PLEXUS CORP
Form 10-Q
May 03, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 30, 2019
OR
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number 001-14423

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

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

One Plexus Way
Neenah, Wisconsin 54957
(Address of principal executive offices)(Zip Code)
Telephone Number (920) 969-6000
(Registrant's telephone number, including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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, indicate by check mark 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. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.01 par value	PLXS	The Nasdaq Global Select Market

As of April 30, 2019, there were 30,105,120 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

PLEXUS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands, except per share data)
Unaudited

	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
Net sales	$789,051	$698,651	$1,554,595	$1,375,945
Cost of sales	718,415	645,699	1,411,576	1,259,470
Gross profit	70,636	52,952	143,019	116,475
Selling and administrative expenses	37,462	35,637	72,894	67,603
Operating income	33,174	17,315	70,125	48,872
Other income (expense):				
Interest expense	(3,145)	(3,547)	(5,394)	(7,272)
Interest income	440	1,426	965	2,981
Miscellaneous, net	(1,773)	(477)	(2,885)	(823)
Income before income taxes	28,696	14,717	62,811	43,758
Income tax expense	3,938	2,427	15,827	129,961
Net income (loss)	$24,758	$12,290	$46,984	$(86,203)
Earnings (loss) per share:				
Basic	$0.81	$0.37	$1.52	$(2.57)
Diluted	$0.79	$0.36	$1.48	$(2.57)
Weighted average shares outstanding:				
Basic	30,603	33,538	31,003	33,552
Diluted	31,385	34,387	31,836	33,552
Comprehensive income (loss):				
Net income (loss)	$24,758	$12,290	$46,984	$(86,203)
Other comprehensive income:				
Derivative instrument fair value adjustment	1,984	1,229	2,362	2,768
Foreign currency translation adjustments	515	4,773	(1,356)	6,915
Other comprehensive income	2,499	6,002	1,006	9,683
Total comprehensive income (loss)	$27,257	$18,292	$47,990	$(76,520)

The accompanying notes are an integral part of these condensed consolidated financial statements.

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

	March 30, 2019	September 29, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$184,028	$297,269
Restricted cash	331	417
Accounts receivable, net of allowances of $1,251 and $885, respectively	445,053	394,827
Contract assets	86,803	—
Inventories, net	802,261	794,346
Prepaid expenses and other	30,987	30,302
Total current assets	1,549,463	1,517,161
Property, plant and equipment, net	373,918	341,306
Deferred income taxes	10,889	10,825
Intangible assets, net	7,511	8,239
Other	59,070	55,111
Total non-current assets	451,388	415,481
Total assets	$2,000,851	$1,932,642
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	$93,197	$5,532
Accounts payable	476,481	506,322
Customer deposits	129,068	90,782
Accrued salaries and wages	52,939	66,874
Other accrued liabilities	92,989	68,163
Total current liabilities	844,674	737,673
Long-term debt and capital lease obligations, net of current portion	187,120	183,085
Long-term accrued income taxes payable	58,296	56,130
Deferred income taxes payable	14,991	14,376
Other liabilities	20,326	20,235
Total non-current liabilities	280,733	273,826
Total liabilities	1,125,407	1,011,499
Commitments and contingencies		
Shareholders’ equity:		
Preferred stock, $.01 par value, 5,000 shares authorized, none issued or outstanding	—	—
Common stock, $.01 par value, 200,000 shares authorized, 52,832 and 52,567 shares issued, respectively, and 30,241 and 31,838 shares outstanding, respectively	528	526
Additional paid-in capital	586,279	581,488
Common stock held in treasury, at cost, 22,591 and 20,729 shares, respectively	(817,435)	(711,138)
Retained earnings	1,117,045	1,062,246
Accumulated other comprehensive loss	(10,973)	(11,979)
Total shareholders’ equity	875,444	921,143
Total liabilities and shareholders’ equity	$2,000,851	$1,932,642

The accompanying notes are an integral part of these condensed consolidated financial statements.

