PLEXUS CORP
Form 10-Q
May 06, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended April 2, 2016
OR

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number 001-14423

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of May 4, 2016, there were 33,345,127 shares of Common Stock of the Company outstanding.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
PLEXUS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands, except per share data)
Unaudited

	Three Months Ended		Six Months Ended	
	April 2, 2016	April 4, 2015	April 2, 2016	April 4, 2015
Net sales	$618,660	$651,285	$1,235,324	$1,315,975
Cost of sales	565,388	591,508	1,131,993	1,194,784
Gross profit	53,272	59,777	103,331	121,191
Selling and administrative expenses	28,009	30,325	55,037	61,266
Restructuring charges	1,917	—	3,424	1,691
Operating income	23,346	29,452	44,870	58,234
Other income (expense):				
Interest expense	(3,674)	(3,383)	(7,208)	(7,160)
Interest income	1,015	788	1,947	1,686
Miscellaneous	(1,128)	(60)	(2,748)	78
Income before income taxes	19,559	26,797	36,861	52,838
Income tax expense	2,772	3,203	5,626	6,165
Net income	$16,787	$23,594	$31,235	$46,673
Earnings per share:				
Basic	$0.50	$0.70	$0.94	$1.39
Diluted	$0.50	$0.69	$0.92	$1.36
Weighted average shares outstanding:				
Basic	33,319	33,606	33,368	33,604
Diluted	33,834	34,342	33,957	34,391
Comprehensive income:				
Net income	$16,787	$23,594	$31,235	$46,673
Other comprehensive income (loss) — net of income tax:				
Derivative instrument fair value adjustments	8,043	(1,314)	13,787	(5,958)
Foreign currency translation adjustments	1,022	(1,366)	(5,584)	(6,727)
Other comprehensive income (loss)	9,065	(2,680)	8,203	(12,685)
Total comprehensive income	$25,852	$20,914	$39,438	$33,988

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

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

	April 2, 2016	October 3, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$409,796	$357,106
Accounts receivable, net of allowances of $979 and $879, respectively	325,392	384,680
Inventories	563,291	569,371
Deferred income taxes	10,522	10,686
Prepaid expenses and other	27,095	22,882
Total current assets	1,336,096	1,344,725
Property, plant and equipment, net	307,227	317,351
Deferred income taxes	3,591	3,635
Other	36,610	36,677
Total non-current assets	347,428	357,663
Total assets	$1,683,524	$1,702,388
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	$2,300	$3,513
Accounts payable	383,092	400,710
Customer deposits	70,620	81,359
Accrued salaries and wages	31,252	49,270
Other accrued liabilities	41,890	44,446
Total current liabilities	529,154	579,298
Long-term debt, capital lease obligations and other financing, net of current portion	259,565	259,257
Deferred income taxes	9,664	9,664
Other liabilities	14,030	11,897
Total non-current liabilities	283,259	280,818
Total liabilities	812,413	860,116
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, 50,757 and 50,554 shares issued, respectively, and 33,267 and 33,500 shares outstanding, respectively	508	506
Additional paid-in capital	502,625	497,488
Common stock held in treasury, at cost, 17,490 and 17,054 shares, respectively	(525,706)	(509,968)
Retained earnings	891,952	860,717
Accumulated other comprehensive income (loss)	1,732	(6,471)
Total shareholders' equity	871,111	842,272
Total liabilities and shareholders' equity	$1,683,524	$1,702,388

