with such regulations or standards could have an adverse effect on our reputation, customer relationships, profitability and results of operations.

Particularly as a publicly-held company, we are subject to increasingly stringent laws, regulations and other requirements, including those affecting, among other areas, our accounting, internal controls, data protection and privacy, corporate governance practices, securities disclosures and reporting.

Governments worldwide are becoming increasingly aggressive in adopting and enforcing anti-corruption laws. The U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and China's Criminal Law and Anti-Unfair Competition Law, among others, apply to us and our operations.

Changes in healthcare laws and regulations may significantly affect the provision of both healthcare services and benefits in the U.S. and may impact our cost of providing our employees and retirees with health insurance or benefits, and may also impact various other aspects of our business, such as the demand for products in our Healthcare/Life Sciences sector.

Our Healthcare/Life Sciences sector is subject to statutes and regulations covering the design, development, testing, manufacturing and labeling of medical devices and the reporting of certain information regarding their safety, including Food and Drug Administration ("FDA") regulations and similar regulations in other countries. 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.

We also design, manufacture and service products for certain industries, including certain applications where the U.S. government is the end customer, that face significant regulation by the Department of Defense, Department of State, Department of Commerce, Federal Aviation Authority, and other governmental agencies in the U.S. as well as in other countries, and also under the Federal Acquisition Regulation.

In addition, whenever we pursue business in new sectors and subsectors, or our customers pursue new technologies or markets, we need to navigate the potentially heavy regulatory and legislative burdens of such sectors, technologies or markets.

The regulatory climate can itself affect the demand for our services. For example, government reimbursement rates and other regulations, as well as the financial health of healthcare providers, and changes in how healthcare in the U.S. is structured, and how medical devices are taxed, could affect the willingness and ability of end customers to purchase the products of our customers in this sector as well as impact our margins.

Our customers are also required to comply with various government regulations, legal requirements and industry standards, including many of the industry-specific regulations discussed above. Our customers' failure to comply could affect their businesses, which in turn would affect our sales to them. In addition, if our customers are required by regulation or other requirements to make changes in their product lines, these changes could significantly disrupt particular programs for these customers and create inefficiencies in our business.

A failure to comply with customer-driven policies and standards, and third party certification requirements or standards, including those related to social responsibility, could adversely affect our business and reputation.

In addition to government regulations and industry standards, our customers may require us to comply with their own or third party quality standards, business policies, commercial terms, or other social responsibility policies or standards, which may be more restrictive than current laws and regulations as well as our pre-existing policies, before they commence, or continue, doing business with us. Such policies or standards may be customer-driven, established by the industry sectors in which we operate or imposed by third party organizations.

Our compliance with these heightened and/or additional policies, standards and third party certification requirements, and managing a supply chain in accordance therewith, could be costly, and our failure to comply could adversely affect our operations, customer relationships, reputation and profitability. In addition, our adoption of these standards could adversely affect our cost competiveness, ability to provide customers with required service levels and ability to attract and retain employees in jurisdictions where these standards vary from prevailing local customs and practices.

In certain circumstances, to meet the requirements or standards of our customers we may be obligated to select certain suppliers or make other sourcing choices, and we may bear responsibility for adverse outcomes even if these matters

are as the result of third party actions or outside of our control.

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There may be problems with the products we design, manufacture or service that could result in liability claims against us, reduced demand for our services and damage to our reputation.

The products that we design, manufacture or service may be subject to liability or claims in the event that defects are discovered or alleged. We design, manufacture and service products to our customers' specifications, many of which are highly complex, and produce products for industries, such as healthcare, aerospace and defense, that tend to have higher risk profiles. Despite our quality control and quality assurance efforts, problems may occur, or may be alleged, in the design, manufacturing or servicing of these products, including as a result of business continuity issues. Whether or not we are responsible, problems in the products we manufacture, whether real or alleged, whether caused by faulty customer specifications, the design or manufacturing processes, servicing, or a component defect, may result in delayed shipments to customers or reduced or canceled customer orders. If these problems were to occur in large quantities or too frequently, our business reputation may also be tarnished. In addition, such problems may result in liability claims against us, whether or not we are responsible. These potential claims may include damages for the recall of a product or injury to person or property.

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. While we seek to insure against many of these risks, we may not have practical recourse against certain suppliers, and insurance coverage or supplier warranties may be inadequate, not cost effective or unavailable, either in general or for particular types of products or issues. We occasionally incur costs defending claims, and any such disputes could adversely affect our business relationships.

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

Our 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.

Additionally, if third parties on whom we rely for products or services, such as component suppliers, are responsible for an infringement (including through the supply of counterfeit parts), we may or may not be able to hold them responsible and we may incur costs in defending claims or providing remedies. Such infringements may also cause our customers to abruptly discontinue selling the impacted products, which would adversely affect our net sales of those products, and could affect our customer relationships more broadly. Similarly, claims affecting our suppliers could cause those suppliers to discontinue selling materials and components upon which we rely.

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

Our industry is highly competitive. We compete against numerous 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 designing, manufacturing and servicing products internally and may choose to design, manufacture or service products (including products or product types that we currently design, manufacture or service for them) themselves rather than outsource such activities. Consolidations and other changes in our industry may result in a changing competitive landscape.

Our competitors may:

- respond more quickly than us 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
- have lower internal cost structures
- have greater direct buying power with component suppliers, distributors and raw material suppliers

- devote greater resources to the development, promotion and sale of their services and execution of their strategy, and
- be better positioned to compete on price for their services.

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 otherwise become increasingly competitive. Increased competition could result in significant price reductions, reduced sales and margins, or loss of market share.

Our services involve inventory risk.

Most of our services are provided on a turnkey basis, under which we purchase some, or all, of the required materials and components based on customer forecasts 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 materials or components. While we attempt to cancel, return or otherwise mitigate excess and obsolete inventory and require customers to reimburse us for these items, we may not actually be reimbursed timely or be able to collect on these obligations. 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 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. In addition, our inventory may be held at a customer's facility or warehouse, or elsewhere in a location outside of our control, which may increase the risk of loss. Even though our customers generally have contractual obligations to purchase such inventories from us, we remain subject to customers' credit risks as well as the risk of potential customer default and the need to enforce those obligations.

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

We generally do not have long-term supply agreements. We have experienced, from time-to-time currently experience, and in the future may experience, raw material and component shortages due to supplier capacity constraints or their failure to deliver. We have also experienced increased lead times to procure certain types of components. Such constraints can also be caused by world events, such as government policies, terrorism, armed conflict, natural disasters, economic recession and other localized events. We currently rely on a limited number of suppliers for many of the raw materials and components 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. Such suppliers may encounter quality problems, labor disputes, financial difficulties or business continuity issues that could preclude them from delivering raw materials or components timely or at all. Supply shortages and delays in deliveries of raw materials or components 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 materials and components 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 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 prices and other factors, we may 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, as a result of our pricing strategies and practices, raw material and 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.

We depend on our workforce, including certain key personnel, and the loss of key personnel or other personnel disruptions, including the inability to hire and retain sufficient personnel, may harm our business.

Our success depends in large part on the continued services of our key management and technical personnel, and on our ability to attract, develop 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 products. The competition for these individuals is significant, and the loss of key employees could harm our business.

From time to time, there are changes and developments, such as retirements, promotions, transitions, disability, death and other terminations of service that affect our executive officers and other key employees, including those that are unexpected. Transitions or other changes in responsibilities among officers and key employees, particularly those that are unanticipated,

unplanned or not executed effectively, inherently can cause disruptions to our business and operations, which could have an effect on our results.

We also depend on good relationships with our workforce generally. Any disruption in our relationships with our personnel, including as a result of potential union organizing activities, work actions or other labor issues, could substantially affect our operations and results.

In addition, when we expand operations in either existing areas or new locations, including internationally, we need to attract and retain the services of sufficient qualified personnel to conduct those operations. If we fail to retain and maintain sufficient qualified personnel, the operations at those locations, and consequently our financial results, could be adversely affected. In new or existing facilities we may be subject to local labor practices or union activities, wage pressure and changing wage requirements, increasing healthcare costs, differing employment laws and regulations in various countries, local competition for employees, restrictions on labor mobility as well as high turnover, and other issues affecting our workforce, all of which could affect operations at particular locations, which also could have adverse effects on our operational results. As noted above, our adoption of certain third-party standards could adversely affect our ability to attract and retain employees in jurisdictions where these standards vary from prevailing local customs and practices.

Natural disasters, breaches of security and other events outside our control, and the ineffective management of such events, may harm our business.

Some of our facilities are located in areas that may be impacted by natural disasters, including tornadoes, hurricanes, earthquakes, water shortages, tsunamis and floods. For example, in late 2016, we suffered losses, primarily inventory-related, at our facility in Xiamen, China as a result of a typhoon. All facilities are subject to other natural or man-made disasters such as those related to weather events or global climate change, fires, acts of terrorism or war, breaches of security, theft or espionage, and failures of utilities. If such an event was to occur, our business could be harmed due to the event itself or due to our inability to effectively manage the effects of the particular event, with the impact of the event potentially magnified in areas where we have multiple facilities. Potential harms include the loss of business continuity, the loss of business data and damage to infrastructure.

In addition, some of our facilities possess certifications necessary to work on specialized products that our other locations lack. If work is disrupted at one of these facilities, it may be impractical or we may be unable to transfer such specialized work to another facility without significant costs and delays. Thus, any disruption in operations at a facility possessing specialized certifications could adversely affect our ability to provide products and services to our customers, and thus negatively affect our relationships and financial results.

Although we have implemented policies and procedures with respect to physical security, we remain at risk of unauthorized access to our facilities and the possible unauthorized use or theft of inventory, information or other physical assets. If unauthorized persons gain physical access to our facilities, or our physical assets or information are stolen, damaged or used in an unauthorized manner (whether through outside theft or industrial espionage), we could be subject to, among other consequences, negative publicity, governmental inquiry and oversight, loss of government contracts, litigation by affected parties or other future financial obligations related to the loss, misuse or theft of our or our customers' data, inventory or physical assets, any of which could have a material adverse effect on our reputation and results of operations.

We may fail to secure or maintain necessary additional financing or capital.

We cannot be certain that our existing credit facilities will provide all of the financing capacity that we will need in the future or that we will be able to change the credit facilities or revise covenants, if necessary, to accommodate changes or developments in our business and operations. In addition, if we do not comply with the covenants under our credit agreement, our ability to borrow under that facility would be adversely affected. In addition, it is possible that counterparties to our financial agreements, including our credit agreement and receivables factoring programs, may not be willing or able to meet their obligations, either due to instability in the global financial markets or otherwise.

Our future success may depend on our ability to obtain additional financing and capital to support possible future growth and future initiatives. We have the potential to increase capacity under our revolving credit facility from $300 million to $500 million with the approval of the lenders. In addition, we also have receivables factoring programs.

Many of our borrowings are at variable interest rates and therefore our interest expense is subject to increase if rates, including LIBOR, increase. 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 facilities, or through a combination of these methods. Our 5.20% Senior Notes mature on June 15, 2018 (the "Notes"); assuming no U.S. tax reform, it is our intention to refinance the Notes in fiscal 2018 with a similar long-

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term product or other debt financing, although we can provide no assurances of the availability of such financing on attractive, or any, terms. An inability to refinance the Notes or to secure other debt financing could create significant liquidity issues for us.

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; we may not be able to offer our securities on attractive or acceptable terms in the event of volatility or weakness in our stock price. 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 current or future 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.

We may fail to successfully complete future acquisitions, as well as strategic arrangements, and may not successfully integrate acquired operations or recognize the anticipated benefits, which could adversely affect our operating results.

We have previously grown, in part, through acquisitions and strategic arrangements. If we were to pursue future growth through acquisitions, including the acquisition of operations divested by our customers, or similar transactions, 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, systems 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 effect of potential volatility or weakness in our stock price on its use as consideration for acquisitions
- the inability to achieve expected operating margins to offset the increased fixed costs associated with acquisitions, or inability to increase margins of acquired businesses to our desired levels
- 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.

Changes in financial accounting standards may significantly affect our financial condition or the way we conduct business.

We prepare our financial statements in conformity with U.S. GAAP. These principles are subject to interpretation by the Financial Accounting Standards Board ("FASB"), the SEC and various bodies formed to interpret and create accounting policies. From time to time, we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the FASB and the SEC. For example, in 2014 the FASB issued new guidance that impacts revenue recognition criteria and is effective for the Company beginning in the first quarter of fiscal year 2019. The Company has determined that the new standard will result in a change to the timing of revenue recognition for a significant portion of the Company's revenue stream, whereby revenue will be recognized "over time" as production occurs as opposed to at a "point in time" upon physical delivery. The new standard could have a material impact on the Company's consolidated financial statements upon initial adoption, primarily as the Company recognizes an increase in contract assets for unbilled receivables with a corresponding reduction in finished goods and work-in-process inventory. New controls will be needed to comply with such changes and we may fail to adequately implement the needed changes.

Other changes to accounting rules or challenges to our interpretation or application of the rules by regulators may also have a material effect on our reported financial results, on the way we conduct business or on our internal controls.