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PLEXUS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS’ EQUITY
(in thousands)
Unaudited

	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
Common stock - shares outstanding				
Beginning of period	30,992	33,607	31,838	33,464
Exercise of stock options and vesting of other stock awards	241	199	265	500
Treasury shares purchased	(992)	(513)	(1,862)	(671)
End of period	30,241	33,293	30,241	33,293
Total stockholders' equity, beginning of period	$905,163	$933,848	$921,143	$1,025,939
Common stock - par value				
Beginning of period	526	522	526	519
Exercise of stock options and vesting of other stock awards	2	2	2	5
End of period	528	524	528	524
Additional paid-in capital				
Beginning of period	587,011	567,562	581,488	555,297
Stock-based compensation expense	5,176	4,524	9,929	8,420
Exercise of stock options and vesting of other stock awards, including tax benefits	(5,908)	(4,551)	(5,138)	3,818
End of period	586,279	567,535	586,279	567,535
Treasury stock				
Beginning of period	(761,189)	(583,651)	(711,138)	(574,104)
Treasury shares purchased	(56,246)	(31,612)	(106,297)	(41,159)
End of period	(817,435)	(615,263)	(817,435)	(615,263)
Retained earnings				
Beginning of period	1,092,287	950,713	1,062,246	1,049,206
Net income (loss)	24,758	12,290	46,984	(86,203)
Cumulative effect adjustment for adoption of new accounting pronouncement (1)	—	—	7,815	—
End of period	1,117,045	963,003	1,117,045	963,003
Accumulated other comprehensive income (loss)				
Beginning of period	(13,472)	(1,298)	(11,979)	(4,979)
Other comprehensive income	2,499	6,002	1,006	9,683
End of period	(10,973)	4,704	(10,973)	4,704
Total stockholders' equity, end of period	$875,444	$920,503	$875,444	$920,503

(1) See Note 1, "Basis of Presentation," for a discussion of recently adopted accounting pronouncements.
The accompanying notes are an integral part of these condensed consolidated financial statements.

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

	Six Months Ended	
	March 30, 2019	March 31, 2018
Cash flows from operating activities		
Net income (loss)	$46,984	$(86,203)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation and amortization	25,468	23,602
Deferred income taxes	1,622	22,326
Share-based compensation expense	9,929	8,420
Other, net	92	(45)
Changes in operating assets and liabilities, excluding impacts of acquisition:		
Accounts receivable	(50,717)	(32,326)
Contract assets	(10,298)	—
Inventories	(77,917)	(42,781)
Other current and noncurrent assets	(4,367)	(4,766)
Accrued income taxes payable	(824)	102,220
Accounts payable	(28,187)	15,611
Customer deposits	38,197	(3,680)
Other current and noncurrent liabilities	15,486	463
Cash flows (used in) provided by operating activities	(34,532)	2,841
Cash flows from investing activities		
Payments for property, plant and equipment	(54,556)	(29,115)
Proceeds from sales of property, plant and equipment	93	273
Business acquisition	1,180	—
Cash flows used in investing activities	(53,283)	(28,842)
Cash flows from financing activities		
Borrowings under debt agreements	667,025	504,616
Payments on debt and capital lease obligations	(581,360)	(612,961)
Repurchases of common stock	(106,297)	(41,159)
Proceeds from exercise of stock options	1,264	9,194
Payments related to tax withholding for share-based compensation	(6,400)	(5,371)
Cash flows used in financing activities	(25,768)	(145,681)
Effect of exchange rate changes on cash and cash equivalents	256	5,743
Net decrease in cash and cash equivalents and restricted cash	(113,327)	(165,939)
Cash and cash equivalents and restricted cash:		
Beginning of period	297,686	569,254
End of period	$184,359	$403,315

The accompanying notes are an integral part of these condensed consolidated financial statements.

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PLEXUS CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED MARCH 30, 2019 AND MARCH 31, 2018
Unaudited

1. Basis of Presentation

Basis of Presentation:

The accompanying Condensed Consolidated Financial Statements included herein have been prepared by Plexus Corp. and its subsidiaries (together “Plexus” or the “Company”) without audit and pursuant to the rules and regulations of the United States (“U.S.”) Securities and Exchange Commission (“SEC”). The accompanying Condensed Consolidated Financial Statements reflect all adjustments, which include normal recurring adjustments necessary for the fair statement of the consolidated financial position of the Company as of March 30, 2019 and September 29, 2018, the results of operations and shareholders' equity for the three and six months ended March 30, 2019 and March 31, 2018, and the cash flows for the same six month periods.

The Company’s fiscal year ends on the Saturday closest to September 30. The Company uses a “4-4-5” weekly accounting system for the interim periods in each quarter. Each quarter, therefore, ends on a Saturday at the end of the 4-4-5 period. Periodically, an additional week must be added to the fiscal year to re-align with the Saturday closest to September 30. All fiscal quarters presented herein included 13 weeks.

Certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"), have been condensed or omitted pursuant to the SEC’s rules and regulations dealing with interim financial statements. However, the Company believes that the disclosures made in the Condensed Consolidated Financial Statements included herein are adequate to make the information presented not misleading. It is suggested that these Condensed Consolidated Financial Statements be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company’s 2018 Annual Report on Form 10-K.

Recently Adopted Accounting Pronouncements:

In October 2016, the Financial Accounting Standards Board (the "FASB") issued ASU 2016-16 related to the income tax consequences of intra-entity transfers of assets other than inventory. The new standard eliminates the exception for an intra-entity transfer of an asset other than inventory and requires an entity to recognize the income tax consequences when the transfer occurs. The Company adopted this guidance under the modified retrospective approach during the first quarter of fiscal 2019. The Company recognized no net impact to its fiscal 2019 opening Retained Earnings balance upon adoption and does not anticipate any material impact to the Company's future Consolidated Financial Statements.

In August 2016, the FASB issued ASU 2016-15 related to the classification of certain cash receipts and cash payments, which clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows. The new standard addresses certain issues where diversity in practice was identified. It also amends existing guidance, which is principles based and often requires judgment to determine the appropriate classification of cash flows as operating, investing or financing activities and clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The Company adopted this guidance during the first quarter of fiscal 2019 with no material impact to the Company's Condensed Statements of Cash Flows.

In May 2014, the FASB issued ASU 2014-09, which requires an entity to recognize revenue relating to contracts with customers that depicts the transfer of promised goods or services to customers in an amount reflecting the consideration to which the entity expects to be entitled in exchange for such goods or services ("Topic 606"). Topic 606 also requires disclosures enabling users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers and was effective for the Company beginning in the first quarter of fiscal year 2019.

On September 30, 2018, the Company adopted and applied Topic 606 to all contracts using the modified retrospective method of adoption. Upon adoption, the Company recognized an increase to its beginning Retained Earnings balance of $7.8 million. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. Refer to Note 13, "Revenue from Contracts with Customers," for further information.

Recently Issued Accounting Pronouncements Not Yet Adopted:

In February 2016, the FASB issued ASU 2016-02, which requires lessees to recognize most leases on their balance sheets but record expenses on their income statements in a manner similar to current accounting. For lessors, the guidance modifies the

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classification criteria and the accounting for sales-type and direct financing leases. The guidance is effective for the Company beginning in the first quarter of fiscal year 2020. Early adoption is permitted. The Company is currently in the process of assessing the impact of the adoption of the new standard on its Consolidated Financial Statements and plans to adopt the standard in the first quarter of fiscal year 2020.

In August 2017, the FASB issued ASU 2017-12 related to the accounting for hedging activities. The pronouncement expands and refines hedge accounting, aligns the recognition and presentation of the effects of hedging instruments and hedge items in the financial statements, and includes certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. The guidance is effective for the Company beginning in the first quarter of fiscal year 2020. Early adoption is permitted. The Company is currently in the process of assessing the impact of the adoption of the new standard on its Consolidated Financial Statements and the timing of adoption.

The Company believes that no other recently issued accounting standards will have a material impact on its Consolidated Financial Statements, or apply to its operations.

2. Inventories

Inventories as of March 30, 2019 and September 29, 2018 consisted of the following (in thousands):

	March 30, 2019	September 29, 2018
Raw materials	$657,125	$ 579,377
Work-in-process	55,888	102,337
Finished goods	89,248	112,632
Total inventories, net	$802,261	$ 794,346

In certain circumstances, per contractual terms, customer deposits are received by the Company to offset obsolete and excess inventory risks. The total amount of customer deposits related to inventory and included within current liabilities on the accompanying Condensed Consolidated Balance Sheets as of March 30, 2019 and September 29, 2018 was $126.7 million and $87.7 million, respectively.

In the first quarter of fiscal year 2019, the Company adopted and applied Topic 606 to all contracts using the modified retrospective method of adoption. The prior year comparative information has not been restated and continues to be reported under the accounting standards in effect for fiscal 2018. Refer to Note 13, "Revenue from Contracts with Customers," for further information.

