HUBBARD ROBERT GLENN
Form 4
April 17, 2018

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

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(Print or Type Responses)

1. Name and Address of Reporting Person *
HUBBARD ROBERT GLENN
(Last) (First) (Middle)
55 EAST 52ND STREET
(Street)
NEW YORK, NY 10055
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
BlackRock Health Sciences Trust [BME]

3. Date of Earliest Transaction (Month/Day/Year)
04/13/2018

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of Derivative Securities	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)

(Instr. 3)	Price of Derivative Security		(Month/Day/Year)	(Instr. 8)		Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)					
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Performance Rights (1)	(2)	04/13/2018		A		149.65		(3)	(3)	Common Stock	149.65

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
HUBBARD ROBERT GLENN 55 EAST 52ND STREET NEW YORK, NY 10055	X			

Signatures

/s/ Eugene Drozdetski as Attorney-in-Fact	04/17/2018
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The Performance Rights were accrued under the BlackRock Deferred Compensation Plan.

(2) One Performance Right is convertible into the cash value of one share of BlackRock Health Sciences Trust.

(3) The Performance Rights are to be settled 100% in cash at the deferral period chosen by the reporting person.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. tom:2px;padding-right:2px;">
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

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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

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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.

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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,

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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

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)
Foreign currency translation adjustments	4,155	(14,035)	(13,830)
Other comprehensive income (loss)	6,560	(5,068)	(25,053)
Total comprehensive income	$118,622	$71,359	$69,279

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

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PLEXUS CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
as of September 30, 2017 and October 1, 2016
(in thousands, except per share data)

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	$568,860	$432,964
Restricted cash	394	—
Accounts receivable, net of allowances of $980 and $2,368, respectively	365,513	416,888
Inventories	654,642	564,131
Prepaid expenses and other	28,046	19,364
Total current assets	1,617,455	1,433,347
Property, plant and equipment, net	314,665	291,225
Deferred income taxes	5,292	4,834
Other	38,770	36,413
Total non-current assets	358,727	332,472
Total assets	$1,976,182	$1,765,819
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	$286,934	$78,507
Accounts payable	413,999	397,200
Customer deposits	107,837	84,637
Accrued salaries and wages	49,376	41,806
Other accrued liabilities	49,445	48,286
Total current liabilities	907,591	650,436
Long-term debt and capital lease obligations, net of current portion	26,173	184,002
Other liabilities	16,479	14,584
Total non-current liabilities	42,652	198,586
Total liabilities	950,243	849,022
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, 51,934 and 51,272 shares issued, respectively, and 33,464 and 33,457 shares outstanding, respectively	519	513
Additional paid-in capital	555,297	530,647
Common stock held in treasury, at cost, 18,470 and 17,815 shares, respectively	(574,104)	(539,968)
Retained earnings	1,049,206	937,144
Accumulated other comprehensive loss	(4,979)	(11,539)
Total shareholders' equity	1,025,939	916,797
Total liabilities and shareholders' equity	$1,976,182	$1,765,819

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

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PLEXUS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
for the fiscal years ended September 30, 2017, October 1, 2016 and October 3, 2015
(in thousands)

	Common Stock						
	Shares	Amount	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, September 27, 2014	33,653	$ 500	$ 475,634	$ (479,968)	$ 766,385	$ 18,582	$ 781,133
Net income	—	—	—	—	94,332	—	94,332
Other comprehensive loss	—	—	—	—	—	(25,053)	(25,053)
Treasury shares purchased	(745)	—	—	(30,000)	—	—	(30,000)
Share-based compensation expense	—	—	13,252	—	—	—	13,252
Exercise of stock options, including tax benefits	592	6	8,602	—	—	—	8,608
Balances, October 3, 2015	33,500	506	497,488	(509,968)	860,717	(6,471)	842,272
Net income	—	—	—	—	76,427	—	76,427
Other comprehensive loss	—	—	—	—	—	(5,068)	(5,068)
Treasury shares purchased	(761)	—	—	(30,000)	—	—	(30,000)
Share-based compensation expense	—	—	19,341	—	—	—	19,341
Exercise of stock options, including tax benefits	718	7	13,818	—	—	—	13,825
Balances, October 1, 2016	33,457	513	530,647	(539,968)	937,144	(11,539)	916,797
Net income	—	—	—	—	112,062	—	112,062
Other comprehensive income	—	—	—	—	—	6,560	6,560
Treasury shares purchased	(655)	—	—	(34,136)	—	—	(34,136)
Share-based compensation expense	—	—	17,411	—	—	—	17,411
Exercise of stock options, including tax benefits	662	6	7,239	—	—	—	7,245
Balances, September 30, 2017	33,464	519	$ 555,297	$ (574,104)	$ 1,049,206	$ (4,979)	$ 1,025,939