ITEM 1B. UNRESOLVED SEC STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

Our facilities comprise an integrated network of engineering and manufacturing centers with our corporate headquarters located in Neenah, Wisconsin. We own or lease active facilities with approximately 3.5 million square feet of capacity. This includes approximately 1.6 million square feet in AMER, approximately 1.5 million square feet in APAC and approximately 0.4 million square feet in EMEA. Our active facilities as of September 30, 2017, are described in the following table:

Location	Type	Size (sq. ft.)	Owned/Leased
AMER			
Neenah, Wisconsin	Manufacturing	418,000	Owned
Guadalajara, Mexico	Manufacturing/Engineering	265,000	Leased
Nampa, Idaho	Manufacturing	216,000	Owned
Appleton, Wisconsin	Manufacturing	205,000	Owned
Buffalo Grove, Illinois (1)	Manufacturing	189,000	Leased
Neenah, Wisconsin	Global Headquarters	104,000	Owned
Neenah, Wisconsin	Engineering	90,000	Leased
Raleigh, North Carolina	Engineering	31,000	Leased
Louisville, Colorado	Engineering	27,000	Leased
APAC			
Penang, Malaysia (1)	Manufacturing/Engineering	1,048,000	Owned
Xiamen, China (1)	Manufacturing	255,000	Leased
Hangzhou, China	Manufacturing	177,000	Leased
EMEA			
Oradea, Romania	Manufacturing/Engineering	296,000	Owned
Livingston, Scotland	Manufacturing/Engineering	62,000	Leased
Kelso, Scotland	Manufacturing	57,000	Owned
Darmstadt, Germany	Engineering	16,000	Leased

(1) The facilities in Buffalo Grove, Illinois, Penang, Malaysia and Xiamen, China include more than one building.

ITEM 3. LEGAL PROCEEDINGS

The Company is party to certain lawsuits and legal proceedings 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.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Executive Officers

See Part III, Item 10, "Directors, Executive Officers and Corporate Governance," of this Form 10-K for information regarding the Company's executive officers.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Price per Share

The Company's common stock trades on the Nasdaq Stock Market in the Nasdaq Global Select Market tier (symbol: PLXS). The price information below represents high and low sale prices of our common stock for each quarterly period during fiscal 2017 and 2016:

Fiscal Year Ended September 30, 2017			Fiscal Year Ended October 1, 2016		
	High	Low		High	Low
First Quarter	$54.99	$44.35	First Quarter	$41.62	$32.23
Second Quarter	$58.74	$50.91	Second Quarter	$39.62	$28.72
Third Quarter	$58.52	$49.06	Third Quarter	$45.45	$37.73
Fourth Quarter	$56.90	$49.20	Fourth Quarter	$47.94	$41.55

Performance Graph

The following graph compares the cumulative total return on Plexus common stock with the Nasdaq Stock Market Index for U.S. Companies and the Nasdaq Stock Market Index for Electronic Components Companies, both of which include Plexus. The values on the graph show the relative performance of an investment of $100 made on September 28, 2012, in Plexus common stock and in each of the indices as of the last business day of the respective fiscal year.

Comparison of Cumulative Total Return

	2012	2013	2014	2015	2016	2017
Plexus	$100	$122	$125	$125	$154	$185
Nasdaq-US	100	122	144	145	164	194
Nasdaq-Electronics	100	139	152	144	169	213

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Shareholders of Record; Dividends

As of November 13, 2017, we had 447 shareholders of record. We have not paid any cash dividends in the past. We currently anticipate that in the foreseeable future the majority of earnings will be retained to finance the development of our business and our authorized share repurchases. However, the Company evaluates from time to time potential uses of excess cash, which in the future may include additional share repurchases, a special dividend or recurring dividends. See also Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources," for a discussion of the Company's intentions regarding dividends, and loan covenants which could restrict dividend payments.

Issuer Purchases of Equity Securities

The following table provides the specified information about the repurchases of shares by the Company during the three months ended September 30, 2017:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum approximate dollar value of shares that may yet be purchased under the plans or programs (1)
July 2, 2017 to July 29, 2017	47,032	$ 52.81	47,032	$ 123,659,702
July 30, 2017 to August 26, 2017	73,918	51.66	73,918	$ 119,841,142
August 27, 2017 to September 30, 2017	76,818	51.77	76,818	$ 115,864,139
	197,768	$ 51.98	197,768	

(1) On June 6, 2016, the Board of Directors approved a stock repurchase program under which the Company is authorized to repurchase up to $150.0 million of its common stock.

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ITEM 6. SELECTED FINANCIAL DATA

Financial Highlights (dollars in thousands, except per share amounts)

	Fiscal Years Ended				
Income Statement Data	September 30, 2017	October 1, 2016	October 3, 2015[3]	September 27, 2014	September 28, 2013
Net sales	$2,528,052	$2,556,004	$2,654,290	$2,378,249	$2,228,031
Gross profit	255,855	227,359	239,550	225,569	213,185
Gross margin percentage	10.1 %	8.9 %	9.0 %	9.5 %	9.6 %
Operating income [1]	129,908	99,439	115,436	100,607	96,623
Operating margin percentage	5.1 %	3.9 %	4.3 %	4.2 %	4.3 %
Net income	112,062	76,427	94,332	87,213	82,259
Earnings per share (diluted)	$3.24	$2.24	$2.74	$2.52	$2.36
Cash Flow Statement Data					
Cash flows provided by operations	$171,734	$127,738	$76,572	$88,432	$207,647
Capital equipment additions	38,538	31,123	35,076	65,284	108,122
Balance Sheet Data					
Total assets	1,976,182	1,765,819	1,691,760	1,601,920	1,444,201
Total debt obligations	313,107	262,509	261,806	266,414	261,347
Shareholders’ equity	1,025,939	916,797	842,272	781,133	699,301
Return on invested capital [2]	16.2 %	13.8 %	14.0 %	15.2 %	14.0 %
Inventory turnover ratio	3.7x	4.2x	4.3x	4.6x	5.1x

(1) During fiscal 2016, the Company recorded $7.0 million in restructuring and other charges and $5.2 million in selling and administrative expenses, which are included in operating income. The $7.0 million was largely related to the Company's closure of its manufacturing facility in Fremont, California, and the partial closure of its Livingston, Scotland facility. The $5.2 million was related to accelerated share-based compensation expense recorded pursuant to the retirement agreement with the Company's former Chief Executive Officer. During fiscal 2015 and 2014 the Company recorded $1.7 million and $11.3 million, respectively, of restructuring and other charges, largely related to the Company's consolidation of its manufacturing facilities in Wisconsin, as well as its relocation of manufacturing operations from Juarez, Mexico to Guadalajara, Mexico.

(2) The Company defines return on invested capital ("ROIC"), a non-GAAP financial measure, as tax-effected operating income divided by average invested capital over a rolling five-quarter period. Invested capital is defined as equity plus debt, less cash and cash equivalents, as discussed in Part II, Item 7, "Management’s Discussion and Analysis of Financial Condition and Results of Operations - Return on Invested Capital ("ROIC") and Economic Return." For a reconciliation of ROIC and Economic Return to our financial statements that were prepared in accordance with GAAP, see Exhibit 99.1 to this annual report on Form 10-K.

(3) Fiscal 2015 included 53 weeks. All other periods presented included 52 weeks.

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ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Plexus Corp. and its subsidiaries (together “Plexus,” the “Company,” or "we") participate in the Electronic Manufacturing Services ("EMS") industry. Since 1979, Plexus has been partnering with companies to create the products that build a better world. We are a team of over 16,000 employees, providing global support for all facets of the product realization process – Design and Development, Supply Chain Solutions, New Product Introduction, Manufacturing, and Aftermarket Services – to companies in the Healthcare/Life Sciences, Industrial/Commercial, Communications and Aerospace/Defense market sectors. Plexus is an industry leader that specializes in serving customers with complex products used in demanding regulatory environments in the Americas ("AMER"), Asia-Pacific ("APAC") and Europe, Middle East, and Africa ("EMEA") regions. With a culture built around innovation and customer service, Plexus’ teams create customized end-to-end solutions to assure the realization of the most intricate products.

The following information should be read in conjunction with our consolidated financial statements included herein and "Risk Factors" included in Part I, Item 1A herein.

RESULTS OF OPERATIONS

Consolidated Performance Summary. The following table presents selected consolidated financial data for the indicated fiscal years (dollars in millions, except per share data):

	2017	2016	2015*
Net sales	$2,528.1	$2,556.0	$2,654.3
Cost of sales	2,272.2	2,328.6	2,414.7
Gross profit	255.9	227.4	239.6
Gross margin	10.1 %	8.9 %	9.0 %
Operating income	129.9	99.4	115.4
Operating margin	5.1 %	3.9 %	4.3 %
Net income	112.1	76.4	94.3
Diluted earnings per share	$3.24	$2.24	$2.74
Return on invested capital**	16.2 %	13.8 %	14.0 %
Economic return**	5.7 %	2.8 %	3.0 %

*Fiscal 2015 included 53 weeks, while all other periods presented included 52 weeks.

**Non-GAAP metric; refer to "Return on Invested Capital ("ROIC") and Economic Return" below for more information and Exhibit 99.1 for a reconciliation.

Net sales. Fiscal 2017 net sales decreased $27.9 million, or 1.1%, as compared to fiscal 2016. Fiscal 2016 net sales decreased $98.3 million, or 3.7%, as compared to fiscal 2015.

Net sales are analyzed by management by geographic segment, which reflects the Company's reportable segments, and by market sector. Management measures operational performance and allocates resources on a geographic segment basis. The Company’s global business development strategy is based on our targeted market sectors.

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A discussion of net sales by reportable segment is presented below (in millions):

	Fiscal Year Ended		
	September 30, 2017	October 1, 2016	October 3, 2015
Net sales:			
AMER	$1,166.4	$1,328.8	$1,389.0
APAC	1,279.3	1,161.9	1,285.9
EMEA	192.8	170.4	140.3
Elimination of inter-segment sales	(110.4)	(105.1)	(160.9)
Total net sales	$2,528.1	$2,556.0	$2,654.3

AMER. Net sales for fiscal 2017 in the AMER segment decreased $162.4 million, or 12.2%, as compared to fiscal 2016. The reduction in net sales was driven by overall decreased customer end-market demand as well as decreases of $38.7 million from customer disengagements, $25.5 million due to manufacturing transfers to our APAC and EMEA segments, $24.0 million due to a customer's decision to manufacture product internally, $16.4 million from end-of-life products and $5.8 million that resulted from a program disengagement. Partially offsetting these decreases were net sales increases of $36.6 million from the ramp of new programs for existing customers and $11.0 million from the ramp of production for new customers.

Net sales for fiscal 2016 in the AMER segment decreased $60.2 million, or 4.3%, as compared to fiscal 2015, primarily due to decreased net sales of $75.8 million with a customer that resulted from decreased customer end-market demand for one of its products and $71.9 million due to two customer disengagements. The remaining reduction in net sales resulted from decreases of $17.4 million due to two customers bringing the manufacturing of three programs in house, $12.4 million due to pilot programs for three customers not transitioning into the production stage and $5.5 million due to a product disengagement, as well as net overall decrease in customer end-market demand. Partially offsetting these decreases were increased net sales of $187.3 million due to the ramp of production for a major customer, $59.8 million from the ramp of various new programs for several existing customers and $10.4 million due to the ramp of production for a new customer.

APAC. Net sales for fiscal 2017 in the APAC segment increased $117.4 million, or 10.1%, as compared to fiscal 2016. The increase in net sales was primarily due to a $115.6 million increase due to the ramp of new programs for existing customers, net increased customer end-market demand and $21.4 million due to manufacturing transfers from our AMER segment. These increases were partially offset by decreases of $50.3 million due to a program disengagement, $38.6 million due to a customer’s partial divestiture of one of its businesses and $14.6 million that resulted from an end-of-life product.

Net sales for fiscal 2016 in the APAC segment decreased $124.0 million, or 9.6%, as compared to fiscal 2015. The reduction in net sales was primarily driven by a $90.7 million decrease in net sales due to a program disengagement. Net sales also declined by $30.2 million due to two customers revising their business models as a result of decreased end-market demand and $7.0 million due to two customer disengagements. The remaining decrease in net sales was due to a net decrease in customer end-market demand. These decreases were partially offset by increased net sales of $76.5 million from the ramp of new programs for three existing customers and $19.4 million from the ramp of production for two new customers.

EMEA. Net sales for fiscal 2017 in the EMEA segment increased $22.4 million, or 13.1%, as compared to fiscal 2016. The increase in net sales was primarily attributable to a $34.6 million increase due to the ramp of new programs for existing customers and $4.1 million due to manufacturing transfers from our AMER segment. Partially offsetting the increases was net decreased customer end-market demand and a $3.2 million decrease from end-of-life products.

Net sales for fiscal 2016 in the EMEA segment increased $30.1 million, or 21.5%, as compared to fiscal 2015, primarily due to a $30.3 million increase in net sales due to the ramp of production of various new programs with several existing customers and $5.0 million from the ramp of production for a new customer. This was partially offset by a $3.8 million decrease as a result of a customer bringing the manufacturing of a program in house. The remaining decrease in net sales was due to a net decrease in customer end-market demand.

