Kimball Electronics, Inc.
Form 10-K
August 28, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 001-36454
KIMBALL ELECTRONICS, INC.
(Exact name of registrant as specified in its charter)

Indiana	35-2047713
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1205 Kimball Boulevard, Jasper, Indiana	47546
(Address of principal executive offices)	(Zip Code)

(812) 634-4000
Registrant’s telephone number, including area code
Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Name of each exchange on which registered
Common Stock, no par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No x
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 x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 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 x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this

Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o
(Do not check if a smaller reporting company)	Emerging growth company o

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The aggregate market value of the common stock held by non-affiliates, as of December 29, 2017 (the last business day of the Registrant’s most recently completed second fiscal quarter), was $473.5 million based on 96.3% of common stock held by non-affiliates.

The number of shares outstanding of the Registrant’s common stock as of August 15, 2018 was 26,381,318 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Share Owners to be held on November 8, 2018, are incorporated by reference into Part III.

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PART I

Item 1 - Business

General

As used herein, the terms “Company,” “Kimball Electronics,” “we,” “us,” or “our” refer to Kimball Electronics, Inc., the Registrant, and its subsidiaries. Reference to a year relates to a fiscal year, ended June 30 of the year indicated, rather than a calendar year unless the context indicates otherwise. Additionally, references to the first, second, third, and fourth quarters refer to those respective quarters of the fiscal year indicated.

Forward-Looking Statements

This document contains certain forward-looking statements. These are statements made by management, using their best business judgment based upon facts known at the time of the statements or reasonable estimates, about future results, plans, or future performance and business of the Company. Such statements involve risk and uncertainty, and their ultimate validity is affected by a number of factors, both specific and general. They should not be construed as a guarantee that such results or events will, in fact, occur or be realized as actual results may differ materially from those expressed in these forward-looking statements. The statements may be identified by the use of words such as “believes,” “anticipates,” “expects,” “intends,” “plans,” “projects,” “estimates,” “forecasts,” “seeks,” “likely,” “future,” “may,” “would,” “will,” and similar expressions. It is not possible to foresee or identify all factors that could cause actual results to differ from expected or historical results. We make no commitment to update these factors or to revise any forward-looking statements for events or circumstances occurring after the statement is issued, except as required by law.

The risk factors discussed in Item 1A - Risk Factors of this report could cause our results to differ materially from those expressed in forward-looking statements. There may be other risks and uncertainties that we are unable to predict at this time or that we currently do not expect to have a material adverse effect on our business. Any such risks could cause our results to differ materially from those expressed in forward-looking statements.

At any time when we make forward-looking statements, we desire to take advantage of the “safe harbor” which is afforded such statements under the Private Securities Litigation Reform Act of 1995 where factors could cause actual results to differ materially from forward-looking statements.

Overview

Kimball Electronics was founded in 1961 and was incorporated in 1998. We are a global provider of contract electronic manufacturing services, including engineering and supply chain support, to customers in the automotive, medical, industrial, and public safety end markets. We offer a package of value that begins with our core competency of producing “durable electronics” and have expanded into diversified contract manufacturing services for non-electronic components, medical disposables, plastics, and metal fabrication. This package of value includes our set of robust processes and procedures that help us ensure that we deliver the highest levels of quality, reliability, and service throughout the entire life cycle of our customers’ products. We believe our customers appreciate our body of knowledge as it relates to the design and manufacture of their products that require durability, reliability, the highest levels of quality control, and regulatory compliance. We deliver award-winning service from our highly integrated global footprint which is enabled by a largely common operating system, a standardization strategy, global procedures, and teamwork. Our Customer Relationship Management (“CRM”) model is key to providing our customers convenient access to our global footprint and all of our services throughout the entire product life cycle, making us easy to do business with. Because our customers are in businesses where engineering changes must be tightly controlled and long product life cycles are common, our track record of quality, financial stability, social responsibility, and commitment to long-term relationships is important to them.