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

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PLEXUS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the fiscal years ended September 30, 2017, October 1, 2016 and October 3, 2015
(in thousands)

	2017	2016	2015
Cash flows from operating activities			
Net income	112,062	$76,427	$94,332
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation	45,330	47,414	48,378
Amortization of deferred financing fees	311	405	304
(Gain) Loss on sale of property, plant and equipment, net	(162)	1,215	123
Deferred income taxes	(366)	(330)	(597)
Share-based compensation expense	17,411	19,341	13,252
Changes in operating assets and liabilities:			
Accounts receivable	53,705	(36,990)	(64,876)
Inventories	(86,072)	(785)	(48,202)
Other current and noncurrent assets	(8,740)	2,913	6,398
Accounts payable	6,894	5,839	5,283
Customer deposits	22,599	4,466	25,843
Other current and noncurrent liabilities	8,762	7,823	(3,666)
Cash flows provided by operating activities	171,734	127,738	76,572
Cash flows from investing activities			
Payments for property, plant and equipment	(38,538)	(31,123)	(35,076)
Proceeds from sales of property, plant and equipment	704	4,607	407
Cash flows used in investing activities	(37,834)	(26,516)	(34,669)
Cash flows from financing activities			
Borrowings under credit facility and other short-term borrowings	331,076	625,000	483,000
Payments on debt and capital lease obligations	(302,880)	(629,571)	(487,811)
Debt issuance costs	—	(545)	—
Repurchases of common stock	(34,136)	(30,000)	(30,000)
Proceeds from exercise of stock options	13,368	16,407	11,380
Payments related to tax withholding for share-based compensation	(6,123)	(2,582)	(2,772)
Cash flows provided by (used in) financing activities	1,305	(21,291)	(26,203)
Effect of exchange rate changes on cash and cash equivalents	1,085	(4,073)	(5,185)
Net increase in cash and cash equivalents and restricted cash	136,290	75,858	10,515
Cash and cash equivalents and restricted cash:			
Beginning of period	432,964	357,106	346,591
End of period	$569,254	$432,964	$357,106
Supplemental disclosure information:			
Interest paid	$13,812	$14,927	$13,483
Income taxes paid	$10,158	$11,364	$11,157

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

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Plexus Corp.
Notes to Consolidated Financial Statements

1. Description of Business and Significant Accounting Policies

Description of Business: Plexus Corp. and its subsidiaries (together "Plexus" or the "Company,") participate in the Electronic Manufacturing Services ("EMS") industry. Plexus has been partnering with companies to transform concepts into branded products and deliver them to customers in the Healthcare/Life Sciences, Industrial/Commercial, Communications and Aerospace/Defense market sectors. Plexus is headquartered in Neenah, Wisconsin and has operations in the Americas ("AMER"), Europe, Middle East, and Africa ("EMEA") and Asia-Pacific ("APAC") regions.

Significant Accounting Policies

Consolidation Principles and Basis of Presentation: The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and include the accounts of Plexus Corp. and its subsidiaries. All intercompany transactions have been eliminated.

Certain prior period amounts have been reclassified to conform to the current period presentation.

The Company’s fiscal year ends on the Saturday closest to September 30. The Company also uses a "4-4-5" weekly accounting system for the interim periods in each quarter. Each quarter, therefore, ends on a Saturday at the end of the 4-4-5 period. Periodically, an additional week must be added to the fiscal year to re-align with the Saturday closest to September 30. Fiscal 2017 and fiscal 2016 each included 52 weeks; fiscal 2015 included 53 weeks.

Cash and Cash Equivalents and Restricted Cash: Cash equivalents include short-term highly liquid investments and are classified as Level 1 in the fair value hierarchy described below. Restricted cash represents cash received from customers to settle invoices sold under accounts receivable purchase agreements that is contractually required to be set aside. The restrictions will lapse when the cash is remitted to the purchaser of the receivables. Restricted cash is also classified as Level 1 in the fair value hierarchy described below.

As of September 30, 2017 and October 1, 2016, cash and cash equivalents and restricted cash consisted of the following (in thousands):

	2017	2016
Cash	$264,222	$175,396
Money market funds and other	304,638	257,568
Restricted cash	394	—
Total cash and cash equivalents and restricted cash	$569,254	$432,964

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.