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

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

	Six Months Ended April 2, 2016	April 4, 2015
Cash flows from operating activities:		
Net income	$ 31,235	$ 46,673
Adjustments to reconcile net income to cash flows provided by operating activities:		
Depreciation	23,903	24,602
Amortization of deferred financing fees	162	152
Loss (gain) on sale of property, plant and equipment	116	(88)
Deferred income tax net expense	144	108
Share-based compensation expense	6,957	7,095
Changes in operating assets and liabilities:		
Accounts receivable	57,732	(20,755)
Inventories	3,783	(34,473)
Other current and noncurrent assets	104	(5,853)
Accounts payable	(13,438)	9,436
Customer deposits	(10,305)	20,148
Other current and noncurrent liabilities	(9,080)	(6,331)
Cash flows provided by operating activities	91,313	40,714
Cash flows from investing activities:		
Payments for property, plant and equipment	(16,757)	(16,675)
Proceeds from sale of property, plant and equipment	6	103
Cash flows used in investing activities	(16,751)	(16,572)
Cash flows from financing activities:		
	289,000	252,000

Borrowings under credit facility		
Payments on debt and capital lease obligations	(291,404)	(254,332)
Debt issuance costs	(70)	—
Repurchases of common stock	(15,738)	(14,982)
Proceeds from exercise of stock options	742	3,946
Minimum tax withholding related to vesting of restricted stock	(2,560)	(2,712)
Cash flows used in financing activities	(20,030)	(16,080)
Effect of exchange rate changes on cash and cash equivalents	(1,842)	1,643
Net increase in cash and cash equivalents	52,690	9,705
Cash and cash equivalents:		
Beginning of period	357,106	346,591
End of period	$ 409,796	$ 356,296

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

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PLEXUS CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED APRIL 2, 2016 AND APRIL 4, 2015
Unaudited

1. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying Condensed Consolidated Financial Statements included herein have been prepared by Plexus Corp. and its subsidiaries (together "Plexus" or the "Company") without audit and pursuant to the rules and regulations of the United States ("U.S.") Securities and Exchange Commission ("SEC"). In the opinion of the Company, the accompanying Condensed Consolidated Financial Statements reflect all adjustments, which include normal recurring adjustments necessary for the fair statement of the consolidated financial position of the Company as of April 2, 2016 and October 3, 2015, and the results of operations for the three and six months ended April 2, 2016 and April 4, 2015, and the cash flows for the same six month periods.

The Company's fiscal year ends on the Saturday closest to September 30. The Company 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. The first quarter of fiscal 2015 included 14 weeks, all other fiscal quarters presented included 13 weeks.

Certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been condensed or omitted pursuant to the SEC's rules and regulations dealing with interim financial statements. However, the Company believes that the disclosures made in the Condensed Consolidated Financial Statements included herein are adequate to make the information presented not misleading. It is suggested that these Condensed Consolidated Financial Statements be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company's 2015 Annual Report on Form 10-K.

The Company's reportable segments consist of the "Americas" ("AMER"), "Asia-Pacific" ("APAC") and "Europe, Middle Eas and Africa" ("EMEA") segments. Refer to Note 9, "Reportable Segments," for further details on reportable segments.

Cash and Cash Equivalents

Cash and cash equivalents include short-term, highly liquid investments and are classified as Level 1 in the fair value hierarchy described below.

Fair Value of Financial Instruments

The Company holds financial instruments consisting of cash and cash equivalents, 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, accounts receivable, accounts payable, and capital lease obligations as reported in the Condensed 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 long-term debt was $251.4 million and $250.2 million as of April 2, 2016 and October 3, 2015, respectively. The carrying value of the Company's long-term debt was $250.0 million as of both April 2, 2016 and October 3, 2015. The Company uses quoted market prices when available or discounted cash flows to calculate the fair value of its debt. 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. Refer to Note 4, "Derivatives and Fair Value Measurements," for further details on derivatives.

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.

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Level 2: Inputs other than Level 1 that are observable, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.
Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability.