We have been producing safety critical electronic assemblies for our automotive customers for over 30 years. During this time, we have built up a body of knowledge that has not only proven to be valuable to our automotive customers, but to our medical, industrial, and public safety customers as well. We have been successful in growing and diversifying our business by leveraging our automotive experience and know-how in the areas of design and process validation, traceability, process and change control, and lean manufacturing to create valuable and innovative solutions for new customers in the medical, industrial, and public safety end market verticals. These solutions include diversified contract manufacturing services as we now offer our customers design engineering and manufacturing expertise in precision metals and plastics. We have harmonized our quality systems to be compliant with various important industry certifications and regulatory requirements. This allows us to take advantage of other strategic points of leverage in the supply chain and within our operations so we can cost-effectively manufacture electronic and non-electronic products in the same production facility for customers from all four of our end market verticals.

Many of our customers are multinational companies that sell their products in multiple regions of the world. For these customers, it is important for them to be able to leverage their investment in their supply partner relationships such that the same partner provides them with engineering, manufacturing, and supply chain support in multiple regions of the world. It is common for us to manufacture the same product for the same customer in multiple locations. Our strategy for expanding our global footprint has aligned us with the preferences of the customers in our four end market verticals and has positioned us well to support their global growth initiatives. Our global systems, procedures, processes, and teamwork combined with our CRM model have allowed us to accomplish this goal for many of our largest customers.

Our global processes and central functions that support component sourcing, procurement, quoting, and customer pricing provide commonality and consistency among the various regions in which we operate. We have a central, global sourcing organization that utilizes procurement processes and practices to help secure sources from around the world and to ensure sufficient availability of components and a uniform approach to pricing while leveraging the purchase volume of the entire organization. Customer pricing for all of the products we produce is managed centrally utilizing a standardized quoting model regardless of where our customers request their products to be produced.

Our CRM model combines members of our team from within our manufacturing facilities and members of our business development team who reside remotely and nearer to our customers around the world. We also have cross functional teams in the areas of quality, operational excellence, quoting, and design engineering with representatives from our various locations that provide support to our teams on a global basis. The skill sets of these team members and the clarity in their roles and responsibilities help provide our customers with a strong conduit that is critical to execution and forming a strong relationship. We have institutionalized a customer scorecard process that provides all levels of our company with valuable feedback that helps us drive the actions for continuous improvement. Our customer scorecard process has helped us deliver award-winning service and build loyalty with our customers.

Our corporate headquarters is located at 1205 Kimball Boulevard, Jasper, Indiana. Production occurs in our facilities located in the United States, China, Mexico, Poland, Romania, and Thailand.

Our services are sold globally on a contract basis, and we produce products to our customers' specifications. Our manufacturing services primarily include:

- Design services and support;
- Supply chain services and support;
- Rapid prototyping and new product introduction support;
- Product design and process validation and qualification;
- Industrialization and automation of manufacturing processes;
- Reliability testing (testing of products under a series of extreme environmental conditions);
- Production and testing of printed circuit board assemblies (PCBAs);
- Assembly, production, and packaging of medical disposables and other non-electronic products;
- Design engineering and production of precision plastics and metal fabrication; and
- Complete product life cycle management.

We pride ourselves on the fact that we pay close attention to the evolving needs and preferences of our customers. As we have done in the past, we will continue to look for opportunities to grow and diversify our business by expanding our package of value and our global footprint.

Spin-Off

Kimball Electronics, Inc. was a wholly owned subsidiary of Kimball International, Inc. ("former Parent" or "Kimball International") and on October 31, 2014 became a stand-alone public company upon the completion of a spin-off from former Parent. In conjunction with the spin-off, on October 31, 2014, Kimball International distributed 29.1 million shares of Kimball Electronics common stock to Kimball International Share Owners. Holders of Kimball International common stock received three shares of Kimball Electronics common stock for every four shares of Kimball International common stock held on October 22, 2014. Kimball International structured the distribution to be tax free to its U.S. Share Owners for U.S. federal income tax purposes.