In certain instances, in accordance with contractual terms, the Company receives customer deposits to offset obsolete and excess inventory risks.

Property, Plant and Equipment and Depreciation: Property, plant and equipment is stated at cost and depreciated using the straight-line method over the estimated useful lives of the respective assets. Estimated useful lives for major classes of depreciable assets are as follows:

Buildings and improvements	5-39 years
Machinery and equipment	3-7 years
Computer hardware and software	3-10 years

Certain facilities and equipment held under capital leases are classified as property, plant and equipment and amortized using the straight-line method over the term of the lease and the related obligations are recorded as liabilities. Amortization of assets held under capital leases is included in depreciation expense (see Note 3, "Property, Plant and Equipment") and the financing component of the lease payments is classified as interest expense.

Maintenance and repairs are expensed as incurred.

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The Company capitalizes significant costs incurred in the acquisition or development of software for internal use. This includes costs of the software, consulting services and compensation costs for employees directly involved in developing internal use computer software.
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.
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. Net sales from engineering design and development services were less than 5.0% of consolidated net sales for each of fiscal 2017, 2016 and 2015.
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.
Foreign Currency Translation & Transactions: The Company translates assets and liabilities of subsidiaries operating outside of the U.S. with a functional currency other than the U.S. dollar into U.S. dollars using exchange rates in effect at the relevant balance sheet date and net sales, expenses and cash flows at the average exchange rates during the respective periods. Adjustments resulting from translation of the financial statements are recorded as a component of "Accumulated other comprehensive loss." Exchange gains and losses arising from transactions denominated in a currency other than the functional currency of the entity involved and remeasurement adjustments for foreign operations where the U.S. dollar is the functional currency are included in the Consolidated Statements of Comprehensive Income as a component of "Miscellaneous income (expense)." Exchange gains (losses) on foreign currency transactions were $2.3 million, $(1.7) million, and $1.3 million for fiscal 2017, 2016 and 2015, respectively. These amounts include the amount of gain (loss) recognized in income during each fiscal year due to forward currency exchange contracts entered into to hedge recognized assets or liabilities ("non-designated hedges") the Company entered into during each respective year. Refer to Note 5, "Derivatives and Fair Value Measurements," for further details on derivatives.

Derivatives: All derivatives are recognized on the balance sheets at fair value. The Company periodically enters into forward currency exchange contracts and interest rate swaps. On the date a derivative contract is entered into, the Company designates the derivative as a non-designated hedge or a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (a "cash flow" hedge). The Company does not enter into derivatives for speculative purposes. Changes in the fair value of non-designated derivatives are recorded in earnings as are the gains or losses related to the hedged asset or liability. Changes in the fair value of a derivative that qualifies as a cash flow hedge are recorded in "Accumulated other comprehensive loss" within shareholders' equity, until earnings are affected by the variability of cash flows. Certain forward currency exchange contracts are treated as cash flow hedges and, therefore, \$2.4 million, \$9.0 million and \$(11.2) million was recorded in "Accumulated other comprehensive loss" for fiscal 2017, 2016 and 2015, respectively. See Note 5, "Derivatives and Fair Value Measurements," for further information.

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Grants from Government Authorities: Grants from governments are recognized at their fair value where there is reasonable assurance that the grant funds will be received and the Company will comply with all attached conditions to the grant. Government grants relating to property, plant and equipment are recorded as an offset to the carrying value of the related assets at the time of capitalization. Government grants relating to other costs incurred are recognized as an offset to those related costs, for which the grants are intended to compensate for, at the time they are recognized.
Earnings Per Share: The computation of basic earnings per common share is based upon the weighted average number of common shares outstanding and net income. The computation of diluted earnings per common share reflects additional dilution from share-based awards, excluding any with an antidilutive effect. See Note 7, "Earnings Per Share," for further information.
Share-based Compensation: The Company measures all grants of share-based payments to employees, including grants of employee stock options, at fair value and expenses them in the Consolidated Statements of Comprehensive Income over the service period (generally the vesting period) of the grant. See Note 9, "Benefit Plans," for further information.
Comprehensive Income (Loss): The Company follows the established standards for reporting comprehensive income (loss), which is defined as the changes in equity of an enterprise except those resulting from shareholder transactions.
Accumulated other comprehensive loss consists of the following as of September 30, 2017 and October 1, 2016 (in thousands):

	2017	2016
Foreign currency translation adjustments	$(7,482)	$(11,637)
Cumulative change in fair value of derivative instruments	2,503	98
Accumulated other comprehensive loss	$(4,979)	$(11,539)