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Our net sales by market sector for fiscal 2017, 2016 and 2015 were as follows (in millions):

Market Sector	2017	2016	2015
Healthcare/Life Sciences	$858.8	$780.3	$750.2
Industrial/Commercial	788.3	774.2	685.5
Communications	477.7	597.1	844.5
Aerospace/Defense	403.3	404.4	374.1
Total net sales	$2,528.1	$2,556.0	$2,654.3

Healthcare/Life Sciences. Net sales for fiscal 2017 in the Healthcare/Life Sciences sector increased $78.5 million, or 10.1%, as compared to fiscal 2016. The increase was primarily driven by increases in net sales of $74.4 million due to the ramp of new programs for existing customers, net increased customer end-market demand and $7.0 million from the ramp of production for new customers. Partially offsetting the increases were decreases in net sales of $24.8 million due to a customer's decision to manufacture product internally and $2.1 million due to end-of-life products. Net sales for fiscal 2016 in the Healthcare/Life Sciences sector increased $30.1 million, or 4.0%, as compared to fiscal 2015. The increase was primarily due to a $41.9 million increase in net sales due to the ramp of various new programs for several existing customers, $26.4 million from the ramp of production for three new customers and a net increase in end-market demand. Partially offsetting the increases were decreases in net sales of $20.3 million due to three customers bringing the manufacturing process for four programs in house, $7.0 million due to two customer disengagements and $5.5 million due to a product disengagement.

Industrial/Commercial. Net sales for fiscal 2017 in the Industrial/Commercial sector increased $14.1 million, or 1.8%, as compared to fiscal 2016. The increase was primarily driven by increases in net sales of $84.8 million due to the ramp of new programs for existing customers. Partially offsetting the increases were decreases in net sales of $38.6 million due to a customer's partial divestiture of one of its businesses, $17.1 million related to a customer disengagement and net decreased customer end-market demand.

Net sales for fiscal 2016 in the Industrial/Commercial sector increased $88.7 million, or 12.9%, as compared to fiscal 2015. The increase was primarily due to ramps of production for a major customer, which resulted in increased net sales of $221.2 million. Partially offsetting the increase were decreases of $42.7 million related to the disengagement of a customer, $30.2 million that resulted from two customers revising their business models as a result of decreased end-market demand and $12.4 million due to pilot programs for three customers not transitioning into the production stage. The remaining decrease was due to decreased customer end-market demand, due in part to the downturn in the oil and gas markets.

Communications. Net sales for fiscal 2017 in the Communications sector decreased $119.4 million, or 20.0%, as compared to fiscal 2016. The reduction in net sales was primarily driven by a $52.4 million decrease in net sales due to a program disengagement, overall net decreased end-market demand, a $20.3 million decrease that resulted from end-of-life products and a $16.9 million decrease due to customer disengagements. Partially offsetting the decreases was an $18.9 million increase in net sales due to the ramp of production of new products for existing customers.

Net sales for fiscal 2016 in the Communications sector decreased $247.4 million, or 29.3%, as compared to fiscal 2015. The reduction in net sales was primarily driven by a $90.7 million decrease in net sales due to a program disengagement, a $75.8 million decrease in net sales to another customer that resulted from decreased end-market demand for one of its products and a $29.2 million decrease due to the disengagement of a customer. Overall decreased end-market demand drove the remaining reduction in net sales during fiscal 2016. Partially offsetting the decreases was a $10.2 million increase in net sales due to the ramp of production of new programs for two existing customers.

Aerospace/Defense. Net sales for fiscal 2017 in the Aerospace/Defense sector decreased $1.1 million, or 0.3%, as compared to fiscal 2016. The decrease was primarily attributable to a $7.5 million reduction that resulted from

end-of-life products, a $6.4 million decrease from a program disengagement and net decreased customer end-market demand. Partially offsetting the decreases were a $10.7 million increase in net sales that resulted from the ramp of production for new customers and a $10.2 million increase due to the ramp of production of new products for existing customers.

Net sales for fiscal 2016 in the Aerospace/Defense sector increased $30.3 million, or 8.1%, as compared to fiscal 2015. The improvement was primarily attributable to increased net sales of $43.2 million that resulted from the ramp of production of new programs for several existing customers. These increases were partially offset by a decrease of $6.9 million due to program disengagements with two customers as well as a net decrease in customer end-market demand.

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As a percentage of consolidated net sales, net sales attributable to customers representing 10% or more of consolidated net sales as well as the percentage of net sales attributable to our ten largest customers for the indicated fiscal years were as follows:

	2017	2016	2015
General Electric Company ("GE")	12.2%	11.1%	10.6%
Micron Technology, Inc. ("Micron")	*	10.4%	*
ARRIS Group, Inc. ("Arris")	*	10.1%	12.6%
Top 10 customers	55.5%	58.8%	56.1%

* Net sales attributable to the customer were less than 10.0% of consolidated net sales for the period.

Cost of sales. Cost of sales for fiscal 2017 decreased $56.4 million, or 2.4%, as compared to fiscal 2016. Cost of sales is comprised primarily of material and component costs, labor costs and overhead. In fiscal 2017, 2016 and 2015, approximately 89.0%, 90.0% and 90.0%, respectively, of the total cost of sales was variable in nature and fluctuated with sales volumes. Of these amounts, approximately 88.0% of these costs in each period were related to material and component costs. As a result of primarily using a cost-plus markup pricing arrangement with our customers, changes in costs typically result in corresponding changes in price, which generally results in an immaterial impact on gross profit. As compared to fiscal 2016, the percentage decrease in cost of sales in fiscal 2017 was greater than the 1.1% decrease in net sales primarily due to a positive shift in customer mix, on-going supply chain productivity initiatives and decreased inventory obsolescence expenses, which resulted primarily from $2.9 million of inventory losses sustained from a typhoon that impacted the Company's manufacturing facilities in Xiamen, China during fiscal 2016.
Cost of sales for fiscal 2016 decreased $86.1 million, or 3.6%, as compared to fiscal 2015. As expected, the decrease in cost of sales of 3.6% as compared to fiscal 2015 was generally in line with the 3.7% decrease in net sales. Cost of sales decreased slightly less than the decrease in net sales primarily due to a $2.9 million increase in cost of sales that resulted from the Xiamen typhoon during fiscal 2016.

Gross profit. Gross profit for fiscal 2017 increased $28.5 million, or 12.5%, as compared to fiscal 2016. Gross margin increased 120 basis points as compared to fiscal 2016. The primary driver of the increases in gross profit and gross margin as compared to fiscal 2016 was the larger percentage decrease in cost of sales as compared to the decrease in net sales, driven by the factors previously discussed.
Gross profit for fiscal 2016 decreased $12.2 million, or 5.1%, as compared to fiscal 2015. Gross margin decreased 10 basis points as compared to fiscal 2015. The primary driver of the decreases in gross profit and gross margin as compared to fiscal 2015 was the decrease in net sales and the $2.9 million increase in cost of sales due to the typhoon-related losses previously discussed.

Operating income. Operating income for fiscal 2017 increased $30.5 million as compared to fiscal 2016 as a result of the increase in gross profit and a $7.0 million decrease in restructuring and other charges, partially offset by a $5.1 million increase in selling and administrative expenses ("S&A"). Restructuring and other charges in fiscal 2016 related to the closure of our manufacturing facility in Fremont, California and the partial closure of our Livingston, Scotland facility. The increase in S&A in fiscal 2017 resulted from a $3.5 million increase in variable compensation expense as a result of improved ROIC and $2.0 million of increased salary and wage-related expenses, partially offset by a $1.9 million decrease in share-based compensation expense. While the level of fiscal 2017 share-based compensation expense benefited from the non-recurrence of $5.2 million of accelerated share-based compensation expense related to the retirement of the Company's former President and Chief Executive Officer in fiscal 2016, that effect was partially offset by a non-recurring $2.1 million equity grant in 2017 in connection with his appointment as Executive Chairman of the Board. Operating margin increased to 5.1% in fiscal 2017 from 3.9% in fiscal 2016.
Operating income for fiscal 2016 decreased $16.0 million as compared to fiscal 2015 as a result of the decrease in gross profit and a $5.3 million increase in restructuring and other charges, as discussed above, partially offset by a $1.5 million reduction in S&A. The reduction in S&A in fiscal 2016 resulted from a $6.4 million decrease in

variable compensation expense, partially offset by a $5.4 million increase in share-based compensation expense primarily due to $5.2 million of accelerated share-based compensation expense due to the retirement of the Company's former President and Chief Executive Officer, as discussed above. Operating margin decreased to 3.9% in fiscal 2016 from 4.3% in fiscal 2015.

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A discussion of operating income (loss) by reportable segment is presented below (in millions):

	2017	2016	2015
Operating income (loss):			
AMER	$41.9	$64.9	$68.6
APAC	200.1	155.5	160.2
EMEA	(6.2)	(3.7)	(8.1)
Corporate and other costs	(105.9)	(117.3)	(105.3)
Total operating income	$129.9	$99.4	$115.4

AMER. Operating income decreased $23.0 million in fiscal 2017 as compared to fiscal 2016, primarily as a result of the decrease in net sales and increased variable labor costs to support new program ramps. The impact of the decrease in net sales was partially offset by a positive shift in customer mix due in part to decreased net sales to lower margin customers that resulted from two customer disengagements.

Operating income for fiscal 2016 decreased $3.7 million as compared to fiscal 2015, driven primarily by decreased net sales. The impact of the net sales decrease was partially offset by a positive change in customer mix due in part to decreased net sales to lower margin customers that resulted from two customer disengagements.

APAC. Operating income increased $44.6 million in fiscal 2017 as compared to fiscal 2016, primarily as a result of the increase in net sales, a positive shift in customer mix, supply chain productivity initiatives and decreased inventory obsolescence expenses, which resulted primarily from the $2.9 million of losses sustained in fiscal 2016 from the Xiamen typhoon discussed above.

Operating income decreased $4.7 million in fiscal 2016 as compared to fiscal 2015, primarily as a result of the decrease in net sales and the effects of the Xiamen typhoon. The impact of the decrease in net sales was partially offset by a positive shift in net sales mix, partially due to a program disengagement, and a $4.7 million decrease in fixed manufacturing expenses due to cost saving initiatives.

EMEA. Operating loss increased $2.5 million in fiscal 2017 as compared to fiscal 2016 primarily due to increased labor costs to support new program ramps, partially offset by the impact of the increase in net sales.

Operating loss decreased $4.4 million in fiscal 2016 as compared to fiscal 2015 primarily due to the impact of the net sales increase, while fixed costs remained relatively flat.

Other income (expense). Other expense for fiscal 2017 decreased $4.0 million as compared to fiscal 2016. The decrease in other expense for fiscal 2017 was primarily due to the impact of foreign exchange volatility, which resulted in a foreign exchange gain of $2.3 million during fiscal 2017 as compared to a $1.7 million loss during fiscal 2016. This was partially offset by $2.2 million of expense related to the Company's accounts receivable securitization facility. Refer to "Liquidity and Capital Resources - Financing Activities" for additional detail on the Company's accounts receivable securitization facility.

Other expense for fiscal 2016 increased $2.9 million as compared to fiscal 2015. The increase in other expense for fiscal 2016 was primarily the result of a $3.0 million increase in foreign exchange losses that resulted from foreign exchange volatility.

Income taxes. Income tax expense and effective annual income tax rates for fiscal 2017, 2016 and 2015 were as follows (dollars in millions):

	2017	2016	2015
Income tax expense	$9.8	$11.0	$12.0

Effective annual tax rate	8.0	%	12.6	%	11.3	%

Income tax expense for fiscal 2017 was $9.8 million compared to $11.0 million for fiscal 2016 and $12.0 million for fiscal 2015. The Company's annual effective tax rates vary from the U.S. statutory rate of 35.0% primarily as a result of the mix of earnings from U.S. and foreign jurisdictions and a tax holiday granted to a subsidiary located in the APAC region where the Company derives a significant portion of its earnings. The effective tax rate for fiscal 2017 was lower than the effective tax rate for fiscal 2016 primarily due to an increase in income before taxes in lower tax-rate jurisdictions and an on-going tax benefit

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related to incremental deductible expenses in a jurisdiction where we pay income taxes. The effective tax rate for fiscal 2016 was higher than the effective rate for fiscal 2015 primarily as a result of the overall decrease in income before taxes in jurisdictions where the Company does not pay taxes.

The Company has been granted a tax holiday for a foreign subsidiary operating in the APAC region. This tax holiday will expire on December 31, 2024, and is subject to certain conditions with which the Company expects to comply. In fiscal 2017, 2016 and 2015, the holiday resulted in tax reductions of approximately $37.5 million ($1.11 per basic share, $1.08 per diluted share), $27.1 million ($0.81 per basic share, $0.79 per diluted share), and $29.9 million ($0.89 per basic share, $0.87 per diluted share), respectively.

See also Note 6, "Income Taxes," in Notes to Consolidated Financial Statements for additional information regarding the Company's tax rate.

The annual effective tax rate for fiscal 2018 is expected to be approximately 8.0% to 10.0%.