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Reporting Segment

Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. Each of our business units qualifies as an operating segment with its results regularly reviewed by our chief operating decision maker. Our chief operating decision maker is our Chief Executive Officer. Our business units meet the aggregation criteria under the current accounting guidance for segment reporting. As of June 30, 2018, all of our business units operate in the electronic manufacturing services industry that provide electronic assemblies and/or components primarily in automotive, medical, industrial, and public safety applications, all to the specifications and designs of our customers. The nature of the products, the production process, the type of customers, and the methods used to distribute the products, all have similar characteristics. Each of our business units service customers in multiple markets and many of our customers' programs are manufactured and serviced by multiple business units. Our global processes such as component procurement and customer pricing provide commonality and consistency among the various regions in which we operate. All of our business units have similar long-term economic characteristics. As such, our business units have been aggregated into one reportable segment. See Item 6 - Selected Financial Data for more information regarding the Company's financial results.

Our Business Strategy

We intend to achieve sustained, profitable growth in the markets we serve by supporting the global growth initiatives of our customers, and we will continue our development beyond the electronic manufacturing services ("EMS") market to become a multifaceted manufacturing solutions company. Key elements of executing our strategy include:

- Leveraging Our Global Footprint – continue our strategy of utilizing our presence in key global regions, including new potential country locations and/or facility expansion as our customer demands dictate;
- Expanding Our Package of Value – enhance our core strengths and expand upon our package of value through diversified contract manufacturing services in areas such as complex system assembly, specialized processes, precision metals, and plastics; and
- Expanding Our Markets - explore opportunities that will establish new markets, platforms, and technologies beyond the EMS market such as the automation, test, and measurement systems market.

To expand our markets and implement our new platform strategy, we expect to make investments that will help us develop beyond the EMS market, including through acquisitions. As part of this strategy, we entered into an agreement on May 11, 2018 with GES Holdings, Inc., Global Equipment Services and Manufacturing, Inc., and its subsidiaries (collectively referred to as "GES") to acquire substantially all of the assets and assume certain liabilities of GES. We will pay a cash purchase price of approximately $50 million plus the assumed liabilities, and the transaction price is subject to certain post-closing working capital adjustments. The GES acquisition is expected to close in the first quarter of our fiscal year 2019, subject to customary closing conditions, including regulatory requirements and governmental approvals. The GES acquisition supports our new platform strategy as GES specializes in production processing and test equipment design, volume manufacturing, and global services for the semiconductor and electronics product manufacturing industry. See Item 1A - Risk Factors for risks associated with this acquisition and Note 2 - Acquisitions of Notes to Consolidated Financial Statements for more information on this pending acquisition.

Our Business Offerings

We offer contract electronic manufacturing services, including engineering and supply chain support, to customers in the automotive, medical, industrial, and public safety end market verticals. We also offer diversified contract manufacturing services for non-electronic components, medical disposables, plastics, and metal fabrication. Our services support the complete product life cycle of our customers' products, and our processes and capabilities cover a range of products from high volume-low mix to high mix-low volume. We collaborate with third-party design services companies to bring innovative, complete design solutions to our customers. We offer Design for Excellence input to our customers as a part of our standard package of value. We use sophisticated software tools to integrate the supply chain in a way that provides our customers with the flexibility their business requires. Our robust new product introduction process and our extensive manufacturing capabilities give us the ability to execute to the quality and reliability expectations in the electronics manufacturing industry.

We value our customers and their unique needs and expectations. Our customer focus and dedication to unparalleled excellence in engineering and manufacturing has resulted in proven success in the contract manufacturing industry. Personal relationships are important to us. We strive to build long-term global partnerships. Our commitment to support our customers is backed by our history and demonstrated performance over the past 50 years.