3. Debt, Capital Lease Obligations and Other Financing

Debt and capital lease obligations as of March 30, 2019 and September 29, 2018, consisted of the following (in thousands):

	March 30, 2019	September 29, 2018
4.05% Senior Notes, due June 15, 2025	$100,000	$ 100,000
4.22% Senior Notes, due June 15, 2028	50,000	50,000
Borrowings under the credit facility	87,000	—
Capital lease and other financing obligations	44,413	39,857
Unamortized deferred financing fees	(1,096)	(1,240)
Total obligations	280,317	188,617
Less: current portion	(93,197)	(5,532)
Long-term debt and capital lease obligations, net of current portion	$187,120	$ 183,085

On June 15, 2018, the Company entered into a Note Purchase Agreement (the “2018 NPA”) pursuant to which it issued an aggregate of $150.0 million in principal amount of unsecured senior notes, consisting of $100.0 million in principal amount

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of 4.05% Series A Senior Notes, due on June 15, 2025, and $50.0 million in principal amount of 4.22% Series B Senior Notes, due on June 15, 2028 (collectively, the “2018 Notes”), in a private placement. The 2018 NPA includes customary operational and financial covenants with which the Company is required to comply, including, among others, maintenance of certain financial ratios such as a total leverage ratio and a minimum interest coverage ratio. The 2018 Notes may be prepaid in whole or in part at any time, subject to payment of a make-whole amount. Interest on the 2018 Notes is payable semiannually. At March 30, 2019, the Company was in compliance with the covenants under the 2018 NPA.

The Company also 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. During the six months ended March 30, 2019, the highest daily borrowing was $229.0 million; the average daily borrowings were $98.9 million. The Company borrowed $666.5 million and repaid $579.5 million of revolving borrowings under the Credit Facility during the six months ended March 30, 2019. As of March 30, 2019, the Company was in compliance with all financial covenants relating to the Credit Facility, which are generally consistent with those in the 2018 NPA discussed above. The Company is required to pay a commitment fee on the daily unused revolver credit commitment based on the Company's leverage ratio; the fee was 0.175% as of March 30, 2019.

The fair value of the Company’s debt, excluding capital leases, was $237.5 million and $151.9 million as of March 30, 2019 and September 29, 2018, respectively. The carrying value of the Company's debt, excluding capital leases, was $237.0 million and $150.0 million as of March 30, 2019 and September 29, 2018, respectively. If measured at fair value in the financial statements, the Company's debt would be classified as Level 2 in the fair value hierarchy. Refer to Note 4, "Derivatives," for further information regarding the Company's fair value calculations and classifications.

4. Derivatives

All derivatives are recognized in the accompanying Condensed Consolidated Balance Sheets at their estimated fair value. The Company uses derivatives to manage the variability of foreign currency obligations. The Company has cash flow hedges related to forecasted foreign currency obligations, in addition to non-designated hedges to manage foreign currency exposures associated with certain foreign currency denominated assets and liabilities. The Company does not enter into derivatives for speculative purposes.

Changes in the fair value of the derivatives that qualify as cash flow hedges are recorded in "Accumulated other comprehensive loss" in the accompanying Condensed Consolidated Balance Sheets until earnings are affected by the variability of the cash flows. In the next twelve months, the Company estimates that $0.7 million of unrealized gains, net of tax, related to cash flow hedges will be reclassified from other comprehensive income (loss) into earnings.

Changes in the fair value of the non-designated derivatives related to recognized foreign currency denominated assets and liabilities are recorded in "Miscellaneous, net" in the accompanying Condensed Consolidated Statements of Comprehensive Income (Loss).

The Company enters into forward currency exchange contracts for its operations in Malaysia and Mexico on a rolling basis. The Company had cash flow hedges outstanding with a notional value of $77.1 million as of March 30, 2019, and $74.0 million as of September 29, 2018. These forward currency contracts fix the exchange rates for the settlement of future foreign currency obligations that have yet to be realized. The total fair value of the forward currency exchange contracts was a $0.7 million asset as of March 30, 2019, and a $1.7 million liability as of September 29, 2018.

The Company had additional forward currency exchange contracts outstanding with a notional value of $34.6 million as of March 30, 2019, and $28.6 million as of September 29, 2018. The Company did not designate these derivative instruments as hedging instruments. The net settlement amount (fair value) related to these contracts is recorded on the Condensed Consolidated Balance Sheets as either a current or long-term asset or liability, depending on the term, and as an element of "Miscellaneous, net" within the Condensed Consolidated Statements of Comprehensive Income (Loss). The total fair value of these derivatives was a $0.3 million asset as of March 30, 2019, and a $0.1 million liability as of September 29, 2018.