Net Income. Net income for fiscal 2017 increased $35.7 million, or 46.7%, from fiscal 2016 to $112.1 million. Net income increased primarily as a result of increased gross profit, decreased restructuring and other charges and decreased foreign exchange losses, partially offset by increases in S&A, as discussed previously.

Net income for fiscal 2016 decreased $17.9 million, or 19.0%, from fiscal 2015 to $76.4 million. Net income decreased primarily as a result of decreased gross profit, increased restructuring and other charges and increased foreign exchange losses, partially offset by decreases in S&A and income tax expense, as discussed previously.

Diluted earnings per share. Diluted earnings per share increased to $3.24 in fiscal 2017 from $2.24 in fiscal 2016 primarily as a result of increased net income.

Diluted earnings per share decreased to $2.24 in fiscal 2016 from $2.74 in fiscal 2015 primarily as a result of decreased net income. This was partially offset by the positive impact of fewer weighted average outstanding shares in fiscal 2016 due to our common stock repurchase program.

Return on Invested Capital ("ROIC") and Economic Return. We use a financial model that is aligned with our business strategy and includes a ROIC goal of 500 basis points over our weighted average cost of capital ("WACC"), which we refer to as "Economic Return," and a 4.7% to 5.0% operating margin target. Our primary focus is on our Economic Return goal of 5.0%, which is designed to create shareholder value and generate sufficient cash to self-fund our targeted organic revenue growth rate of 12.0%. ROIC and Economic Return are non-GAAP financial measures. Non-GAAP financial measures, including ROIC and Economic Return, are used for internal management goals and decision making because such measures provide management and investors additional insight into financial performance. In particular, we provide ROIC and Economic Return because we believe they offer insight into the metrics that are driving management decisions because we view ROIC and Economic Return as important measures in evaluating the efficiency and effectiveness of our long-term capital requirements. We also use a derivative measure of ROIC as a performance criteria in determining certain elements of compensation, and certain compensation incentives are based on Economic Return performance.

We define ROIC as tax-effected operating income before restructuring and other special items divided by average invested capital over a rolling five-quarter period for the fiscal year. Invested capital is defined as equity plus debt, less cash and cash equivalents. Other companies may not define or calculate ROIC in the same way. ROIC and other non-GAAP financial measures should be considered in addition to, not as a substitute for, measures of our financial performance prepared in accordance with U.S. generally accepted accounting principles ("GAAP").

We review our internal calculation of WACC annually. Our WACC was 10.5% for fiscal year 2017 and 11.0% for fiscal years 2016 and 2015. By exercising discipline to generate ROIC in excess of our WACC, our goal is to create value for our shareholders. ROIC was 16.2%, 13.8%, and 14.0% for fiscal 2017, 2016 and 2015, respectively. Fiscal 2017 ROIC of 16.2% reflects an Economic Return of 5.7%, based on our weighted average cost of capital of 10.5%.

For a reconciliation of ROIC, Economic Return and adjusted operating income (tax effected) to our financial statements that were prepared using GAAP, see Exhibit 99.1 to this annual report on Form 10-K, which exhibit is incorporated herein by reference.

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Refer to the table below, which includes the calculation of ROIC and Economic Return (dollars in millions) for the indicated periods:

	2017	2016	2015
Adjusted operating income (tax effected)	$119.5	$102.0	$104.2
Average invested capital	738.3	740.0	745.6
After-tax ROIC	16.2 %	13.8 %	14.0 %
WACC	10.5 %	11.0 %	11.0 %
Economic Return	5.7 %	2.8 %	3.0 %

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents and restricted cash were $569.3 million as of September 30, 2017, as compared to $433.0 million as of October 1, 2016.

As of September 30, 2017, 95.8% of our cash balance was held outside of the U.S. by our foreign subsidiaries. While our intent is to permanently reinvest the funds held in these countries, we regularly review and evaluate that strategy, particularly as the percentage of our cash balance held outside the U.S. has increased. For example, during fiscal 2016, the Company repatriated $100.0 million of that fiscal year's foreign earnings from the APAC region to the U.S., which had no income statement impact due to U.S. net operating losses, the use of U.S. tax credits and the reversal of the related valuation allowance. The Company does not have a history of repatriating foreign earnings by way of a taxable dividend and considers the fiscal 2016 remittance to be an isolated occurrence. Without tax reform, the Company does not anticipate a similar repatriation in the foreseeable future. Currently, we believe that cash held in the U.S., together with cash available under our Credit Facility, will be sufficient to meet our U.S. liquidity needs for the next twelve months and for the foreseeable future. See below for the Company's plans related to the potential refinancing of $175.0 million in principal amount of its 5.20% Senior Notes due on June 15, 2018 (the "Notes").

Cash Flows. The following table provides a summary of cash flows for fiscal 2017, 2016 and 2015, excluding the effect of exchange rates on cash and cash equivalents and restricted cash (in millions):

	2017	2016	2015
Cash provided by operating activities	$171.7	$127.7	$76.6
Cash used in investing activities	$(37.8)	$(26.5)	$(34.7)
Cash provided by (used in) financing activities	$1.3	$(21.3)	$(26.2)

Operating Activities. Cash flows provided by operating activities were $171.7 million for fiscal 2017, as compared to $127.7 million for fiscal 2016. The improvement was primarily due to the increase in net income and a $13.9 million change in working capital. Working capital cash flows improved as compared to the prior year primarily due to a $90.7 million increase in accounts receivable cash flows, which resulted primarily from increased factoring activity and an $18.1 million increase in customer deposit cash flows driven by significant deposits received from two customers. Partially offsetting these working capital cash flow improvements was an $85.3 million increase in cash used for inventory driven by increased inventory levels to support the ramp of new customer programs and an $11.7 million increase in cash used for other current and noncurrent assets cash flows resulting from increases in prepaid arrangements.

Cash flows provided by operating activities were $127.7 million for fiscal 2016, as compared to cash flows provided by operating activities of $76.6 million for fiscal 2015. The improvement was primarily due to increased working capital requirements in fiscal 2015 due to the increase in net sales. This was partially offset by the larger increase in cash flows received for customer deposits in fiscal 2015 and the decrease in earnings in fiscal 2016.

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The following table provides a summary of cash cycle days for the periods indicated (in days):

	Three months ended		
	September 30, 2017	October 1, 2016	October 3, 2015
Days in accounts receivable	50	58	53
Days in inventory	99	87	85
Days in accounts payable	(63)	(61)	(60)
Days in cash deposits	(16)	(13)	(12)
Annualized cash cycle	70	71	66

We calculate days in accounts receivable as accounts receivable for the respective quarter divided by annualized sales for the respective quarter by day. We calculate days in inventory, accounts payable, and cash deposits as each balance sheet line item for the respective quarter divided by annualized cost of sales for the respective quarter by day. We calculate annualized cash cycle as the sum of days in accounts receivable and days in inventory, less days in accounts payable and days in cash deposits.

As of September 30, 2017, annualized cash cycle days decreased one day compared to October 1, 2016 due to the following factors:

Days in accounts receivable for the three months ended September 30, 2017 decreased eight days compared to the three months ended October 1, 2016. The decrease is primarily attributable to a $121.2 million increase in accounts receivable sold under factoring programs, partially offset by an increase in accounts receivable that resulted from a shift in customer mix and an increase in payment terms with certain customers.

Days in inventory for the three months ended September 30, 2017 increased twelve days compared to the three months ended October 1, 2016. The increase is primarily driven by an increase in inventory levels as a result of experiencing longer lead times for certain components for new programs and to support new program ramps. In order to maintain a high level of customer service, we are procuring components earlier, which has led to the increase in inventory.

Days in accounts payable for the three months ended September 30, 2017 increased two days compared to the three months ended October 1, 2016. The increase is primarily driven by increased purchasing activity to support new program ramps.

Days in cash deposits for the three months ended September 30, 2017 increased three days compared to the three months ended October 1, 2016. The increase was primarily attributable to an increase in customer deposits primarily due to deposits received from two customers during the three months ended September 30, 2017 as we actively seek deposits to cover higher inventory balances.

Free Cash Flow. We define free cash flow ("FCF"), a non-GAAP financial measure, as cash flow provided by operations less capital expenditures. FCF was $133.2 million for fiscal 2017 compared to $96.6 million for fiscal 2016, an increase of $36.6 million.

Non-GAAP financial measures, including FCF, are used for internal management assessments because such measures provide additional insight to investors into ongoing financial performance. In particular, we provide FCF because we believe it offers insight into the metrics that are driving management decisions. We view FCF as an important financial metric as it demonstrates our ability to generate cash and can allow us to pursue opportunities that enhance shareholder value. FCF is a non-GAAP financial measure that should be considered in addition to, not as a substitute for, measures of our financial performance prepared in accordance with GAAP.

A reconciliation of FCF to our financial statements that were prepared using GAAP follows (in millions):

	2017	2016	2015
Cash flows provided by operating activities	$171.7	$127.7	$76.6
Payments for property, plant and equipment	(38.5)	(31.1)	(35.1)
Free cash flow	$133.2	$96.6	$41.5

Investing Activities. Cash flows used in investing activities were $37.8 million for fiscal 2017 compared to $26.5 million for fiscal 2016. The increase in cash used in investing activities was due to a $7.4 million increase in capital expenditures primarily to support new capabilities, new program ramps, and to replace or refresh older equipment, and

a $3.9 million decrease in

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proceeds received from the sale of property, plant and equipment, primarily related to the sale of our former engineering facility in Neenah, Wisconsin in fiscal 2016.
Cash flows used in investing activities were $26.5 million for fiscal 2016 compared to $34.7 million for fiscal 2015. The reduction was due to a $4.0 million decrease in capital expenditures and the $4.2 million increase in proceeds received from the sale of property, plant and equipment.

We utilized available cash and operating cash flows as the sources for funding our operating requirements during fiscal 2017. We currently estimate capital expenditures for fiscal 2018 will be approximately $80 million to $90 million.

Financing Activities. Cash flows provided by financing activities were $1.3 million for fiscal 2017 compared to cash flows used in financing activities of $21.3 million for fiscal 2016. The increase was primarily attributable to a net $32.8 million increase in borrowings, which was partially offset by a $4.1 million increase in cash used to repurchase our shares under the stock repurchase program described below, a $3.5 million increase in payments related to tax withholding for share-based compensation and a $3.0 million decrease in proceeds received from stock option exercises.

Cash flows used in financing activities were $21.3 million for fiscal 2016 compared to $26.2 million for fiscal 2015. The decrease was primarily attributable to the $5.0 million increase in proceeds received from increased stock option exercise activity during fiscal 2016.

On June 6, 2016, the Board of Directors approved a multi-year stock repurchase program under which the Company is authorized to repurchase up to $150.0 million of its common stock beginning in fiscal 2017, subject to market conditions and other considerations. During fiscal 2017, the Company repurchased 655,470 shares under this program for $34.1 million, at an average price of $52.08 per share.

On August 20, 2015, the Board of Directors authorized a stock repurchase program under which the Company was authorized to repurchase up to $30.0 million of its common stock during fiscal 2016. During fiscal 2016, the Company repurchased 760,903 shares under this program for $30.0 million, at an average price of $39.43 per share.

All shares repurchased under the repurchase programs were recorded as treasury stock.

The Company has a senior unsecured revolving credit facility (the "Credit Facility") with a $300.0 million maximum commitment that expires on July 5, 2021. The Credit Facility may be further increased to $500.0 million, generally by mutual agreement of the Company and the lenders, subject to certain customary conditions.

Borrowings under the Credit Facility bear interest, at the Company’s option, at a eurocurrency or base rate plus, in each case, an applicable interest rate margin based on the Company’s then-current leverage ratio (as defined in the related Credit Agreement). As of September 30, 2017, the borrowing rate under the Credit Agreement was LIBOR plus 1.125% (or 2.358%). The Company is required to pay an annual commitment fee on the unused revolver credit commitment based on the Company's leverage ratio; the fee was 0.175% as of September 30, 2017. During fiscal 2017, the highest daily borrowing was $151.0 million; the average daily borrowings were $106.7 million. The Company borrowed $331.0 million and repaid $298.0 million of revolving borrowings under the Credit Facility during fiscal 2017. As of the end of fiscal 2017, $108.0 million of borrowings were outstanding under the Credit Facility.

The financial covenants (as defined under the Credit Agreement) require, among other covenants, that the Company maintain, as of each fiscal quarter end, a maximum total leverage ratio and a minimum interest coverage ratio. As of September 30, 2017, the Company was in compliance with all financial covenants of the Credit Agreement.

In fiscal 2011, Plexus issued $175.0 million in principal amount of the Notes. The related Note Purchase Agreement contains certain financial covenants, which include a maximum total leverage ratio, a minimum interest coverage ratio and a minimum net worth test, all as defined in the agreement. As of September 30, 2017, the Company was in compliance with all such covenants relating to the Notes and the Note Purchase Agreement. Assuming no U.S. tax reform within the next year, our intention is to refinance the Notes with a similar long-term product, although we can provide no assurances of the availability of such financing on attractive, or any, terms. If we are unable to refinance the Notes, the Company believes that it would still be able to fulfill its financial obligation with available cash and other sources of liquidity.