Marketing Channels

Manufacturing services, including engineering and supply chain support, are marketed by our business development team. We use a CRM model to provide our customers with convenient access to our global footprint and all of our services throughout the entire product life cycle.

Major Competitive Factors

Key competitive factors in the EMS market include competitive pricing, quality and reliability, engineering design services, production flexibility, on-time delivery, customer lead time, test capability, and global presence. Growth in the EMS industry is created through the proliferation of electronic components in today's advanced products and the continuing trend of original equipment manufacturers in the electronics industry subcontracting the assembly process to companies with a core competency in this area. The nature of the EMS industry is such that the start-up of new customers and new programs to replace expiring programs occurs frequently. New customer and program start-ups generally cause losses early in the life of a program, which are generally recovered as the program becomes established and matures. We continue to experience margin pressures related to an overall excess capacity position in the electronics subcontracting services market and from our customers' own capacity and capabilities to in-source production. Our continuing success depends upon our ability to replace expiring customers/programs with new customers/programs.

We do not believe that we, or the industry in general, have any special practices or special conditions affecting working capital items that are significant for understanding our EMS business other than fluctuating inventory levels which may increase in conjunction with transfers of production among facilities and start-up of new programs.

Our Competitive Strengths

Our competitive strengths derive from our experience of producing safety critical electronic assemblies for automotive customers for over 30 years and leveraging this experience to create valuable and innovative solutions for customers in different industries. Our core strengths include:

- Our core competency of producing durable electronics;
- Our body of knowledge as it relates to the design and manufacture of products that require high levels of quality control, reliability, and durability;
- Our highly integrated, global footprint;
- Our capability to provide our customers diversified contract manufacturing services for non-electronic components, medical disposables, plastics, and metal fabrication;
- Our CRM model and our customer scorecard process;
- Our ability to provide our customers with valuable input regarding designs for improved manufacturability, reliability, and cost;
- Our quality systems, industry certifications, and regulatory compliance;
- Our integrated supply chain solutions and competitive bid process resulting in competitive raw material pricing; and
- Complete product life cycle management.

Competitors

The EMS industry is very competitive as numerous manufacturers compete for business from existing and potential customers. Our competition includes EMS companies such as Benchmark Electronics, Inc., Jabil Inc., and Plexus Corp. We do not have a significant share of the EMS market and were ranked the 19th largest global EMS provider for calendar year 2017 by Manufacturing Market Insider in the March 2018 edition published by New Venture Research.

Locations

As of June 30, 2018, we have nine manufacturing facilities with three located in Indiana and one located in each of Florida, China, Mexico, Poland, Romania, and Thailand. We continually assess our capacity needs and evaluate our operations to optimize our service levels for supporting our customers' needs around the globe. During fiscal year 2016, the construction of our greenfield facility in Romania was completed. We recently acquired certain assets and assumed certain liabilities of two contract manufacturing companies located in Indiana, one during fiscal year 2017 and one during fiscal year 2016. See Item 1A - Risk Factors for information regarding financial and operational risks related to our international operations, acquisitions, and start-up operations. Financial information by geographic area for each of the three years in the period ended June 30, 2018 is included in Note 15 - Geographic Information of Notes to Consolidated Financial Statements.

Seasonality

Sales revenue of our EMS business is generally not affected by seasonality.

Customers

While the total electronic assemblies market has broad applications, our customers are concentrated in the automotive, medical, industrial, and public safety industries.

Sales by industry as a percent of net sales for each of the three years in the period ended June 30, 2018 were as follows:

	Year Ended June 30		
	2018	2017	2016
Automotive	44%	41%	39%
Medical	29%	28%	30%
Industrial	20%	22%	22%
Public Safety	6%	7%	7%
Other	1%	2%	2%
Total	100%	100%	100%

See Note 15 - Geographic Information of Notes to Consolidated Financial Statements for financial information reported by geographic area.