Refer to Note 5, "Derivatives and Fair Value Measurements," for further explanation regarding the change in fair value of derivative instruments that is recorded to "Accumulated other comprehensive loss."
Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.
Fair Value of Financial Instruments: The Company holds financial instruments consisting of cash and cash equivalents, restricted cash, accounts receivable, certain deferred compensation assets held under trust arrangements, accounts payable, debt, derivatives, and capital lease obligations. The carrying values of cash and cash equivalents, restricted cash, accounts receivable, accounts payable, and capital lease obligations as reported in the consolidated financial statements approximate fair value. Derivatives and certain deferred compensation assets held under trust arrangements are recorded at fair value. 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. The fair value of the Company’s debt was $284.5 million and $251.4 million as of September 30, 2017 and October 1, 2016, respectively. The carrying value of the Company's debt was $283.0 million and $250.0 million as of September 30, 2017 and October 1, 2016, respectively. The Company uses quoted market prices when available or discounted cash flows to calculate fair value. If measured at fair value in the financial statements, long-term debt (including the current portion) would be classified as Level 2 in the fair value hierarchy described below. The fair values of the Company’s derivatives are disclosed in Note 5, "Derivatives and Fair Value Measurements." The fair values of the deferred compensation assets held under trust arrangements are discussed in Note 9, "Benefit Plans."
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 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.

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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.
Business and Credit Concentrations: Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash, cash equivalents, trade accounts receivable and derivative instruments, specifically related to counterparties. In accordance with the Company’s investment policy, the Company’s cash, cash equivalents and derivative instruments were placed with recognized financial institutions. The Company’s investment policy limits the amount of credit exposure in any one issue and the maturity date of the investment securities that typically comprise investment grade short-term debt instruments. Concentrations of credit risk in accounts receivable resulting from sales to major customers are discussed in Note 11, "Reportable Segments, Geographic Information and Major Customers". The Company, at times, requires cash deposits for services performed. The Company also closely monitors extensions of credit.
Recently Adopted Accounting Pronouncements:
In November 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-18 to address the classifications and presentation of changes in restricted cash in the statement of cash flows. The Company adopted this guidance retrospectively during the first quarter of fiscal 2017 and, as a result, the Company has included restricted cash within the Consolidated Statements of Cash Flows; such amounts were not material. The retrospective adoption did not impact the prior period Consolidated Statements of Cash Flows since there was no restricted cash during any of the prior periods presented. Amounts included in restricted cash represent cash received from customers to settle invoices sold under the trade accounts receivable sale programs that is contractually required to be set aside. The restrictions will lapse when the cash is remitted to the purchaser of the receivables.
In March 2016, the FASB issued ASU 2016-09, which changes the accounting for certain aspects of share-based payments to employees. The guidance requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid-in capital pools. The guidance also allows for the employer to repurchase more of an employee’s shares for tax withholding purposes without triggering liability accounting. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. The Company adopted this guidance prospectively during the first fiscal quarter of 2017. Upon adoption, the Company recognized no net impact to its fiscal 2017 opening retained earnings balance as an incremental $4.9 million net operating loss carryforward related to tax deductions in excess of compensation expense for stock options was fully offset by an increase to the valuation allowance. The adoption did not have any other material impacts and will not materially impact the Company's future financial statements as long as the Company remains in a valuation allowance in the jurisdictions in which share-based compensation awards and options vest and are exercised, respectively.
Recently Issued Accounting Pronouncements Not Yet Adopted:
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. This guidance is effective for the Company beginning in the first quarter of fiscal year 2020 and early adoption is permitted. The Company is finalizing its assessment of the impact of the guidance, but does not believe it will have a material impact on the Company's Consolidated Financial Statements.
In October 2016, 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. This guidance is effective for the Company beginning in the first quarter of fiscal year 2019 and early adoption is permitted. This guidance should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is currently assessing the

impact this new standard may have on its 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. This guidance is effective for the Company beginning in the first quarter of fiscal year 2019, and will generally require retrospective adoption. Early adoption is permitted. The Company is currently assessing the impact this new standard may have on its Consolidated Statements of Cash Flows.

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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 classification criteria and the accounting for sales-type and direct financing leases. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. 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.

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 is effective for the Company beginning in the first quarter of fiscal year 2019.