2. Inventories

Inventories as of April 2, 2016 and October 3, 2015 consisted of (in thousands):

	April 2, 2016	October 3, 2015
Raw materials	$404,239	$407,637
Work-in-process	77,215	84,472
Finished goods	81,837	77,262
Total inventories	$563,291	$569,371

Customer deposits are received by the Company for various reasons, including to offset certain obsolete and excess inventory risks. The total amount of customer deposits related to inventory and included within current liabilities on the accompanying Condensed Consolidated Balance Sheets as of April 2, 2016 and October 3, 2015 was $58.4 million and $64.3 million, respectively.

3. Debt, Capital Lease Obligations and Other Financing

Debt, capital lease obligations and other financing amounts outstanding at April 2, 2016 and October 3, 2015 are summarized below (in thousands):

	April 2, 2016	October 3, 2015
Borrowing under the credit facility	$75,000	$75,000
5.20% Senior Notes, due June 15, 2018	175,000	175,000
Capital lease & non-cash financing of leased facility obligations	11,865	12,770
Total obligations	261,865	262,770
Less: current portion	(2,300)	(3,513)
Long-term debt, capital lease and other financing obligations, net of current portion	$259,565	$259,257

The Company has a senior unsecured revolving credit facility (the “Credit Facility”), which expires on May 15, 2019. In October 2015, the Company exercised $30.0 million of an accordion feature thereunder, increasing the maximum commitment under the Credit Facility to $265.0 million. The Credit Facility may be further increased to $335.0 million, generally by mutual agreement of the Company and the lenders, subject to certain customary conditions. During the three and six months ended April 2, 2016, the highest daily borrowing was $220.0 million and the average daily borrowing was $187.0 million and $180.2 million, respectively. The Company borrowed and repaid $150.0 million and $289.0 million, respectively, of revolving borrowings under the Credit Facility during the three and six months ended April 2, 2016.

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 April 2, 2016, the Company was in compliance with all financial covenants of the Credit Agreement. Borrowings under the Credit Facility, at the Company's option, bear interest at a defined base rate or the LIBOR rate plus, in each case, an applicable margin based upon the Company's leverage ratio as defined in the Credit Agreement. Rates would increase upon negative changes in specified Company financial metrics and would decrease to no less than LIBOR plus 1.00% or base rate plus 0.00% upon reduction in the current total leverage ratio. As of April 2, 2016, the borrowing rate under the Credit Agreement was LIBOR plus 1.125% (or 1.566%). As of April 2, 2016, the $75.0 million of outstanding borrowing under the Credit Facility is effectively at a fixed interest rate as a result of a $75.0 million interest rate swap contract discussed in Note 4, "Derivatives and Fair Value Measurements." The Company is required to pay an annual commitment fee based on the daily unused revolver credit commitment based on the Company's leverage ratio; the fee was 0.175% as of April 2, 2016.

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The Company also has outstanding 5.20% Senior Notes, due on June 15, 2018 (the “Notes”). As of April 2, 2016 and October 3, 2015, $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.

4. Derivatives and Fair Value Measurements

All derivatives are recognized in the accompanying Condensed Consolidated Balance Sheets at their estimated fair value. The Company uses derivatives to manage the variability of foreign currency obligations and interest rates. The Company has cash flow hedges related to variable rate debt and 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.

ASC Topic 815-10, “Derivatives and Hedging,” requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position. In accordance with ASC Topic 815-10, the Company designates some foreign currency exchange contracts and float-to-fixed interest rate derivative contracts as cash flow hedges of forecasted foreign currency expenses and of variable rate interest payments, respectively.

Changes in the fair value of the derivatives that qualify as cash flow hedges are recorded in “Accumulated other comprehensive income (loss)” in the accompanying Condensed Consolidated Balance Sheets until earnings are affected by the variability of the cash flows. In the next twelve months, the Company estimates that $4.3 million of unrealized gains, net of tax, related to foreign exchange contracts will be reclassified from other comprehensive income into earnings. Changes in the fair value of the non-designated derivatives related to recognized foreign currency denominated assets and liabilities are recorded in "Other income (expense)" in the accompanying Condensed 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 April 2, 2016 and October 3, 2015, respectively. 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 cash flow hedges was a $4.3 million asset as of April 2, 2016, and a $9.4 million liability as of October 3, 2015.