The Credit Agreement and the Note Purchase Agreement allow for the future payment of cash dividends or the repurchase of shares provided that no event of default (including any failure to comply with a financial covenant) exists at the time of, or would be caused by, the dividend payment or the share repurchases. We have not paid cash dividends in the past and do not

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currently anticipate paying them in the future. However, we evaluate from time to time potential uses of excess cash, which in the future may include share repurchases above those already authorized, a special dividend or recurring dividends.

The Company has a Master Accounts Receivable Purchase Agreement (the "BTMU RPA") with The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch (the "BTMU Purchaser"). Pursuant to the BTMU RPA, the Company and certain of its subsidiaries (each, a "Seller") may sell to the BTMU Purchaser accounts receivable owed to such Sellers by specified customers. In exchange, the BTMU Purchaser pays a purchase price for each purchased receivable equal to the net face value of the receivable less an agreed-upon discount. The BTMU RPA represents a non-committed facility. The BTMU Purchaser pays an agreed-upon servicing fee to each Seller with respect to each purchased receivable sold by such Seller, consistent with common market practices. The BTMU RPA contains representations, warranties, covenants, and termination events that are customary for factoring transactions of this type. The BTMU RPA was amended on October 19, 2017 to increase the maximum facility amount from $120.0 million to $160.0 million. The BTMU RPA is subject to expiration on October 3, 2018, but will be automatically extended each year unless any party gives no less than 10 days prior notice that the agreement should not be extended.

The Company also has a Master Accounts Receivable Purchase Agreement (the "HSBC RPA") with HSBC Bank (China) Company Limited, Xiamen branch (the "HSBC Purchaser"). Pursuant to the HSBC RPA, the Company and certain of its subsidiaries (each, an "HSBC Seller") may sell to the HSBC Purchaser up to an aggregate of $60.0 million in accounts receivable owed to such HSBC Sellers by specified customers. The terms of the HSBC RPA are generally consistent with the terms of the BTMU RPA discussed above.

The Company sold $418.0 million, $65.6 million and $93.1 million of trade accounts receivable under these programs during fiscal years 2017, 2016 and 2015, respectively, in exchange for cash proceeds of $415.8 million, $65.0 million and $92.4 million, respectively.

In all cases, the sale discount was recorded within "Miscellaneous expense" in the Consolidated Statements of Comprehensive Income in the period of the sale. For further information regarding the receivable sale programs, see Note 14, "Trade Accounts Receivable Sale Programs," in Notes to Consolidated Financial Statements.

Based on current expectations, we believe that our projected cash flows provided by operations, available cash and cash equivalents, potential borrowings under the Credit Facility, potential refinancing of the Notes and our leasing capabilities, should be sufficient to meet our working capital and fixed capital requirements for the next twelve months, including the repayment of the Notes. If our future financing needs increase, we may need to arrange additional debt or equity financing. Accordingly, we evaluate and consider from time to time various financing alternatives to supplement our financial resources. However, we cannot be assured that we will be able to make any such arrangements on acceptable terms.

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CONTRACTUAL OBLIGATIONS, COMMITMENTS AND OFF-BALANCE SHEET OBLIGATIONS

Our disclosures regarding contractual obligations and commercial commitments are located in various parts of our regulatory filings. Information in the following table provides a summary of our contractual obligations and commercial commitments as of September 30, 2017 (dollars in millions):

	Payments Due by Fiscal Year				
Contractual Obligations	Total	2018	2019-2020	2021-2022	2023 and thereafter
Short-Term Debt Obligations (1)	$291.7	$291.7	$ —	$ —	$ —
Capital Lease and Other Financing Obligations (2)	37.6	4.9	5.9	2.9	23.9
Operating Lease Obligations	36.6	9.4	16.1	6.0	5.1
Purchase Obligations (3)	492.9	480.0	12.5	0.2	0.2
Other Long-Term Liabilities on the Balance Sheet (4)	13.4	0.1	0.3	—	13.0
Other Long-Term Liabilities not on the Balance Sheet (5)	6.4	2.7	0.7	—	3.0
Other financing obligations (6)	31.7	1.5	3.2	3.3	23.7
Total Contractual Cash Obligations	$910.3	$790.3	$ 38.7	$ 12.4	$ 68.9

1) Includes $175.0 million in principal amount of Notes and amounts outstanding under the Credit Facility. As of September 30, 2017, the outstanding balance under the Credit Facility was $108.0 million. The amounts listed above include interest; see Note 4, "Debt, Capital Lease Obligations and Other Financing," in Notes to Consolidated Financial Statements for further information.

2) As of September 30, 2017, capital lease and other financing obligations consists of capital lease payments and interest as well as the non-cash financing obligation related to the failed sale-leaseback in Guadalajara, Mexico; see Note 4, "Debt, Capital Lease Obligations and Other Financing," in Notes to Consolidated Financial Statements for further information.

3) As of September 30, 2017, purchase obligations consist primarily of purchases of inventory and equipment in the ordinary course of business.

4) As of September 30, 2017, other long-term obligations on the balance sheet included deferred compensation obligations to certain of our former and current executive officers, as well as other key employees, and an asset retirement obligation. We have excluded from the above table the impact of approximately $3.1 million, as of September 30, 2017, related to unrecognized income tax benefits. The Company cannot make reliable estimates of the future cash flows by period related to these obligations.

5) As of September 30, 2017, other long-term obligations not on the balance sheet consisted of guarantees and a commitment for salary continuation and certain benefits in the event employment of one executive officer of the Company is terminated without cause. Excluded from the amounts disclosed are certain bonus and incentive compensation amounts, which would be paid on a prorated basis in the year of termination.

6) Includes future minimum lease payments under the 10-year base lease agreement in Guadalajara as well as two 5-year renewal options; see Note 4, "Debt, Capital Lease Obligations and Other Financing," in Notes to Consolidated Financial Statements for further information.

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DISCLOSURE ABOUT CRITICAL ACCOUNTING ESTIMATES

Our accounting policies are disclosed in Note 1 of Notes to Consolidated Financial Statements. During fiscal 2017, there were no material changes to these policies. Our more critical accounting estimates are described below:

Revenue Recognition: 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 or 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 are fulfilled. Net sales also include amounts billed to customers for shipping and handling. The corresponding shipping and handling costs are included in cost of sales.

Net sales from engineering design and development services, which are generally performed under contracts with a duration of twelve months or less, are typically recognized as program costs are incurred by utilizing the proportional performance model. The completed performance model is used if certain customer acceptance criteria exist. Any losses are recognized when anticipated.

Income Taxes: Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company does not currently provide for additional U.S. and foreign income taxes that would become payable upon the repatriation of undistributed earnings. The Company maintains valuation allowances when it is more likely than not that all or a portion of a deferred tax asset will not be realized. In determining whether a valuation allowance is required, the Company takes into account such factors as prior earnings history, expected future earnings, carryback and carryforward periods, and tax strategies that could potentially enhance the likelihood of the realization of a deferred tax asset.

Share-Based Compensation: Generally accepted accounting principles require all grants of share-based compensation to employees to be measured at fair value and expensed in the Consolidated Statements of Comprehensive Income over the service period (generally the vesting period) of the grant. We use the Black-Scholes valuation model to value stock options and the Monte Carlo valuation model to value performance stock units. See Note 9, "Benefit Plans," in Notes to Consolidated Financial Statements for further information.

Inventories: Inventories are valued at the lower of cost or market. Cost is determined by the first-in, first-out ("FIFO") method. Valuing inventories at the lower of cost or market requires the use of estimates and judgment. Customers may cancel their orders, change production quantities or delay production for a number of reasons that are beyond the Company’s control. Any of these, or certain additional actions, could impact the valuation of inventory. Any actions taken by the Company’s customers that could impact the value of its inventory are considered when determining the lower of cost or market valuations.

Impairment of Long-Lived Assets: Long-lived assets, including property, plant and equipment and intangible assets with finite lives are reviewed for impairment and written down to fair value when facts and circumstances indicate that the carrying value of long-lived assets or asset groups may not be recoverable through estimated future undiscounted cash flows. If an impairment has occurred, a write-down to estimated fair value is made and the impairment loss is recognized as a charge against current operations. The impairment analysis is based on management’s assumptions, including future revenue and cash flow projections. Circumstances that may lead to impairment of property, plant and equipment and intangible assets with finite lives include reduced expectations for future performance or industry demand and possible further restructurings, among others.

Allowance for Doubtful Accounts: Accounts receivable are reflected at net realizable value based on anticipated losses due to potentially uncollectible balances. Anticipated losses are based on management’s analysis of historical losses and changes in customers’ credit status.

Warranties: 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 and are included in the

Company's accompanying Consolidated Balance Sheets in "other current accrued liabilities." 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. See Note 12, "Guarantees," in Notes to Consolidated Financial Statements for further information.

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NEW ACCOUNTING PRONOUNCEMENTS

See Note 1, "Description of Business and Significant Accounting Policies," in Notes to Consolidated Financial Statements regarding recent accounting pronouncements.

ITEM 7A. 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. We do not use derivative financial instruments for speculative purposes.

Foreign Currency Risk

Our international operations create potential foreign exchange risk. Our policy is to selectively hedge our foreign currency denominated transactions in a manner that partially offsets the effects of changes in foreign currency exchange rates. We typically use 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 percentages of transactions denominated in currencies other than the U.S. dollar for the indicated fiscal years were as follows:

	2017	2016	2015
Net Sales	9%	8%	7%
Total Costs	14%	13%	12%

The Company has evaluated the potential foreign currency exchange rate risk on transactions denominated in currencies other than the U.S. dollar for the periods presented above. Based on the Company’s overall currency exposure, as of September 30, 2017, a 10.0% change in the value of the U.S. dollar relative to our other transactional currencies would not have a material effect on the Company’s financial position, results of operations, or cash flows.

Interest Rate Risk

We have financial instruments, including cash equivalents and debt, which are sensitive to changes in interest rates. 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 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.

As of September 30, 2017, our only material interest rate risk is associated with our Credit Facility. Borrowings under the Credit Facility bear interest, at the Company’s option, at a eurocurrency or base rate plus, in each case, an applicable interest rate margin based on the Company’s then-current leverage ratio (as defined in the Credit Agreement). As of September 30, 2017, the borrowing rate under the Credit Agreement was LIBOR plus 1.125% (or 2.358%). Borrowings under the Note Purchase Agreement are based on a fixed interest rate, thus mitigating much of our interest rate risk. Based on the Company’s overall interest rate exposure, as of September 30, 2017, a 10.0% change in interest rates would not have a material effect on the Company’s financial position, results of operations, or cash flows.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
PLEXUS CORP.
List of Financial Statements and Financial Statement Schedule
September 30, 2017

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NOTE: All other financial statement schedules are omitted because they are not applicable or the required information is included in the Consolidated Financial Statements or notes thereto.

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Report of Independent Registered Public Accounting Firm
To the Shareholders
and Board of Directors
of Plexus Corp.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Plexus Corp. and its subsidiaries as of September 30, 2017 and October 1, 2016, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2017 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Milwaukee, Wisconsin

November 17, 2017

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PLEXUS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
for the fiscal years ended September 30, 2017, October 1, 2016 and October 3, 2015
(in thousands, except per share data)

	2017	2016	2015
Net sales	$ 2,528,052	$2,556,004	$ 2,654,290
Cost of sales	2,272,197	2,328,645	2,414,740
Gross profit	255,855	227,359	239,550
Selling and administrative expenses	125,947	120,886	122,423
Restructuring and other charges	—	7,034	1,691
Operating income	129,908	99,439	115,436
Other income (expense):			
Interest expense	(13,578)	(14,635)	(13,964)
Interest income	5,042	4,242	3,499
Miscellaneous	451	(1,652)	1,324
Income before income taxes	121,823	87,394	106,295
Income tax expense	9,761	10,967	11,963
Net income	$ 112,062	$76,427	$ 94,332
Earnings per share:			
Basic	$ 3.33	$2.29	$ 2.81
Diluted	$ 3.24	$2.24	$ 2.74
Weighted average shares outstanding:			
Basic	33,612	33,374	33,618
Diluted	34,553	34,098	34,379
Comprehensive income:			
Net income	$ 112,062	$76,427	$ 94,332
Other comprehensive income (loss):			
Derivative instrument fair value adjustment	2,405	8,967	(11,223)
	4,155	(14,035)	(13,830)

Foreign currency translation adjustments							
Other comprehensive income (loss)		6,560	(5,068	)	(25,053	)	
Total comprehensive income	ttom:2px;padding-right:2px;"> 5/27/2018	—	—	—	—		
		4,312	12,938	—	18.48	5/21/2019	—
		—	—	13,350	29.55	5/24/2020	—
		—	—	—	—	—	23,1
William G. Kiesling		7,000	—	—	27.57	6/3/2015	—
		—	4,500	—	19.28	5/25/2017	—
		—	7,500	—	18.25	5/27/2018	—
		—	12,938	—	18.48	5/21/2019	—
		—	—	13,350	29.55	5/24/2020	—
		—	—	—	—	—	19,8
Christian A. Sorensen		—	1,500	—	19.28	5/25/2017	—
		3,500	3,500	—	18.25	5/27/2018	—
		—	7,050	—	18.48	5/21/2019	—
		—	—	6,200	29.55	5/24/2020	—
		—	—	—	—	—	9,75

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(1) Options unexercisable as of March 31, 2014 vest and become exercisable as follows, assuming no termination of employment occurs prior to the vesting dates indicated:

Name	Options Unexercisable at March 31, 2014	Vesting Schedule
Christopher J. Munyan	10,000	10,000 on May 25, 2014
	18,000	9,000 on each of May 27, 2014 and 2015
	28,650	9,550 on each of May 21, 2014, 2015 and 2016
Vincent A. Paccapaniccia	2,500	2,500 on May 25, 2014
	7,500	3,750 on each of May 27, 2014 and 2015
	12,938	4,313 on each of May 21, 2014 and 2016; 4,312 on May 21, 2015
William G. Kiesling	4,500	4,500 on May 25, 2014
	7,500	3,750 on each of May 27, 2014 and 2015
	12,938	4,313 on each of May 21, 2014 and 2016; 4,312 on May 21, 2015
Christian A. Sorensen	1,500	1,500 on May 25, 2014
	3,500	1,750 on each of May 27, 2014 and 2015
	7,050	2,350 on each of May 21, 2014, 2015 and 2016

(2) Options unearned and unexercisable at March 31, 2014 will not vest or become exercisable unless and until the applicable performance condition has been satisfied, except that vesting and exercisability are accelerated upon a change of control. As shown in the table below, the vesting dates will be determined by the date on which the performance condition becomes satisfied, if at all. Vesting is also conditioned upon satisfaction of service-based vesting conditions.