The Company developed a comprehensive project plan that includes a global cross-functional team of representatives to conduct an assessment of Topic 606 and its potential impacts on the Company. The project plan includes analyzing the standard’s impact on the Company’s various revenue streams, comparing its historical accounting policies and practices to the requirements of the new standard, and identifying potential differences from applying the requirements of the new standard to its contracts. The Company is in the process of identifying and implementing appropriate changes to its current accounting policies, business processes, systems and controls to support revenue recognition and disclosures under Topic 606.

As of September 30, 2017, 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, whereby revenue will be recognized "over time," as products are produced, 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. The Company presently expects to adopt Topic 606 at the beginning of fiscal 2019 using the modified retrospective approach.

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 September 30, 2017 and October 1, 2016 consisted of the following (in thousands):

	2017	2016
Raw materials	$477,921	$414,303
Work-in-process	86,367	69,423
Finished goods	90,354	80,405
Total inventories	$654,642	$564,131

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 Consolidated Balance Sheets as of September 30, 2017 and October 1, 2016 was $106.2 million and $74.6 million, respectively.

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3. Property, Plant and Equipment

Property, plant and equipment as of September 30, 2017 and October 1, 2016 consisted of the following (in thousands):

	2017	2016
Land, buildings and improvements	$262,428	$247,806
Machinery and equipment	348,593	336,378
Computer hardware and software	117,404	107,239
Construction in progress	12,790	4,298
Total property, plant and equipment, gross	741,215	695,721
Less: accumulated depreciation	(426,550)	(404,496)
Total property, plant and equipment, net	$314,665	$291,225

Assets held under capital leases and included in property, plant and equipment as of September 30, 2017 and October 1, 2016 consisted of the following (in thousands):

	2017	2016
Buildings and improvements	$23,717	$12,801
Machinery and equipment	11,070	6,070
Total property, plant and equipment held under capital leases, gross	34,787	18,871
Less: accumulated amortization	(6,465)	(8,042)
Total property, plant and equipment held under capital leases, net	$28,322	$10,829

During fiscal 2017, the Company capitalized $15.7 million of certain leased property, plant and equipment related to the relocation of its Neenah Design Center to a new facility located near the Company's Global Headquarters. Amortization of assets held under capital leases totaled $3.0 million, $1.9 million and $0.5 million for fiscal 2017, 2016 and 2015, respectively. Capital lease additions totaled $20.5 million, $2.9 million, and $1.2 million for fiscal 2017, 2016 and 2015, respectively.

As of September 30, 2017, October 1, 2016 and October 3, 2015, accounts payable included approximately $10.8 million, $3.5 million and $2.7 million, respectively, related to the purchase of property, plant and equipment, which have been treated as non-cash transactions for purposes of the Consolidated Statements of Cash Flows.

4. Debt, Capital Lease Obligations and Other Financing

Debt and capital lease obligations as of September 30, 2017 and October 1, 2016, consisted of the following (in thousands):

	2017	2016
Borrowings under the credit facility	$108,000	$75,000
5.20% Senior notes, due June 15, 2018	175,000	175,000
Capital lease and other financing obligations	30,901	13,614
Unamortized deferred financing fees	(794)	(1,105)
Total obligations	313,107	262,509
Less: current portion	(286,934)	(78,507)
Long-term debt and capital lease obligations, net of current portion	$26,173	$184,002

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. 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.

Explanation of Responses:

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The financial covenants (as defined under the related Credit Agreement) require 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. 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%). 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.
The Company also has outstanding 5.20% Senior Notes, due on June 15, 2018 (the "Notes"). As of September 30, 2017 and October 1, 2016, $175.0 million was outstanding, and the Company was in compliance with all financial covenants relating to the Notes, which are generally consistent with those in the Credit Agreement discussed above.
The aggregate scheduled maturities of the Company’s debt obligations as of September 30, 2017, are as follows (in thousands):

2018	$283,000
2019	—
2020	—
2021	—
2022	—
Thereafter	—
Total	$283,000

The aggregate scheduled maturities of the Company’s capital leases and other financing obligations as of September 30, 2017, are as follows (in thousands):

2018	$3,934
2019	2,705
2020	1,648
2021	820
2022	651
Thereafter	21,143
Total	$30,901

The Company's weighted average interest rate on capital lease obligations was 4.51% and 5.58% as of September 30, 2017 and October 1, 2016, respectively.
The Neenah Design Center capital lease that commenced during fiscal 2017 resulted in a non-cash transaction of approximately $15.7 million and is reflected in the current portion of long-term debt and capital lease obligations, as well as in long-term debt and capital lease obligations, net of current portion, on the accompanying Consolidated Balance Sheets as of September 30, 2017.