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The tables below present information regarding the fair values of derivative instruments and the effects of derivative instruments on the Company’s Condensed Consolidated Financial Statements:

Fair Values of Derivative Instruments
In thousands of dollars

	Asset Derivatives			Liability Derivatives		
		March 30, 2019	September 29, 2018		March 30, 2019	September 29, 2018
Derivatives Designated as Hedging Instruments	Balance Sheet Classification	Fair Value	Fair Value	Balance Sheet Classification	Fair Value	Fair Value
Foreign currency forward contracts	Prepaid expenses and other	$ 670	$ 292	Other accrued liabilities	$ —	$ 1,984

Fair Values of Derivative Instruments
In thousands of dollars

	Asset Derivatives			Liability Derivatives		
		March 30, 2019	September 29, 2018		March 30, 2019	September 29, 2018
Derivatives Not Designated as Hedging Instruments	Balance Sheet Classification	Fair Value	Fair Value	Balance Sheet Classification	Fair Value	Fair Value
Foreign currency forward contracts	Prepaid expenses and other	$ 378	$ 42	Other accrued liabilities	$ 62	$ 81

Derivative Impact on Accumulated Other Comprehensive Income ("OCI")
for the Three Months Ended
In thousands of dollars

Derivatives in Cash Flow Hedging Relationships	Amount of Gain Recognized in OCI on Derivatives (Effective Portion)	
	March 30, 2019	March 31, 2018
Foreign currency forward contracts	$ 1,241	$ 3,625

Derivative Impact on Gain (Loss) Recognized in Income
for the Three Months Ended
In thousands of dollars

Derivatives in Cash Flow Hedging Relationships	Classification of (Loss) Gain Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of (Loss) Gain Reclassified from Accumulated OCI into Income (Effective Portion)	
		March 30, 2019	March 31, 2018
Foreign currency forward contracts	Selling and administrative expenses	$ (73)	$ 224
Foreign currency forward contracts	Cost of sales	$ (670)	$ 2,091
Treasury Rate Locks	Interest expense	$ —	$ 81

Derivatives Not Designated as Hedging Instruments	Location of (Loss) Gain Recognized on Derivatives in Income	Amount of Gain (Loss) on Derivatives Recognized

		in Income	
		March 30, 2019	March 31, 2018
Foreign currency forward contracts	Miscellaneous, net	$843	$(416)

Derivative Impact on Accumulated Other Comprehensive Income ("OCI")
for the Six Months Ended
In thousands of dollars

Derivatives in Cash Flow Hedging Relationships	Amount of Gain Recognized in OCI on Derivatives (Effective Portion)	
	March 30, 2019	March 31, 2018
Foreign currency forward contracts	$ 853	$ 6,339

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Derivative Impact on Gain (Loss) Recognized in Income
for the Six Months Ended
In thousands of dollars

Derivatives in Cash Flow Hedging Relationships	Classification of (Loss) Gain Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of (Loss) Gain Reclassified from Accumulated OCI into Income (Effective Portion)	
		March 30, 2019	March 31, 2018
Foreign currency forward contracts	Selling and administrative expenses	$ (155)	$ 329
Foreign currency forward contracts	Cost of sales	$ (1,354)	$ 3,082
Treasury Rate Locks	Interest expense	$ —	$ 160

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized on Derivatives in Income	Amount of Gain (Loss) on Derivatives Recognized in Income	
		March 30, 2019	March 31, 2018
Foreign currency forward contracts	Miscellaneous, net	$1,630	$(951)

There were no gains or losses recognized in income for derivatives related to ineffective portions and amounts excluded from effectiveness testing for the three or six months ended March 30, 2019 and March 31, 2018.

Fair Value Measurements:

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (or exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The Company uses quoted market prices when available or discounted cash flows to calculate fair value. The accounting guidance establishes a fair value hierarchy based on three levels of inputs that may be used to measure fair value. The input levels are:

Level 1: Quoted (observable) market prices in active markets for identical assets or liabilities.

Level 2: Inputs other than Level 1 that are observable, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability.

The following table lists the fair values of liabilities of the Company’s derivatives as of March 30, 2019 and September 29, 2018, by input level:

Fair Value Measurements Using Input Levels (Liability)/Asset
In thousands of dollars

March 30, 2019	Level 1	Level 2	Level 3	Total
Derivatives				
Forward currency forward contracts	$ —	$986	$ —	$986

September 29, 2018

Derivatives			
Forward currency forward contracts	$ —	$ (1,731)	$ —	$ (1,731)

The fair value of foreign currency forward contracts is determined using a market approach, which includes obtaining directly or indirectly observable values from third parties active in the relevant markets. Inputs in the fair value of the foreign currency forward contracts include prevailing forward and spot prices for currency and interest rate forward curves.