Date on which performance condition becomes satisfied	Vesting Schedule
On or before May 24, 2014	25% on each of May 24, 2014, 2015, 2016 and 2017
May 25, 2014 to May 24, 2015	33 1/3% on each of May 24, 2015, 2016 and 2017
May 25, 2015 to May 24, 2016	50% on each of May 24, 2016 and 2017
May 25, 2016 to May 24, 2017	100% on May 24, 2017
If not satisfied by May 27, 2017	All options will expire without vesting or becoming exercisable, except that vesting and exercisability are accelerated upon a change of control.

(3) Reflects shares underlying earned RSUs outstanding under our 2004 Stock Plan. The vesting and redemption dates are shown in the table below. Vesting is subject to the satisfaction of service-based vesting conditions. Vested RSUs will automatically be converted into an equivalent number of shares of CSS common stock on the indicated redemption dates.

Vesting Date	Redemption Date	Number of Shares			
		C.J. Munyan	V.A. Paccapaniccia	W.G. Kiesling	C.A. Sorensen
May 25, 2014	May 25, 2014	9,000	2,500	4,250	1,250
May 27, 2014	May 27, 2015	9,000	4,250	4,250	2,250
May 21, 2015	May 21, 2016	8,050	3,550	3,550	2,000
May 25, 2015	May 25, 2015	—	5,000	—	—
May 27, 2015	May 27, 2015	9,000	4,250	4,250	2,250
May 21, 2016	May 21, 2016	8,050	3,550	3,550	2,000
Total		43,100	23,100	19,850	9,750

(4) Market value determined by multiplying the number of shares underlying earned RSUs outstanding and not vested as of March 31, 2014 by $27.00, the closing market price per share of CSS common stock of on March 31, 2014.

(5) This column reflects shares underlying performance-based RSUs that were unearned as of March 31, 2014. Such RSUs will not vest or be redeemed unless and until the applicable performance condition has been satisfied, except that vesting and redemption are accelerated upon a change of control. As shown in the table below, the vesting dates will be determined by the date on which the performance condition becomes satisfied, if at all. RSUs that become vested will be automatically converted into an equivalent number of shares of CSS common stock on May 24, 2017.

Date on which performance condition becomes satisfied	Vesting Date	Number of Shares Underlying RSUs			
		C.J. Munyan	V.A. Paccapaniccia	W.G. Kiesling	C.A. Sorensen
On or before May 24, 2016	May 24, 2016	4,000	2,000	2,000	800
	May 24, 2017	4,000	2,000	2,000	800
May 25, 2016 to May 24, 2017	May 24, 2017	8,000	4,000	4,000	1,600
If not satisfied by May 27, 2017	n/a	All RSUs will expire without becoming vested or redeemed if the performance condition is not satisfied on or before May 17, 2017, except that vesting and redemption are accelerated upon a change of control.			

(6) Market value determined by multiplying the number of shares underlying unearned RSUs outstanding by the closing market price of CSS common stock of $27.00 per share on March 31, 2014.

Option Exercises and Stock Vested — Fiscal 2014

The following table provides information regarding stock options exercised by our named executives during fiscal 2014 and shares of CSS common stock acquired by our named executives during fiscal 2014 upon the vesting of RSUs.

Name	Option awards		Stock awards	
	Number of shares acquired on exercise (#)	Value realized on exercise[1] ($)	Number of shares acquired on vesting (#)	Value realized on vesting[2] ($)
Christopher J. Munyan	84,535	838,499	15,525	456,590
Vincent A. Paccapaniccia	—	—	2,500	73,525
William G. Kiesling	37,492	378,040	7,513	220,958
Christian A. Sorensen	8,500	77,300	2,300	66,314
Laurie F. Gilner	11,750	151,064	3,750	96,488

(1) Value determined by multiplying the number of shares acquired upon exercise by the difference between the closing market price for a share of CSS common stock on the last trading day prior to the exercise date and the exercise price per share.

(2) Value determined by multiplying the number of shares underlying RSUs that vested by the closing market price for a share of CSS common stock on the last trading day prior to the vesting date.

Nonqualified Deferred Compensation — Fiscal 2014

We maintain a SERP that provides benefits for executives to the extent that their compensation cannot be taken into account when we make profit sharing contributions under our tax-qualified 401(k) and profit sharing plans. Annual compensation in excess of a limit imposed under Section 401(a)(17)(A) of the Code (the “Contribution Limit”) must be disregarded for purposes of such profit sharing contributions. The Contribution Limit is $260,000 for 2014 and was $255,000 for 2013.

Under the SERP, if we make a profit sharing contribution under our tax qualified plans, we will also credit an executive's account under the SERP if the executive's compensation for the applicable plan year exceeds the then-applicable Contribution Limit. The amount of the credit is equal to a defined percentage (the "SERP Contribution Percentage Amount") of the amount

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by which the executive's compensation exceeds the Contribution Limit. Determined by formula, the SERP Contribution Percentage Amount is equal to or less than two times the percentage amount used to determine the corresponding profit sharing contribution under our tax qualified plans.

Additionally, irrespective of whether a profit sharing contribution is made under a tax-qualified plan for a particular plan year, the Human Resources Committee has discretionary authority under the SERP to credit an executive's account under the SERP for such plan year ("Discretionary Contributions"). Discretionary Contributions, if made, are equal to a percentage amount determined by the Human Resources Committee multiplied by the amount by which the executive's compensation exceeds the Contribution Limit for the applicable plan year.

Participant accounts under the SERP are adjusted by the investment performance of investment benchmarks selected by the participant. Participants may select from one of four notional investments. SERP participants may change their selected investment benchmarks with whatever frequency may be determined by the Human Resources Committee. Listed below are the four available alternatives on which the notional investments are based and the rate of return for each investment alternative for the 12 months ended March 31, 2014:

Investment benchmark	Rate of return	
Vanguard Prime Money Market Investor Shares	0.02	%
Vanguard Total Stock Market Index Investor Shares	22.54	%
Vanguard Life Strategy Growth Fund	15.47	%
Vanguard Life Strategy Moderate Growth Fund	11.44	%

Amounts credited to participant accounts under the SERP represent an unsecured debt of CSS or of a subsidiary of CSS participating in the SERP. Discretionary Contributions become fully vested upon the making of such contributions. All other amounts credited to the account of a participant and the earnings thereon vest incrementally beginning upon a participant's completion of two years of service with us, and become fully vested upon completion of six years of service with us. Vesting is accelerated if a participant reaches age 65 or upon the participant's death or disability. Generally, vested balances under the SERP become payable in a lump sum within 60 days following termination of a participant's employment with CSS and its affiliates. If the participant is a "specified employee" under Section 409A of the Code, vested balances will be distributed within 60 days after the beginning of the seventh month following such participant's termination of employment.

The table that follows provides information with respect to the accounts that we maintain under the SERP for executive officers shown in the Summary Compensation Table. Messrs. Paccapaniccia and Sorensen and Ms. Gilner do not participate in the SERP because the Company has not made contributions to the SERP at a time when they were eligible for such contributions. During fiscal 2014, there were no executive or Company contributions to accounts maintained under the SERP, and there were no withdrawals by or distributions to any of our named executives during that period. Other than the SERP, we do not maintain any plans that provide for the deferral of compensation on a non-tax-qualified basis.

Name	Aggregate earnings in last FY(1) ($)	Aggregate balance at last FYE(2) ($)
Christopher J. Munyan	33,559	224,671
William G. Kiesling	3,206	17,435
Jack Farber	68,576	511,855

(1) The amounts reported under "Aggregate earnings in last FY" are also reported in the Summary Compensation Table under "Change in pension value and nonqualified deferred compensation earnings."

(2) All amounts in this column were fully vested as of March 31, 2014. The amounts in this column are inclusive of the following amounts disclosed as compensation in our Summary Compensation Tables for previous years: Mr. Munyan – $159,853, Mr. Kiesling – $18,177, and Mr. Farber – $355,393.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

In this section, we describe payments and benefits that would be provided to our named executive officers upon several events of termination or upon a change of control, assuming that the relevant event occurred on March 31, 2014 (except as otherwise noted). The information in this section does not include:

- benefits generally provided to all salaried employees;
- provisions under our 2013 Stock Plan and 2004 Stock Plan allowing an option holder to exercise within 90 or 180 days after his or her last day of employment those stock options that were exercisable as of his or her last day of employment, other than in the case of termination for cause or voluntary resignation; and
- benefits that would be provided upon death under supplemental life insurance policies paid for by CSS for the benefit of our named executive officers.

With respect to supplemental life insurance policies purchased for the benefit of our named executive officers, premiums paid by CSS for such policies are included in the amounts shown in the “All other compensation” column of the Summary Compensation Table.

Severance Agreements

Under our employment agreements with Messrs. Munyan, Paccapaniccia and Farber, as described under Employment Agreements, we will provide severance payments and/or medical benefits to the relevant executive if we terminate his or her employment other than for cause, on or before a specified date (referred to as a “triggering event”), as indicated below:

Name	Specified Date
Christopher J. Munyan	(a) the then-current expiration date of the employment agreement, or (b) following expiration thereof, but only if the agreement expires due to the sending of a non-renewal notice by CSS
Vincent A. Paccapaniccia	March 31, 2015
Jack Farber	July 31, 2015

In the case of Mr. Farber, the foregoing triggering event includes a termination of his employment resulting from him not being re-elected by our stockholders as a member of our Board. Additionally, under our agreement with Mr. Farber, a triggering event will occur if he ceases to be employed by us as chairman of our Board.

If a triggering event occurs, each executive would receive severance payments, consisting of a continuation of salary payments, at the executive’s then current annual base salary for a period of two years in the case of Mr. Munyan, and one year in the case of the other executives. Such payments would be made in equal installments in accordance with our normal payroll cycle for active employees, and commencement of such payments will be delayed as necessary to avoid adverse consequences under Section 409A of the Code. All severance payments will be reduced by any applicable tax withholdings and payroll deductions. In the case of Mr. Munyan, amounts payable following the one-year anniversary of his termination date will be reduced by and to the extent of any earnings and other compensation received by him or accrued for his benefit for his services during the period following such one-year anniversary date.

Under our agreement with Mr. Munyan, we would also provide certain medical benefits if a triggering event occurs. Specifically, we would pay a portion of the premiums for his participation in the CSS-sponsored medical insurance program (on the same basis that we then pay a portion of the premiums for our active employees) for any period of time that he continues to participate in such program pursuant to his rights under the Consolidated Omnibus Budget Reconciliation Act (“COBRA”). The maximum continuation period under COBRA is 18 months.

Under our agreement with Mr. Farber, we would provide Mr. Farber and his spouse with certain medical benefits if a triggering event occurs, and we would provide such medical benefits to Mr. Farber’s spouse if his employment with us is terminated on account of his death. Specifically, we would reimburse Mr. Farber and his spouse, during their respective lifetimes, for the amount paid by them for their medical insurance coverage following the occurrence of a triggering event, with each such reimbursement payment being reduced by the amount

that Mr. Farber would have had to pay for such coverage if he was still employed by us at the time. Additionally, we would reimburse Mr. Farber and his spouse for the taxes they incur on the medical insurance reimbursement payments that we provide.

Under the aforementioned agreements, our obligation to provide severance payments, and where applicable medical benefits, is conditioned upon the executive's execution and delivery of a release of claims in favor of CSS and its affiliates.