The "Thereafter" line of the scheduled maturities of capital lease obligations table above includes an $8.6 million non-cash financing obligation related to a failed sale-leaseback of a building shell in Guadalajara, Mexico that was capitalized in fiscal 2014. This obligation will be increased by interest expense and land rent expense, and reduced by contractual payments during the 20-year lease term. As of October 1, 2016, the balance of the related financing obligation totaled $8.4 million. At the end of the 20-year lease term, the net book value of the assets will approximate the balance of the financing obligation. If the Company does not exercise both renewal options or exercises the first but not the second, it would record a loss related to the disposal of the underlying assets in operating results of $4.1 million in fiscal 2024 or $0.8 million in fiscal 2029.

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The future minimum payments under the remainder of the ten-year base lease agreement, as well as the two five-year renewal options, are as follows (in thousands):

2018	$1,513
2019	1,550
2020	1,589
2021	1,629
2022	1,670
2023 through 2024 (remainder of the ten-year base lease agreement)	3,466
	$11,417
2025 through 2029 (first five-year renewal option)	9,451
2030 through 2034 (second five-year renewal option)	10,870
Total	$31,738

5. Derivatives and Fair Value Measurements

All derivatives are recognized in the accompanying 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.

Generally accepted accounting principles require companies to recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position. Accordingly, the Company designates some foreign currency exchange contracts as cash flow hedges of forecasted foreign currency expenses.

Changes in the fair value of the derivatives that qualify as cash flow hedges are recorded in "Accumulated other comprehensive loss" in the accompanying Consolidated Balance Sheets until earnings are affected by the variability of the cash flows. In the next twelve months, the Company estimates that $2.0 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 income (expense)" in the accompanying Consolidated Statements of Comprehensive Income.

The Company enters into forward currency exchange contracts for its Malaysian operations on a rolling basis. The Company had cash flow hedges outstanding with a notional value of $67.0 million as of September 30, 2017, and a notional value of $73.7 million as of October 1, 2016. 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 $2.0 million asset as of September 30, 2017 and a $0.5 million liability as of October 1, 2016.

The Company had additional forward currency exchange contracts outstanding as of September 30, 2017, with a notional value of $10.6 million; there were $109.6 million such contracts outstanding as of October 1, 2016. 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 Consolidated Balance Sheets as either a current or long-term asset or liability, depending on the term, and as an element of "Miscellaneous income (expense)." The total fair value of these derivatives was a $0.1 million liability as of September 30, 2017, and a $0.1 million asset as of October 1, 2016.

On May 5, 2017, a $75.0 million notional amount interest rate swap contract expired related to $75.0 million of borrowings outstanding under the Credit Facility. The interest rate swap paid the Company variable interest at the one month LIBOR rate, and the Company paid the counterparty a fixed interest rate. The fixed interest rate for the contract was 0.875%. The interest rate swap contract qualified as a cash flow hedge and all changes in the fair value of the interest rate swap were recorded in "Accumulated other comprehensive loss" on the accompanying Consolidated Balance Sheets until earnings were affected by the variability of cash flows. The notional amount of the Company's interest rate swap was $75.0 million as of October 1, 2016.

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The tables below present information regarding the fair values of derivative instruments (as defined in Note 1, "Description of Business and Significant Accounting Policies") and the effects of derivative instruments on the Company’s Consolidated Financial Statements:

Fair Values of Derivative Instruments
In thousands of dollars

	Asset Derivatives			Liability Derivatives		
		September 30, 2017	October 1, 2016		September 30, 2017	October 1, 2016
Derivatives designated as hedging instruments	Balance Sheet Classification	Fair Value	Fair Value	Balance Sheet Classification	Fair Value	Fair Value
Interest rate swaps	Prepaid expenses and other	$ —	$ —	Other accrued liabilities	$ —	$ 132
Forward currency forward contracts	Prepaid expenses and other	$ 2,024	$ —	Other accrued liabilities	$ —	$ 486

Fair Values of Derivative Instruments
In thousands of dollars

	Asset Derivatives			Liability Derivatives		
		September 30, 2017	October 1, 2016		September 30, 2017	October 1, 2016
Derivatives not designated as hedging instruments	Balance Sheet Classification	Fair Value	Fair Value	Balance Sheet Classification	Fair Value	Fair Value
Forward currency forward contracts	Prepaid expenses and other	$ 35	$ 182	Other accrued liabilities	$ 118	$ 130

Derivative Impact on Accumulated Other Comprehensive Loss ("OCL") for the Twelve Months Ended
In thousands of dollars