Included in our sales were a significant amount to ZF, Philips, and Nexteer Automotive, which accounted for the following portions of net sales:

	Year Ended June 30		
	2018	2017	2016
ZF	15%	12%	11%
Philips	13%	14%	15%
Nexteer Automotive	13%	12%	*

* amount is less than 10% of total

The nature of the contract business is such that start-up of new customers to replace expiring customers occurs frequently. Our agreements with customers are often not for a definitive term and are amended and extended, but generally continue for the relevant product's life cycle, which can be difficult to predict at the beginning of a program. Typically, our customer agreements do not commit the customer to purchase our services until a purchase order is provided, which are generally short-term in nature. Our customers generally have the right to cancel a particular program subject to contractual provisions governing termination, the final product runs, excess or obsolete inventory, and end-of-life pricing, which reduces the additional costs that we incur when a manufacturing services agreement is terminated.

Backlog

The aggregate sales price of production pursuant to worldwide open orders, which in certain cases may be canceled by the customer subject to contractual termination provisions, was $293.1 million and $214.3 million as of June 30, 2018 and 2017, respectively. Substantially all of the open orders as of June 30, 2018 are expected to be filled within the next fiscal year. Open orders may not be indicative of future sales trends.

Raw Materials

Raw materials utilized in the manufacture of contract electronic products are generally readily available from both domestic and foreign sources, although from time to time the industry experiences shortages of certain components due to supply and demand forces, combined with rapid product life cycles of certain components. In addition, unforeseen events such as natural disasters can and have disrupted portions of the supply chain. We believe that maintaining close communication with suppliers helps minimize potential disruption in our supply chain.

Raw materials are normally acquired for specific customer orders and may or may not be interchangeable among products. Inherent risks associated with rapid technological changes within this contract industry are mitigated by procuring raw materials, for the most part, based on firm orders. In certain instances, such as when lead times dictate, we enter into contractual agreements for material in excess of the levels required to fulfill customer orders. In turn, material authorization agreements with customers cover a portion of the exposure for material which is purchased prior to having a firm order. We may also purchase additional inventory to support new product introductions and transfers of production between manufacturing facilities.

Research and Development
Research and development activities include the development of manufacturing processes, engineering and testing procedures, major process improvements, and information technology initiatives.
Research and development costs were approximately:

	Year Ended June 30		
(Amounts in Millions)	2018	2017	2016
Research and Development Costs	$11	$10	$9

Intellectual Property
Our primary intellectual property is our proprietary manufacturing technology and processes which allow us to provide very competitive electronic manufacturing services to our customers. As such, this intellectual property is complex and normally contained within our facilities. The nature of this know-how does not lend itself well to traditional patent protection. In addition, we feel the best protection strategy involves maintaining our intellectual property as trade secrets because there is no disclosure of the information to outside parties, and there is no expiration on the length of protection. For these reasons, we do not own any patents that we consider significant to our business, and our only registered trademark is the “Kimball” name as registered in certain categories relating to our electronics manufacturing and design services, which were assigned to us by former Parent.
Environment and Energy Matters
Our operations are subject to various foreign, federal, state, and local laws and regulations with respect to environmental matters. We believe that we are in substantial compliance with present laws and regulations and that there are no material liabilities related to such items.
We are dedicated to excellence, leadership, and stewardship in protecting the environment and communities in which we have operations. We believe that continued compliance with foreign, federal, state, and local laws and regulations which have been enacted relating to the protection of the environment will not have a material effect on our capital expenditures, earnings, or competitive position. Management believes capital expenditures for environmental control equipment during the two fiscal years ending June 30, 2020 will not represent a material portion of total capital expenditures during those years.
Our operations require significant amounts of energy, including natural gas and electricity. Federal, foreign, and state regulations may control the allocation of fuels available to us, but to date we have experienced no interruption of production due to such regulations.
Employees
As of June 30, 2018, Kimball Electronics employed approximately 5,700 people worldwide, with approximately 1,100 located in the United States and approximately 4,600 located in foreign countries. Our U.S. operations are not subject to collective bargaining arrangements. Most of our foreign operations are subject to collective bargaining arrangements, many mandated by government regulation or customs of the particular countries. We believe that our employee relations are good.
Available Information
The Company makes available free of charge through its website, http://investors.kimballelectronics.com, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (“SEC”). All reports the Company files with the SEC are also available via the SEC website, http://www.sec.gov, or may be read and copied at the SEC Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The Company’s website and the information contained therein, or incorporated therein, are not intended to be incorporated into this Annual Report on Form 10-K.
Item 1A - Risk Factors
The following important risk factors, among others, could affect future results and events, causing results and events to differ materially from those expressed or implied in forward-looking statements made in this report and presented elsewhere by management from time to time. Such factors, among others, may have a material adverse effect on our