The Company had additional forward currency exchange contracts outstanding with a notional value of $77.6 million as of April 2, 2016; there were no such contracts outstanding as of October 3, 2015. The Company has not designated these derivative instruments as hedging instruments. In accordance with ASC Topic 815-10, the net settlement amount (fair value) related to these contracts is recorded on the Condensed Consolidated Balance Sheets as either a current or long-term asset or liability, depending on the term, and as an element of "Other income (expense)." The total fair value of these derivatives was a net $0.2 million liability as of April 2, 2016.

In 2013, the Company entered into a $75.0 million notional amount interest rate swap contract, which expires on May 5, 2017, related to $75.0 million of borrowings outstanding under the Credit Facility. This interest rate swap pays the Company variable interest at the one month LIBOR rate, and the Company pays the counterparty a fixed interest rate. The fixed interest rate for the contract is 0.875%. Based on the terms of the interest rate swap contract and the underlying borrowings outstanding under the Credit Facility, the interest rate contract was determined to be effective, and thus qualifies as a cash flow hedge. As such, any changes in the fair value of the interest rate swap are recorded in "Accumulated other comprehensive income (loss)" on the accompanying Condensed Consolidated Balance Sheets until earnings are affected by the variability of cash flows. The total fair value of the interest rate swap contract as of April 2, 2016 and October 3, 2015, was a $0.2 million and $0.5 million liability, respectively. The notional amount of the Company’s interest rate swap was $75.0 million as of both April 2, 2016 and October 3, 2015.

The tables below present information regarding the fair values of derivative instruments (as defined in Note 1, "Basis of Presentation and Significant Accounting Policies,") and the effects of derivative instruments on the Company’s

Condensed Consolidated Financial Statements:

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Fair Values of Derivative Instruments
In thousands of dollars

	Asset Derivatives			Liability Derivatives		
		April 2, 2016	October 3, 2015		April 2, 2016	October 3, 2015
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	$ —	$ —	Current liabilities – other	$ 246	$ 497
Forward contracts	Prepaid expenses and other	$ 4,290	$ —	Current liabilities – other	$ —	$ 9,408

Fair Values of Derivative Instruments
In thousands of dollars

	Asset Derivatives			Liability Derivatives		
		April 2, 2016	October 3, 2015		April 2, 2016	October 3, 2015
Derivatives not designated as hedging instruments	Balance Sheet Classification	Fair Value	Fair Value	Balance Sheet Classification	Fair Value	Fair Value
Forward contracts	Prepaid expenses and other	$ 286	$ —	Current liabilities – other	$ 491	$ —

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

	Amount of Gain (Loss) Recognized in Other Comprehensive Income ("OCI") on Derivatives (Effective Portion)	
Derivatives in Cash Flow Hedging Relationships	April 2, 2016	April 4, 2015
Interest rate swaps	$ (227)	$ (563)
Forward contracts	$ 6,080	$ (1,922)

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

Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)

Derivatives in Cash Flow Hedging Relationships	Classification of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	April 2, 2016	April 4, 2015
Interest rate swaps	Interest expense	$ (94)	$ (133)
Forward contracts	Selling and administrative expenses	$ (189)	$ (120)
Forward contracts	Cost of goods sold	$ (1,988)	$ (999)
Treasury rate locks	Interest expense	$ 81	$ 81

		Amount of Gain (Loss) on Derivatives Recognized in Income	
Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized on Derivatives in Income	April 2, 2016	April 4, 2015
Forward contracts	Other income (expense)	$ (205)	$ (31)

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

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in Other Comprehensive Income ("OCI") on Derivatives (Effective Portion) April 2, 2016	April 4, 2015
Interest rate swaps	$ 30	$ (873)
Forward contracts	$ 8,369	$ (6,178)