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5. Income Taxes

Income tax expense for the three and six months ended March 30, 2019 was $3.9 million and $15.8 million, respectively, compared to $2.4 million and $130.0 million for the three and six months ended March 31, 2018, respectively.

The effective tax rates for the three and six months ended March 30, 2019, were 13.7% and 25.2%, respectively, compared to the effective tax rates of 16.5% and 297.0% for the three and six months ended March 31, 2018, respectively. The effective tax rate for the three months ended March 30, 2019 decreased from the effective tax rate for the three months ended March 31, 2018, primarily due to the $13.5 million one-time bonus paid to full-time, non-executive employees ("one-time employee bonus") paid during the three months ended March 31, 2018, and the geographical distribution of pre-tax earnings. The effective tax rate for the six months ended March 30, 2019 decreased from the effective tax rate for the six months ended March 31, 2018, primarily due to the impact of the U.S. Tax Cuts & Jobs Act (“Tax Reform”), which was enacted on December 22, 2017, and an increase in pre-tax earnings which was impacted by the one-time employee bonus in the prior year.

There were no material additions to the amount of unrecognized tax benefits recorded for uncertain tax positions for the three months ended March 30, 2019. For the six months ended March 30, 2019, the Company recorded an income tax benefit of $1.7 million primarily related to unrecognized tax benefits as the U.S. Department of Treasury issued additional guidance for Tax Reform. The guidance proposed related to the treatment of foreign taxes paid that impacted the tax on the deemed repatriation of historical undistributed foreign earnings. The Company recognizes accrued interest and penalties on uncertain tax positions as a component of income tax expense. The amount of interest and penalties recorded for the three and six months ended March 30, 2019 was not material.

One or more uncertain tax positions may be settled within the next 12 months. Settlement of these matters is not expected to have a material effect on the Company's consolidated results of operations, financial position and cash flows. The Company is not currently under examination by taxing authorities in the U.S. or any foreign jurisdictions in which the Company operates.

The Company maintains valuation allowances when it is more likely than not that all or a portion of a net deferred tax asset will not be realized. During the three months ended March 30, 2019, the Company continued to record a full valuation allowance against its net deferred tax assets in certain jurisdictions within the EMEA segment and a partial valuation against its net deferred tax assets in certain jurisdictions within the AMER segment, as it was more likely than not that these assets would not be fully realized based primarily on historical performance. The Company will continue to provide a valuation allowance against its net deferred tax assets in each of the applicable jurisdictions going forward until it determines it is more likely than not that the deferred tax assets will be realized.

6. Earnings Per Share

The following is a reconciliation of the amounts utilized in the computation of basic and diluted earnings per share for the three and six months ended March 30, 2019 and March 31, 2018 (in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
Net income (loss)	24,758	12,290	46,984	(86,203)
Basic weighted average common shares outstanding	30,603	33,538	31,003	33,552
Dilutive effect of share-based awards outstanding	782	849	833	—
Diluted weighted average shares outstanding	31,385	34,387	31,836	33,552
Earnings (loss) per share:				
Basic	$0.81	$ 0.37	$1.52	$ (2.57)
Diluted	$0.79	$ 0.36	$1.48	$ (2.57)

For both the three and six months ended March 30, 2019, share-based awards for approximately 0.1 million shares were not included in the computation of diluted earnings per share as they were antidilutive.

For the three months ended March 31, 2018, share-based awards for approximately 0.3 million shares were not included in the computation of diluted earnings per share as they were antidilutive. For the six months ended March 31, 2018, the total number

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of potentially dilutive share-based awards was 2.0 million; however, these awards were not included in the computation of diluted loss per share, as doing so would have decreased the loss per share.

See also Note 11, "Shareholders' Equity," for information regarding the Company's share repurchase plans.

7. Share-Based Compensation

The Company recognized $5.2 million and $9.9 million of compensation expense associated with share-based awards for the three and six months ended March 30, 2019, respectively, and $4.5 million and $8.4 million for the three and six months ended March 31, 2018, respectively.

The Company uses the Black-Scholes valuation model to determine the fair value of stock options and stock-settled stock appreciation rights ("SARs"). The Company uses its stock price on grant date as the fair value assigned to restricted stock units ("RSUs").