business, financial

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condition, and results of operations and should be carefully considered. Additional risks and uncertainties that we do not currently know about, we currently believe are immaterial, or we have not predicted may also affect our business, financial condition, or results of operations. Because of these and other factors, past performance should not be considered an indication of future performance.

Risks Relating to Our Business

Uncertain macroeconomic and industry conditions could adversely impact demand for our products and services and adversely affect operating results.

Market demand for our products and services, which impacts revenues and gross profit, is influenced by a variety of economic and industry factors such as:

- instability of the global financial markets;
- uncertainty of worldwide economic conditions;
- volatile energy costs;
- erosion of global consumer confidence;
- general corporate profitability of our end markets;
- credit availability to our customers and our customers' end markets;
- demand fluctuations in the industries we currently serve, including automotive, medical, industrial, and public safety;
- demand for end-user products which include electronic assembly components produced by us;
- excess capacity in the industries in which we compete; and
- changes in customer order patterns, including changes in product quantities, delays in orders, or cancellation of orders.

We must make decisions based on order volumes in order to achieve efficiency in manufacturing capacities. These decisions include determining what level of additional business to accept, production schedules, component procurement commitments, and personnel requirements, among various other considerations. We must constantly monitor the changing economic landscape and may modify our strategic direction based upon the changing business environment. If we do not react quickly enough to the changes in market or economic conditions, it could result in lost customers, decreased market share, and increased operating costs.

Many countries, including certain of those in North America, Europe, and Asia in which we operate, have in the recent past experienced economic uncertainty, slow economic growth, or recession. The economic recovery of recent years may slow and recessionary conditions may return, which could result in our customers or potential customers reducing or delaying orders as well as a number of other negative effects on our business, such as increased pricing pressures, the insolvency of suppliers, which could cause production delays, the inability of customers to obtain credit, or the insolvency of customers. In addition, the uncertainties of the market and economic conditions, both in Europe and worldwide, caused by the United Kingdom's pending exit from the European Union could also have an adverse effect on our business and results of operations.

We are exposed to the credit risk of our customers.

The instability of market conditions drives an elevated risk of potential bankruptcy of customers resulting in a greater risk of uncollectible outstanding accounts receivable. Accordingly, we intensely monitor our receivables and related credit risks. The realization of these risks could have a negative impact on our profitability.

Reduction of purchases by or the loss of one or more key customers could reduce revenues and profitability.

Losses of key contract customers within specific industries or significant volume reductions from key contract customers are both risks. If one of our current customers merges with or is acquired by a party that currently is aligned with a competitor, or the combination creates excess capacity, we could lose future revenues. Our continuing success is dependent upon replacing expiring contract customers/programs with new customers/programs. See "Customers" in Item 1 - Business for disclosure of the net sales as a percentage of consolidated net sales for each of our significant customers during fiscal years 2018, 2017, and 2016. Regardless of whether our agreements with our customers, including our significant customers, have a definite term, our customers typically do not have an obligation to purchase a minimum quantity of products or services as individual purchase orders or other product or project specific documentation are typically entered into from time to time. Our customers generally have the right to cancel a particular product, subject to contractual provisions governing the final product runs, excess or obsolete inventory, and end-of-life pricing. As such, our ability to continue the relationships with such customers is uncertain.