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in Other Comprehensive Income (Loss) on Derivatives (Effective Portion)		
	September 30, 2017	October 1, 2016	October 3, 2015
Interest rate swaps	$ (10)	$ (16)	$ (1,258)
Forward currency forward contracts	$ (848)	$ 5,311	$ (15,660)

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

Derivatives in Cash Flow Hedging Relationships	Classification of Gain (Loss) Reclassified from Accumulated OCL into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCL into Income (Effective Portion)		
		September 30, 2017	October 1, 2016	October 3, 2015
Interest rate swaps	Interest expense	$ (142)	$ (381)	$ (579)
Forward currency forward contracts	Selling and administrative expenses	$ (317)	$ (350)	$ (597)
Forward currency forward contracts	Cost of sales	$ (3,041)	$ (3,261)	$ (4,843)
Treasury Rate Locks	Interest expense	$ 321	$ 320	$ 324

Interest rate swaps	Income tax expense	$ (84)	$ —	$ —

Derivatives Not Designated as Hedging Instruments	Location of Gain Recognized on Derivatives in Income	Amount of Gain on Derivatives Recognized in Income		
		September 30, 2017	October 1, 2016	October 3, 2015
Forward currency forward contracts	Miscellaneous income (expense)	$2,153	$ 121	$ 164

There were no gains or losses recognized in income for derivatives related to ineffective portions and amounts excluded from effectiveness testing for fiscal years 2017, 2016 and 2015.

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The following table lists the fair values of liabilities of the Company's derivatives as of September 30, 2017 and October 1, 2016, by input level as defined in Note 1, "Description of Business and Significant Accounting Policies":
Fair Value Measurements Using Input Levels Asset/(Liability)
In thousands of dollars

Fiscal year ended September 30, 2017	Level 1	Level 2	Level 3	Total
Derivatives				
Forward currency forward contracts	$ —	$1,941	$ —	$1,941
Fiscal year ended October 1, 2016				
Derivatives				
Interest rate swaps	$ —	$(132)	$ —	$(132)
Forward currency forward contracts	$ —	$(434)	$ —	$(434)

The fair value of interest rate swaps and 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. The primary input in the fair value of the interest rate swaps is the relevant LIBOR forward curve. Inputs in the fair value of the foreign currency forward contracts include prevailing forward and spot prices for currency and interest rate forward curves.

6. Income Taxes

The domestic and foreign components of income (loss) before income tax expense for fiscal 2017, 2016 and 2015 were as follows (in thousands):

	2017	2016	2015
U.S.	$(35,209)	$(26,796)	$(32,480)
Foreign	157,032	114,190	138,775
	$121,823	$87,394	$106,295

Income tax expense (benefit) for fiscal 2017, 2016 and 2015 were as follows (in thousands):

	2017	2016	2015
Current:			
Federal	$78	$—	$—
State	33	(15)	(397)
Foreign	10,016	11,312	12,957
	10,127	11,297	12,560
Deferred:			
Federal	77	—	—
State	38	24	(399)
Foreign	(481)	(354)	(198)
	(366)	(330)	(597)
	$9,761	$10,967	$11,963

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The following is a reconciliation of the federal statutory income tax rate to the effective income tax rates reflected in the Consolidated Statements of Comprehensive Income for fiscal 2017, 2016 and 2015:

	2017	2016	2015
Federal statutory income tax rate	35.0 %	35.0 %	35.0 %
Increase (decrease) resulting from:			
Permanent differences	1.2	1.6	1.3
Foreign tax rate differences	(39.9)	(36.3)	(38.0)
Disregarded entity benefit	(0.9)	(1.8)	(1.2)
Dividend repatriation	—	32.9	—
Valuation allowances	12.2	(18.7)	16.5
Other, net	0.4	(0.1)	(2.3)
Effective income tax rate	8.0 %	12.6 %	11.3 %

The Company recorded income tax expense of $9.8 million, $11.0 million and $12.0 million for fiscal 2017, 2016 and 2015, respectively.

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

During fiscal 2017, the Company recorded a $14.9 million addition to its valuation allowance relating to continuing losses in certain jurisdictions within the AMER and EMEA regions.

During fiscal 2016, the Company repatriated $100.0 million of current year 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 repatriation does not impact the permanently reinvested assertions made by the Company regarding prior period foreign earnings as the remittance was distributed exclusively from current year foreign earnings. 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.

During fiscal 2015, the Company recorded a $17.5 million addition to its valuation allowance related to continuing losses in certain jurisdictions within the AMER and EMEA regions.