Performance stock units ("PSUs") are payable in shares of the Company's common stock. Beginning for fiscal 2017 grants, PSUs vest based on the relative total shareholder return ("TSR") of the Company's common stock as compared to the companies in the Russell 3000 index, a market condition, and the Company's economic return performance during the three year performance period, a performance condition. The Company uses the Monte Carlo valuation model to determine the fair value of PSUs at the date of grant for PSUs that vest based on the relative TSR of the Company's common stock. The Company uses its stock price on grant date as the fair value assigned to PSUs that vest based on the Company's economic return performance. PSUs granted in fiscal 2016 and prior years vested based solely on the relative TSR of the Company's common stock as compared to companies in the Russell 3000 Index during a three year performance period. The number of shares that may be issued pursuant to PSUs ranges from zero to 0.5 million and is dependent upon the Company's TSR and economic return performance over the applicable performance periods.

The Company recognizes share-based compensation expense over the share-based awards' vesting period.

8. Litigation

The Company is party to lawsuits in the ordinary course of business. Management does not believe that these proceedings, individually or in the aggregate, will have a material positive or adverse effect on the Company’s consolidated financial position, results of operations or cash flows.

9. Reportable Segments

Reportable segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or group, in assessing performance and allocating resources. The Company uses an internal management reporting system, which provides important financial data to evaluate performance and allocate the Company’s resources on a regional basis. Net sales for the segments are attributed to the region in which the product is manufactured or the service is performed. The services provided, manufacturing processes used, class of customers serviced and order fulfillment processes used are similar and generally interchangeable across the segments. A segment’s performance is evaluated based upon its operating income (loss). A segment’s operating income (loss) includes its net sales less cost of sales and selling and administrative expenses, but excludes corporate and other expenses. Corporate and other expenses primarily represent corporate selling and administrative expenses, and restructuring costs and other charges, if any. These costs are not allocated to the segments, as management excludes such costs when assessing the performance of the segments. Inter-segment transactions are generally recorded at amounts that approximate arm’s length transactions. The accounting policies for the segments are the same as for the Company taken as a whole.

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Information about the Company’s three reportable segments for the three and six months ended March 30, 2019 and March 31, 2018, respectively, is as follows (in thousands):

	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
Net sales:				
AMER	$364,490	$301,835	$718,357	$600,878
APAC	378,441	350,375	756,553	696,498
EMEA	75,822	73,942	148,120	137,774
Elimination of inter-segment sales	(29,702)	(27,501)	(68,435)	(59,205)
	$789,051	$698,651	$1,554,595	$1,375,945
Operating income (loss):				
AMER	$14,230	$10,702	$28,680	$21,225
APAC	48,704	49,171	100,515	99,703
EMEA	(133)	389	863	(732)
Corporate and other costs	(29,627)	(42,947)	(59,933)	(71,324)
	$33,174	$17,315	$70,125	$48,872
Other income (expense):				
Interest expense	(3,145)	(3,547)	(5,394)	(7,272)
Interest income	440	1,426	965	2,981
Miscellaneous, net	(1,773)	(477)	(2,885)	(823)
Income before income taxes	28,696	14,717	62,811	43,758

	March 30, 2019	September 29, 2018
Total assets:		
AMER	$733,925	$ 645,791
APAC	980,888	937,510
EMEA	201,627	193,797
Corporate and eliminations	84,411	155,544
	$2,000,851	$ 1,932,642

10. Guarantees

The Company offers certain indemnifications under its customer manufacturing agreements. In the normal course of business, the Company may from time to time be obligated to indemnify its customers or its customers’ customers against damages or liabilities arising out of the Company’s negligence, misconduct, breach of contract, or infringement of third party intellectual property rights. Certain agreements have extended broader indemnification, and while most agreements have contractual limits, some do not. However, the Company generally does not provide for such indemnities and seeks indemnification from its customers for damages or liabilities arising out of the Company’s adherence to customers’ specifications or designs or use of materials furnished, or directed to be used, by its customers. The Company does not believe its obligations under such indemnities are material.

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

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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 Condensed Consolidated Balance Sheets in "Other 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.

Below is a table summarizing the activity related to the Company’s limited warranty liability for the six months ended March 30, 2019 and March 31, 2018 (in thousands):

	Six Months Ended	
	March 30, 2019	March 31, 2018
Reserve balance, beginning of period	$6,646	$ 4,756
Accruals for warranties issued during the period	2,374	2,131
Settlements (in cash or in kind) during the period	(1,737)	(1,579)
Reserve balance, end of period	$7,283	$ 5,308

11. Shareholders' Equity

On February 14, 2018, the Board of Directors approved a stock repurchase plan under which the Company is authorized to repurchase $200.0 million of its common stock (the "2018 Program"). The 2018 Program commenced upon completion of the 2016 Program, as defined below. During the three months ended March 30, 2019, the Company repurchased 991,683 shares for $56.2 million, at an average price of $56.72 per share. During the six months ended March 30, 2019, the Company repurchased 1,861,632 shares for $106.3 million, at an average price of $57.10. As of March 30, 2019, $72.5 million of authority remained under the 2018 Program.