In December 2013, we entered into a separation agreement with Ms. Gilner in connection with her separation from employment with C.R. Gibson on December 2, 2013. Prior to that, Ms. Gilner served as President of our C.R. Gibson business. Under the separation agreement, we provide Ms. Gilner with severance, medical and certain other benefits. Severance benefits consist of a continuation of salary payments to Ms. Gilner. The aggregate amount of these payments is $338,130, equivalent to one year of pay at Ms. Gilner's fiscal 2014 annual base salary level, and such amount is payable in equal installments over one year in accordance with C.R. Gibson's normal payroll cycle for active employees. These payments are reduced by any applicable tax withholdings and payroll deductions. C.R. Gibson reimburses Ms. Gilner for a portion of the medical insurance premiums she pays for her post-employment participation in the Company's medical insurance program, for up to twelve months. The reimbursements are paid on the same basis that C.R. Gibson pays a portion of the medical insurance premiums for its active employees participating in the program. C.R. Gibson also provides reimbursement to Ms. Gilner for the income and payroll taxes incurred by her on the foregoing medical benefits. Additionally, under the separation agreement, C.R. Gibson paid $6,000 to Ms. Gilner in lieu of providing outplacement services, and C.R. Gibson provides Ms. Gilner with a car allowance of $1,000 per month for twelve months. As required as a condition to receiving benefits under the separation agreement, Ms. Gilner executed and delivered a release of claims in favor of C.R. Gibson and its affiliates.

Severance Pay Plan for Senior Management ("SPP")

Members of the senior management of CSS and its subsidiaries may be eligible to receive severance payments and medical benefits under the SPP. Under the SPP, an eligible executive may receive severance payments and medical benefits if his or her employment is terminated by CSS or a CSS subsidiary that participates in the SPP (CSS and such participating subsidiaries are each referred to in this discussion as an "Employer") unless such termination is "for cause" or due to the death or disability of the executive.

Under the SPP, any of the following may be a basis for termination "for cause": violation of the Employer's policies; insubordination; abuse of other employees; theft; dishonesty; criminal acts; willful neglect of job responsibilities; significantly deficient job performance that reflects a willful failure to follow the Employer's communications regarding a required performance improvement; committing acts detrimental to the Employer, its affiliates, its employees or its customers; or engaging in a business or activity which is the same as, similar to, or competitive with that engaged in or developed for later implementation by the Employer.

Additionally, the SPP provides that unless otherwise determined by the Human Resources Committee, an executive would not be eligible to receive severance payments or medical benefits if: the executive voluntarily resigns or retires; the Employer discovers following the executive's last date of employment that the executive engaged in conduct during or after the executive's period of employment that would support termination for cause; the executive's employment is terminated after the executive was offered and refused to accept a comparable job (as defined in the SPP); or the executive qualifies for severance pay under an individual employment contract that exceeds the severance pay available to the executive under the SPP.

Under the SPP, if an eligible executive's employment is terminated other than for cause or due to his or her death or disability, in the absence of any contrary determination by the Human Resources Committee, the executive will be eligible to receive severance payments based on his or her years of continuous service with CSS or any other Employer, in accordance with the following formula:

Years of continuous service	Number of weeks of severance pay
0 up to 2 years	26
Over 2 years up to 5 years	39
Over 5 years	52 (the maximum allowance)

All severance payments under the SPP are paid in installments over the period of time reflected in the table above and according to the Employer's normal payroll schedule. In order to receive severance payments under the SPP, an executive must execute and deliver a release of claims in favor of CSS and its affiliates. Severance payments under the SPP are determined based on the executive's weekly rate of salary in effect on his or her last date of employment. Severance payments under the SPP are reduced by all applicable federal, state and local tax withholding requirements. Medical benefits under the SPP are available to an executive who both qualifies for severance payments under the SPP and elects health care continuation coverage under COBRA. Medical benefits under the SPP consist of reimbursement for up to 12 months of medical insurance premiums (less normal employee premium contributions) paid by the executive for post-employment participation in company-sponsored medical insurance programs. The SPP also provides a tax reimbursement payment equal to the income and payroll taxes the executive incurs solely with respect to such medical insurance premium reimbursements.

Except as otherwise noted below, the following table shows the amount of severance payments and medical benefits that would have been provided to each named executive officer if: that executive's employment had been terminated (other than for cause or due to death or disability) on March 31, 2014, the executive otherwise satisfied all conditions precedent to the receipt of severance payments and medical benefits and, in the case of benefits provided under the SPP, the Human Resources Committee did not make a determination to increase or reduce the benefits otherwise provided for in the SPP. Ms. Gilner does not appear in the table below because her employment with us terminated on December 2, 2013 (and she therefore was not an employee on March 31, 2014). In connection with the termination of Ms. Gilner's employment we entered into a separation agreement with her under which we provide certain severance and other benefits, as described under Severance Agreements.

Name	Severance payments ($)	Medical benefits ($)	Estimated tax reimbursements on medical benefits ($)
Christopher J. Munyan[(1)]	1,180,146	30,942	22,673
Vincent A. Paccapaniccia[(2)]	354,781	—	—
William G. Kiesling[(3)]	346,489	20,628	12,551
Christian A. Sorensen[(4)]	260,230	20,328	13,116
Jack Farber[(5)]	400,000	20,484	13,547

(1) Reflects aggregate severance payments and medical benefits that would have been provided to Mr. Munyan in installments over the course of 24 months (18 months with respect to medical benefits) under his employment agreement, assuming that Mr. Munyan would not receive, or have accrued for his benefit, any earnings or compensation for his services as an employee or independent contractor during the period from April 1, 2015 to March 31, 2016. The severance payments otherwise payable during such period would be reduced by and to the extent of any such earnings or compensation. The conditions applicable to such severance payments and the timing for such payments are described under Severance Agreements. Because his employment agreement provides for severance pay in excess of the severance pay that would otherwise be provided under the SPP, Mr. Munyan would not have received severance payments or medical benefits under the SPP.

(2) Reflects aggregate severance payments that would have been provided to Mr. Paccapaniccia in installments over the course of 12 months under his employment agreement. The conditions applicable to such severance payments and the timing for such payments are described under Severance Agreements. Because his employment agreement provides for severance pay in excess of the severance pay that would otherwise be provided under the SPP, Mr. Paccapaniccia would not have received severance payments or medical benefits under the SPP.

(3) Reflects aggregate severance payments, medical benefits and tax reimbursement payments that would have been provided to Mr. Kiesling in installments over the course of 12 months under the SPP.

(4) Reflects aggregate severance payments, medical benefits and tax reimbursement payments that would have been provided to Mr. Sorensen in installments over the course of 12 months under the SPP.

(5) Reflects aggregate severance payments and estimated annual medical benefits and tax reimbursement payments that would have been provided to Mr. Farber under his employment agreement. The severance payments would be paid in installments over the course of 12 months. The medical benefits and tax reimbursement payments would be provided to Mr. Farber and his spouse for their respective lifetimes. The amounts shown in the table reflect the estimated annual costs of providing such benefits based on current medical insurance premium costs.

Change of Control

Change of Control Severance Pay Plan for Executive Management

Our named executive officers, other than Mr. Farber and Ms. Gilner, may be eligible to receive benefits under our COC Plan. Under the COC Plan, eligible executives may receive severance pay and medical benefits if: (a) a change of control occurs, and (b) upon or within two years after the change of control event, (i) the executive's employment is terminated for any reason other than "for cause," or (ii) the executive terminates his or her employment for "good reason." Under the COC Plan:

- A "change of control" occurs upon: the sale or other disposition of all or substantially all of the assets of CSS; a merger or consolidation of CSS with another corporation where the stockholders of CSS, immediately prior to such transaction, do not beneficially own, immediately after such transaction, shares having more than 50% of the voting power for the election of directors; or the possession by any person of more than 50% of the voting power of CSS' outstanding securities, other than as a result of: (i) the death of a stockholder, or (ii) a transaction in which CSS becomes a subsidiary of another corporation in which the stockholders of CSS immediately prior to the transaction, hold, immediately after the transaction, more than 50% of the voting power to elect the directors of such other corporation.
- The following constitute grounds for termination "for cause": (i) conviction of a felony; (ii) willful and gross neglect of job responsibilities; (iii) willful misconduct in connection with performing job responsibilities resulting in material damage to CSS; or (iv) willful failure to substantially perform duties (not due to physical or mental illness).
- An executive may terminate his or her employment for "good reason" based upon the occurrence of any of the following upon, or within two years after, a change of control event: (i) material diminution of authority, duties, responsibilities or base compensation of the executive or the supervisor to whom the executive is required to report; or (ii) material change in the geographic location at which the executive must provide services.

An executive may receive benefits under the COC Plan only if the conditions described above are satisfied, and the executive signs and delivers a release of claims that includes non-competition and non-solicitation covenants. An executive is not eligible to receive benefits under the COC Plan if: (i) he or she has an employment contract providing for severance payments in excess of those that he or she would be eligible to receive under the COC Plan, or (ii) he or she elects to receive severance benefits under another severance pay plan.

Severance pay available under the COC Plan is equal to: (a) a multiple of the executive's "adjusted compensation" plus (b) a pro-rata portion (based on the executive's period of employment during the fiscal year in which his or her employment terminates) of the incentive compensation that the executive would have earned at the "target" opportunity level under our bonus program for the fiscal year in which the executive's employment terminates. An executive's adjusted compensation is equal to the executive's annual base salary as of his or her last date of employment, plus his or her average annual bonus during the three fiscal years prior to the fiscal year in which the executive's employment terminates. Severance payments available under the COC Plan are equal to two times adjusted compensation for our chief executive officer and 1.5 times adjusted compensation for all other executives eligible to receive benefits under the COC Plan. Under the COC Plan, severance pay will be paid in a cash lump sum payment within sixty days after an executive's qualifying termination event, except that severance pay will be delayed as necessary to avoid adverse consequences under Section 409A of the Code.

Medical benefits are available under the COC Plan if an executive entitled to receive severance pay under the COC Plan elects health care continuation coverage under COBRA. Available medical benefits consist of reimbursement for a period of up to 18 months of a portion of the monthly COBRA premiums paid by him or

her, and a tax reimbursement payment equal to the income and payroll taxes he or she incurs solely with respect to such COBRA premium reimbursements. Monthly COBRA premiums are reimbursed on the same basis that we then pay a portion of the insurance premiums for active employees participating in our medical insurance programs. Reimbursements related to COBRA premiums and the tax reimbursement payments thereon will be paid on a monthly basis under the COC Plan.

Change of Control Provisions under the 2004 Stock Plan

All of the stock options and RSUs held by our named executives as of March 31, 2014 were granted under the 2004 Stock Plan. These awards are summarized under Outstanding Equity Awards at Fiscal Year End — March 31, 2014. Stock options and RSUs granted to our named executives prior to 2011 are subject to service-based vesting conditions, and those granted in 2011 and subsequent years are subject to both service- and performance-based vesting conditions. Upon the occurrence of a change of control event specified in the 2004 Stock Plan, performance-based stock options become exercisable automatically, and those subject only to service-based conditions become exercisable unless the Human Resources Committee determines otherwise. Similarly, upon the occurrence of a change of control event specified in the 2004 Stock Plan, all restrictions and conditions on performance-based RSUs lapse automatically, while those applicable to service-based RSUs lapse unless the Human Resources Committee determines otherwise.

Events constituting a change of control under the 2004 Stock Plan are generally as follows: the sale or other disposition of all or substantially all of the assets of CSS; the dissolution or liquidation of CSS; a merger or consolidation of CSS with another corporation where the stockholders of CSS, immediately prior to such transaction, will not beneficially own, immediately after such transaction, shares having more than 50% of the voting power for the election of directors; or the possession by any person that was not a CSS stockholder on August 4, 2004, the effective date of the 2004 Stock Plan, of more than 50% of the voting power of CSS' outstanding securities, other than as a result of: (i) the death of a stockholder, or (ii) a transaction in which CSS becomes a subsidiary of another corporation in which the stockholders of CSS immediately prior to the transaction, hold, immediately after the transaction, more than 50% of the voting power to elect the directors of such other corporation.

Summary of Payments and Benefits in Connection with a Change of Control

The table that follows shows the following with regard to each of our named executives as of March 31, 2014: (a) the severance pay, medical benefits and tax reimbursement payments that the executive would be entitled to receive if the executive's employment was terminated on such date under circumstances qualifying the executive to receive benefits under the COC Plan; (b) the value associated with the executive's otherwise unexercisable stock options becoming exercisable based on the occurrence on such date of an event constituting a change of control under the 2004 Stock Plan; and (c) the value associated with the lapsing of restrictions on the executive's outstanding stock bonus awards of restricted stock units based on the occurrence on such date of an event constituting a change of control under the 2004 Stock Plan. Mr. Farber does not appear in the table because he does not participate in the COC Plan, nor does he hold equity awards under the Company's equity compensation plans. Ms. Gilner does not appear in the table below because she was not an employee on March 31, 2014, nor did she hold equity awards as of such date under the Company's equity compensation plans. Therefore, she would not be eligible for benefits in connection with a change of control taking place on March 31, 2014.