The components of the net deferred income tax assets as of September 30, 2017 and October 1, 2016, were as follows (in thousands):

	2017	2016
Deferred income tax assets:		
Loss/credit carryforwards	$44,831	$24,017
Inventories	7,710	7,527
Accrued benefits	25,811	25,493
Allowance for bad debts	319	461
Other	2,732	2,822
Total gross deferred income tax assets	81,403	60,320
Less valuation allowances	(61,668)	(41,002)
Deferred income tax assets	19,735	19,318
Deferred income tax liabilities:		
Property, plant and equipment	14,443	14,400
Other	—	84
Deferred income tax liabilities	14,443	14,484
Net deferred income tax assets	$5,292	$4,834

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During the first fiscal quarter of 2017, the Company adopted ASU 2016-09. Upon adoption, the Company recognized no net impact to its fiscal 2017 opening retained earnings balance as an incremental $4.9 million net operating loss carryforward related to tax deductions in excess of compensation expense for stock options was fully offset by an increase to the valuation allowance.

During fiscal 2017, the Company’s valuation allowance increased by $20.7 million. This increase is the result of increases to the valuation allowances against the net deferred tax assets in the AMER region of $18.4 million and in the EMEA region of $2.3 million.

As of September 30, 2017, the Company had approximately $181.5 million of pre-tax state net operating loss carryforwards that expire between fiscal 2018 and 2038. These state net operating losses have a full valuation allowance against them.

During fiscal 2017, tax legislation was adopted in various jurisdictions. None of the legislative changes are expected to have a material impact on the Company's consolidated financial condition, results of operations or cash flows.

The Company has been granted a tax holiday for a foreign subsidiary 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. During fiscal 2017, 2016 and 2015, the tax 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.

The Company does not provide for taxes that would be payable if undistributed earnings of foreign subsidiaries were remitted because the Company considers these earnings to be permanently reinvested. The aggregate undistributed earnings of the Company’s foreign subsidiaries for which a deferred income tax liability has not been recorded was approximately $990.7 million as of September 30, 2017. If such earnings were repatriated, additional tax expense may result, although the calculation of such additional taxes is not practicable at this time.

The Company has approximately $3.1 million of uncertain tax benefits as of September 30, 2017. The Company has classified these amounts in the Consolidated Balance Sheets as "Other liabilities" (noncurrent) in the amount of $0.8 million and an offset to "Deferred income taxes" (noncurrent asset) in the amount of $2.3 million. The Company has classified these amounts as "Other liabilities" (noncurrent) and "Deferred income taxes" (noncurrent asset) to the extent that payment is not anticipated within one year.

The following is a reconciliation of the beginning and ending amounts of unrecognized income tax benefits (in thousands):

	2017	2016	2015
Balance at beginning of fiscal year	$2,799	$2,353	$2,368
Gross increases for tax positions of prior years	184	534	73
Gross increases for tax positions of the current year	163	—	—
Gross decreases for tax positions of prior years	(31)	(88)	(88)
Balance at end of fiscal year	$3,115	$2,799	$2,353

The amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate is $0.8 million and $0.6 million for the fiscal years ended September 30, 2017 and October 1, 2016, respectively.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. The total accrued penalties and net accrued interest with respect to income taxes was approximately $0.2 million for each of the fiscal years ended September 30, 2017, October 1, 2016 and October 3, 2015. The Company recognized less than $0.1 million of expense for accrued penalties and net accrued interest in the Consolidated Statements of Comprehensive Income for each of the fiscal years ended September 30, 2017, October 1, 2016 and October 3, 2015.

It is possible that a number of 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.

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The Company files income tax returns, including returns for its subsidiaries, with federal, state, local and foreign taxing jurisdictions. The following tax years remain subject to examination by the respective major tax jurisdictions:

Jurisdiction	Fiscal Years
China	2012-2017
Germany	2013-2017
Mexico	2012-2017
Romania	2011-2017
United Kingdom	2014-2017
United States	
Federal	2011, 2013-2017
State	2003-2017

7. Earnings Per Share

The following is a reconciliation of the amounts utilized in the computation of basic and diluted earnings per share for fiscal 2017, 2016 and 2015 (in thousands, except per share amounts):

	2017	2016	2015
Net income	$112,062	$76,427	$94,332
Basic weighted average common shares outstanding	33,612	33,374	33,618
Dilutive effect of share-based awards outstanding	941	724	761
Diluted weighted average shares outstanding	34,553	34,098	34,379
Earnings per share:			
Basic	$3.33	$2.29	$2.81