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

Derivatives in Cash Flow Hedging Relationships	Classification of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) April 2, 2016	April 4, 2015
Interest rate swaps	Interest expense	$ (221)	$ (270)
Forward contracts	Selling and administrative expenses	$ (512)	$ (108)
Forward contracts	Cost of goods sold	$ (4,817)	$ (882)
Treasury rate locks	Interest expense	$ 162	$ 167

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized on Derivatives in Income	Amount of Gain (Loss) on Derivatives Recognized in Income April 2, 2016	April 4, 2015
Forward contracts	Other income (expense)	$ (168)	$ 127

There were no gains or losses recognized in income for derivatives related to ineffective portions or amounts excluded from effectiveness testing for the three and six months ended April 2, 2016 and April 4, 2015.

The following table lists the fair values of assets and (liabilities) of the Company's derivatives as of April 2, 2016 and October 3, 2015, by input level as defined in Note 1, "Basis of Presentation and Significant Accounting Policies," (in thousands):

	Level 1	Level 2	Level 3	Total
April 2, 2016				
Interest rate swaps	$ —	$ (246)	$ —	$ (246)
Foreign currency forward contracts	$ —	$ 4,085	$ —	$ 4,085
October 3, 2015				
Interest rate swaps	$ —	$ (497)	$ —	$ (497)

Foreign currency forward contracts	$ —	$ (9,408)	$ —	$ (9,408)

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.

5. Income Taxes

Income tax expense for the three and six months ended April 2, 2016 was $2.8 million and $5.6 million, respectively. The effective tax rates for the three and six months ended April 2, 2016 were 14.2 percent and 15.3 percent, respectively, compared to the effective tax rates for the three and six months ended April 4, 2015, which were 12.0 percent and 11.7 percent, respectively.

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The effective tax rate for the three months ended April 2, 2016 increased from the effective tax rate for the three months ended April 4, 2015, primarily due to a decrease in pretax earnings in lower tax-rate jurisdictions.
The effective tax rate for the six months ended April 2, 2016 increased from the effective tax rate for the six months ended April 4, 2015, primarily due to a decrease in pre-tax earnings in lower tax-rate jurisdictions and in jurisdictions where the Company maintains a valuation allowance. The Company's effective tax rate will fluctuate with the geographic distribution of its worldwide earnings, the impact of tax audits, discrete items and changes in tax laws.
There were no additions to the amount of unrecognized tax benefits recorded for uncertain tax positions as of April 2, 2016 as compared to October 3, 2015. The Company recognizes accrued interest and penalties on uncertain tax positions as a component of income tax expense. The amount of interest and penalties recorded for the three and six months ended April 2, 2016 was not material.
It is possible that one or more federal and state tax positions may be settled within the next 12 months. Settlement of these matters is not expected to have a material effect on the Company's consolidated results of operations, financial position and cash flows. The Company is not currently under examination by taxing authorities in the U.S. or any foreign jurisdictions in which the Company operates.
The Company maintains valuation allowances when it is more likely than not that all or a portion of a net deferred tax asset will not be realized. During the three months ended April 2, 2016, the Company continued to record a full valuation allowance against its net deferred tax assets in certain jurisdictions within the AMER and EMEA segments, as it is more likely than not that these assets will not be fully realized based primarily on historical performance. The Company will continue to provide a valuation allowance against its net deferred tax assets in each of the applicable jurisdictions going forward until it determines it is more likely than not that the deferred tax assets will be realized.

6. Earnings Per Share

The following is a reconciliation of the amounts utilized in the computation of basic and diluted earnings per share for the three and six months ended April 2, 2016 and April 4, 2015 (in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	April 2, 2016	April 4, 2015	April 2, 2016	April 4, 2015
Net income	$16,787	$23,594	$31,235	$46,673
Basic weighted average common shares outstanding	33,319	33,606		