On June 6, 2016, the Board of Directors authorized a multi-year stock repurchase program under which the Company was authorized to repurchase up to $150.0 million of its common stock beginning in fiscal 2017 (the "2016 Program"). During the three months ended March 31, 2018, the Company repurchased 512,943 shares for $31.6 million, at an average price of $61.63 per share. During the six months ended March 31, 2018, the Company repurchased 671,409 shares for $41.2 million, at an average price of $61.30 per share under the 2016 Program.

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

12. Trade Accounts Receivable Sale Programs

The Company has Master Accounts Receivable Purchase Agreements with MUFG Bank, New York Branch, formerly known as The Bank of Tokyo-Mitsubishi UFJ, Ltd. (the "MUFG RPA"), and HSBC Bank (China) Company Limited, Xiamen branch (the "HSBC RPA"), under which the Company may elect to sell receivables, at a discount, on an ongoing basis. The MUFG RPA was amended on March 20, 2019, to increase the maximum facility amount from $230.0 million to $260.0 million. The maximum facility amount under the HSBC RPA as of March 30, 2019 is $60.0 million. The MUFG RPA is subject to expiration on October 3, 2019, but will be automatically extended for another year unless any party gives no less than 10 days prior notice that the agreement should not be extended. The terms of the HSBC RPA are generally consistent with the terms of the MUFG RPA.

Transfers of receivables under the programs are accounted for as sales and, accordingly, receivables sold under the programs are excluded from accounts receivable on the Condensed Consolidated Balance Sheets and are reflected as cash provided by operating activities on the Condensed Consolidated Statements of Cash Flows. Proceeds from the transfer reflect the face value of the receivables less a discount. The sale discount is recorded within "Miscellaneous, net" in the Condensed Consolidated Statements of Comprehensive Income in the period of the sale.

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The Company sold $241.9 million and $135.9 million of trade accounts receivable under these programs during the three months ended March 30, 2019 and March 31, 2018, respectively, in exchange for cash proceeds of $240.4 million and $135.2 million, respectively.

The Company sold $474.4 million and $298.3 million of trade accounts receivable under these programs during the six months ended March 30, 2019 and March 31, 2018, respectively, in exchange for cash proceeds of $471.6 million and $296.7 million, respectively.

13. Revenue from Contracts with Customers

Impact of Adopting Topic 606

The Company adopted Topic 606 using the modified retrospective method. The new standard resulted in a change to the timing of revenue recognition for a significant portion of the Company's revenue, whereby revenue is recognized over time, as products are produced, as opposed to at a point in time based upon shipping terms. As a result of the adoption of Topic 606, the following adjustments were made to the opening balances of the Company's Condensed Consolidated Balance Sheets (in thousands):

	Balance at September 29, 2018	Impacts due to adoption of Topic 606	Balance at September 30, 2018
ASSETS			
Contract assets	$ —	$76,417	$ 76,417
Inventories	794,346	(68,959)	725,387
LIABILITIES AND SHAREHOLDERS' EQUITY			
Other accrued liabilities	$ 68,163	$(357)	$ 67,806
Retained earnings	1,062,246	7,815	1,070,061

The cumulative effect of applying the new guidance in Topic 606 resulted in the Company increasing its fiscal 2019 opening Retained Earnings balance by $7.8 million due to certain customer contracts requiring revenue recognition over time. Contract assets in the amount of $76.4 million were recognized due to the recognition of revenue on an over time basis for some customers rather than at a specific point in time. Inventory declined $69.0 million primarily due to earlier recognition of costs related to the contracts for which revenue was recognized on an over time basis. The decline in other accrued liabilities is primarily due to the reclassification of deferred revenue to contract assets for prepayments associated with revenue recognized over time, partially offset by an increase in taxes payable associated with the increase in revenue recognized over time.

The effects of the adoption on the Company's Condensed Consolidated Financial Statements for the three and six months ended March 30, 2019 were as follows (in thousands):

	Three Months Ended		
	March 30, 2019 As Reported	Adjustments due to Topic 606	March 30, 2019 As Adjusted - Without Adoption of Topic 606
Net sales	$789,051		