	COC Plan			COC Provisions of 2004 Stock Plan	
Name	Severance pay ($)	Medical benefits ($)	Estimated tax reimbursements on medical benefits ($)	Value of stock options that would become exercisable on a COC[1] ($)	Value of RSUs as to which restrictions would lapse on a COC[2] ($)
Christopher J. Munyan	2,332,389	30,942	22,673	478,798	1,379,700
Vincent A. Paccapaniccia	1,032,575	30,942	23,831	195,157	731,700
William G. Kiesling	1,005,927	30,942	18,827	210,597	643,950
Christian A. Sorensen	669,302	30,492	19,675	102,271	306,450

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(1) Reflects the number of shares of CSS common stock underlying options that would become exercisable multiplied by the difference between the closing market price of CSS common stock on March 31, 2014 of $27.00 per share and the stock option exercise price.

(2) Reflects the number of shares underlying RSUs as to which restrictions would lapse multiplied by closing market price of CSS common stock on March 31, 2014 of $27.00 per share.

Nonqualified Supplemental Executive Retirement Plan

Vested account balances under the SERP generally are payable within 60 days following a participant's last date of employment with CSS and its subsidiaries, except that payment will be delayed as necessary to avoid adverse consequences under Section 409A of the Code. If any such executive's employment with CSS and its subsidiaries had terminated on March 31, 2014 for any reason, that executive's vested balance under the SERP would become payable to the executive within 60 days after the executive's last day of employment, except that payment would be delayed as necessary to avoid adverse consequences under Section 409A of the Code. Each named executive's vested account balance under the SERP as of March 31, 2014 appears under Nonqualified Deferred Compensation — Fiscal 2014.

PROPOSAL 3 — ADVISORY VOTE ON EXECUTIVE COMPENSATION

At the Meeting, our stockholders will vote, on an advisory basis, on whether to approve the compensation paid to our named executive officers for our fiscal year ended March 31, 2014, as described in this proxy statement pursuant to the requirements of Item 402 of Regulation S-K. Pertinent information on the compensation paid to our named executive officers for fiscal 2014 can be found in the compensation tables, the narrative information accompanying those tables and in the Compensation Discussion and Analysis included in this proxy statement. Below is the resolution that will be presented to our stockholders for a vote at the Meeting:

"RESOLVED, that the stockholders of the Company approve, on an advisory basis, the compensation paid to the Company's named executive officers for the fiscal year ended March 31, 2014, as disclosed in this proxy statement pursuant to the requirements of Item 402 of Regulation S-K, including the compensation tables, the narrative information accompanying those tables and the Compensation Discussion and Analysis."

Although this vote is advisory and non-binding, the Human Resources Committee of our Board values the input of our stockholders on our executive compensation program and intends to consider the results of the vote on this proposal in making future executive compensation determinations.

As discussed in the Compensation Discussion and Analysis, the Human Resources Committee of our Board has designed our executive compensation program to address multiple objectives: providing compensation that is appropriately competitive to attract and retain executive talent; incentivizing the achievement of performance goals; encouraging the aggregation and maintenance of equity ownership; and aligning executive and stockholder interests. Our Board and the Human Resources Committee of our Board believe that the Company's executive compensation program for fiscal 2014 was appropriately designed to address these objectives.

Our Board recommends a vote "for" approval, on an advisory basis, of the compensation paid to our named executive officers in fiscal 2014, as disclosed in this proxy statement.

DIRECTOR COMPENSATION — FISCAL 2014

Currently, each of our directors who is not a full time employee of CSS or its subsidiaries receives an annual cash fee of $37,500, as well as $1,500 in cash for attendance at each Board and Board Committee meeting, except that the fee for participation in Board or Board Committee meetings held telephonically and of not more than one hour in duration is $750 in cash. In addition, the Chairs of the Human Resources Committee and the Nominating and Governance Committee each receive an additional annual cash fee of $8,000, and the Chair of the Audit Committee receives an additional annual cash fee of $15,000.

Furthermore, each non-employee director is a participant in the 2011 Stock Plan. The 2011 Stock Plan provides for the automatic grant to each non-employee director, on the last day on which our common stock is traded in each November from 2011 through 2015, of nonqualified stock options to purchase 4,000 shares of CSS common stock at an exercise price per share equal to the closing price per share of CSS common stock on the date the stock options are granted. Accordingly, on November 29, 2013 (the last trading day of November 2013), each non-employee director received an automatic grant of stock options to purchase 4,000 shares of CSS common stock at an exercise price of $31.14 per share. Twenty-five percent of the shares underlying each stock option grant become exercisable on each of the first four anniversaries of the date of grant. These installments are cumulative and exercisable during the remainder of the term of the option, which expires five years after the grant date.

The table below provides information regarding the compensation paid to each member of our Board, other than members who are also executive officers of CSS, for the fiscal year ended March 31, 2014.

Name	Fees earned or paid in cash ($)	Option awards[1] ($)	Total ($)
Scott A. Beaumont	51,500	47,080	98,580
James H. Bromley	52,417	47,080	99,497
Robert E. Chappell	60,040	47,080	107,120
Elam M. Hitchner, III[2]	47,208	47,080	94,288
Rebecca C. Matthias	58,750	47,080	105,830

(1) Reflects the grant date fair value, computed in accordance with FASB ASC Topic 718, for stock options granted to our non-employee directors under the 2011 Stock Plan on November 29, 2013. On that date, each director was granted an option to purchase 4,000 shares of CSS common stock at an exercise price of $31.14 per share. The grant date fair value of these awards was $11.77 per underlying share. Assumptions used to determine the grant date fair value are set forth in Note 7 to our consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2014.

(2) Mr. Hitchner joined the Board on May 21, 2013.

As of March 31, 2014, the aggregate number of shares of CSS common stock underlying outstanding stock options held by the directors listed in the table above was as follows:

Director	Shares underlying outstanding options (#)
Scott A. Beaumont	24,500
James H. Bromley	32,000
Robert E. Chappell	8,000
Elam M. Hitchner, III	4,000
Rebecca C. Matthias	32,000

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our officers and directors and beneficial owners of more than ten percent of our common stock to file reports of ownership of our securities and changes in ownership with the SEC. Based on our review of Section 16(a) filings, we believe that all filings required to be made during the fiscal year ended March 31, 2014 were made on a timely basis.

STOCKHOLDER PROPOSALS

In order for a stockholder proposal to be eligible for inclusion in the proxy materials for our 2015 Annual Meeting of Stockholders, such proposal must be received by our Corporate Secretary on or before the close of business on February 19, 2015.

If a stockholder does not seek to have a proposal included in such proxy materials, but nevertheless wishes to present a proper proposal at the 2015 Annual Meeting of Stockholders, prior written notice of such proposal, together with the additional information required by our bylaws, must be received by our Corporate Secretary during the period beginning on March 31, 2015 and ending at the close of business on April 30, 2015.

If a stockholder desires to nominate an individual for election to our Board at the 2015 Annual Meeting of Stockholders, prior written notice of such nomination, together with the additional information required by our bylaws, must be received by our Corporate Secretary during the period beginning on March 31, 2015 and ending at the close of business on April 30, 2015.

Any such proposal or notice should be addressed to CSS Industries, Inc., Attn: Corporate Secretary, 1845 Walnut Street, Suite 800, Philadelphia, PA 19103. A stockholder can obtain a copy of our bylaws by submitting a written request to the attention of our Corporate Secretary at the same address.

BY ORDER OF THE BOARD OF DIRECTORS
CSS INDUSTRIES, INC.

By: Michael A. Santivasci,
Secretary
Philadelphia, Pennsylvania
June 19, 2014

CSS will provide to each person solicited, without charge except for exhibits, upon written request, a copy of its Annual Report on Form 10-K, including the consolidated financial statements and financial statement schedule, as filed with the SEC for the fiscal year ended March 31, 2014. Requests should be directed to CSS Industries, Inc., Attention: Corporate Secretary, 1845 Walnut Street, Suite 800, Philadelphia, Pennsylvania, 19103.

DIRECTIONS TO THE RITTENHOUSE

From Philadelphia International Airport:
Exit airport following signs for 76 West. Follow signs for 76 West and follow to the 30th Street exit. At top of ramp turn right onto Chestnut and follow to 19th St. Turn right onto 19th St. to Walnut Street. Turn right onto Walnut and take an immediate left onto West Rittenhouse Sq. The Rittenhouse is on the right.

From Baltimore, Washington and Points South:
Take 1-95 North past the Philadelphia International Airport. Follow the signs for 76 West. Take 76 West to the 30th Street Exit. Make a right at first traffic signal (Chestnut Street) and follow Chestnut Street to 19th Street. Make a right onto 19th Street and follow 19th Street to Walnut Street (Rittenhouse Park will be directly ahead of you). Make a right onto Walnut Street, then an immediate left onto W. Rittenhouse Square. The Rittenhouse will be on your right, immediately adjacent to Holy Trinity Church.

From Southern New Jersey and Atlantic City (via The Walt Whitman Bridge):
Take the Atlantic City Expressway to Route 42 North, then to 76 West. Follow the signs for the Walt Whitman Bridge. Cross over the bridge and follow signs for 76 West to the 30th Street Station Exit. Upon exiting make a right onto Chestnut Street and follow Chestnut Street to 19th Street. Make a right onto 19th Street and follow 19th Street to Walnut Street (Rittenhouse Park will be directly ahead of you). Make a right onto Walnut Street then an immediate left onto W. Rittenhouse Square. The Rittenhouse will be on your right side immediately adjacent to Holy Trinity Church.

From Harrisburg, Hershey, Lancaster PA/Expressway:
Take the PA Turnpike East, to exit 24, Valley Forge. Take 76 East to the 30th Street Station exit. Go around the station. Turn left onto Market Street. Turn right onto 19th Street. Turn right onto Walnut Street, making an immediate left onto West Rittenhouse. The Rittenhouse driveway is on the right.

From New York, New Jersey and Points North Via New Jersey Turnpike:
Take the New Jersey Turnpike South to Exit 4, following signs for Philadelphia and the Ben Franklin Bridge. Take 73 North, Exactly 1.4 miles, exit for Route 38 West. Take 38 West for 5.2 Miles. Follow 38 West right onto Route 30 West. Follow signs for Ben Franklin Bridge. Follow onto Vine Street/Local traffic lane. Turn left onto 19th Street. Turn right onto Walnut Street, making an immediate left onto West Rittenhouse. The Rittenhouse driveway is on the right.

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THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF CSS INDUSTRIES, INC.

The undersigned hereby appoints Scott A. Beaumont, Robert E. Chappell and Rebecca C. Matthias, and each of them acting singly, proxies of the undersigned stockholder with full power of substitution to each of them, to vote all shares of Common Stock of CSS Industries, Inc. (the "Company") which the undersigned would be entitled to vote if personally present at the Annual Meeting of Stockholders of the Company to be held at The Rittenhouse, 210 West Rittenhouse Square, Philadelphia, PA 19103, on Tuesday, July 29, 2014, at 9:30 a.m. (local time) and any adjournments thereof.

This Proxy, when properly executed, will be voted in the manner directed by the undersigned stockholder with respect to the Election of Directors and with respect to each of the other Proposals. This Proxy will be voted in the discretion of the holders of this Proxy upon such other matters as may properly come before the annual meeting or any adjournments thereof. If directions are not provided by the undersigned stockholder, this Proxy will be voted as recommended by the Board of Directors with respect to each Proposal.

THIS PROXY IS CONTINUED ON THE REVERSE SIDE. PLEASE SIGN AND DATE THIS PROXY ON THE REVERSE SIDE AND RETURN IT PROMPTLY IN THE ENCLOSED ENVELOPE.

(Continued and to be signed on the reverse side)

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ANNUAL MEETING OF STOCKHOLDERS OF
CSS INDUSTRIES, INC.

July 29, 2014

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON JULY 29, 2014:
The notice, proxy statement and annual report are available at https://materials.proxyvote.com/125906

Please sign, date and mail your proxy card in the envelope provided as soon as possible.

â Please detach along perforated line and mail in the envelope provided. â

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PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE x

1. Election of Directors:

			NOMINEES:
¨	FOR ALL NOMINEES	¡	Scott A. Beaumont
		¡	James H. Bromley
¨	WITHHOLD AUTHORITY FOR ALL NOMINEES	¡	Robert E. Chappell
		¡	Jack Farber
¨	FOR ALL EXCEPT (See instructions below)	¡	Elam M. Hitchner, III
		¡	Rebecca C. Matthias
		¡	Christopher J. Munyan

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR ALL NOMINEES".

INSTRUCTIONS: To withhold authority to vote for any individual nominee(s), mark "FOR ALL EXCEPT" and fill in the circle next to each nominee you wish to withhold, as shown here: l

	FOR	AGAINST	ABSTAIN
2. Ratification of the selection of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending March 31, 2015.	¨	¨	¨

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" PROPOSAL 2.

	FOR	AGAINST	ABSTAIN
3. Approval, on an advisory basis, of the compensation paid to the Company's named executive officers for the fiscal year ended March 31, 2014.	¨	¨	¨

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" PROPOSAL 3.

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method. ¨

Signature of Stockholder	Date:	Signature of Stockholder	Date:

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

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