Significant declines in the level of purchases by key customers or the loss of a significant number of customers could have a material adverse effect on our business. In addition, the nature of the contract electronics manufacturing industry is such that the start-up of new customers and new programs to replace expiring programs occurs frequently, and new customer and program start-ups generally cause losses early in the life of a program. We can provide no assurance that we will be able to fully replace any lost sales, which could have an adverse effect on our financial position, results of operations, or cash flows.

We operate in a highly competitive environment and may not be able to compete successfully.

Numerous manufacturers within the EMS industry compete globally for business from existing and potential customers. Some of our competitors have greater resources and more geographically diversified international operations than we do. We also face competition from the manufacturing operations of our customers, who are continually evaluating the merits of manufacturing products internally against the advantages of outsourcing to EMS providers. In the past, some of our customers have decided to in-source a portion of their electronics manufacturing from us in order to utilize their excess internal manufacturing capacity. The competition may further intensify as more companies enter the markets in which we operate, as existing competitors expand capacity and as the industry consolidates.

In relation to customer pricing pressures, if we cannot achieve the proportionate reductions in costs, profit margins may suffer. The high level of competition in the industry impacts our ability to implement price increases or, in some cases, even maintain prices, which also could lower profit margins. In addition, as end markets dictate, we are continually assessing excess capacity and developing plans to better utilize manufacturing operations, including consolidating and shifting manufacturing capacity to lower cost venues as necessary.

As of June 30, 2018, we are no longer an “emerging growth company” and are therefore subject to the auditor attestation requirement in the assessment of our internal control over financial reporting and certain other increased disclosure and governance requirements.

Because our total annual gross revenues exceed $1.07 billion as of June 30, 2018, we are no longer an “emerging growth company,” as defined in the JOBS Act. Therefore, we are now subject to certain requirements that apply to other public companies but did not previously apply to us due to our status as an emerging growth company. These requirements include:

- compliance with the auditor attestation requirement in the assessment of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act;
- compliance with any new rules that may be adopted by the Public Company Accounting Oversight Board;
- compliance with any new or revised financial accounting standards applicable to public companies without an extended transition period;
- full disclosure regarding executive compensation required of larger public companies; and
- compliance with the requirement of holding a nonbinding advisory vote on executive compensation and obtaining Share Owner approval of any golden parachute payments not previously approved.

Failure to comply with these requirements could subject us to enforcement actions by the SEC, divert management’s attention, damage our reputation, and adversely affect our business, results of operations, or financial condition. In particular, if our independent registered public accounting firm is not able to render the required attestation, it could result in lost investor confidence in the accuracy, reliability, and completeness of our financial reports. We expect that the loss of “emerging growth company” status and compliance with these increased requirements will require management to expend additional time while also condensing the time frame available to comply with certain requirements, which may further increase our legal and financial compliance costs.

We may be unable to purchase a sufficient amount of materials, parts, and components for use in our products at competitive prices, in a timely manner, or at all.

We depend on suppliers globally to provide timely delivery of materials, parts, and components for use in our products. The financial stability of suppliers is monitored by us when feasible as the loss of a significant supplier could have an adverse impact on our operations. Suppliers adjust their capacity as demand fluctuates, and component shortages and/or component allocations could occur. Certain components purchased by us are primarily manufactured in select regions of the world and issues in those regions could cause manufacturing delays. Maintaining strong relationships with key suppliers of components critical to the manufacturing process is essential. Price increases of commodity components could have an adverse impact on our profitability if we cannot offset such increases with other cost reductions or by price increases to customers. Materials utilized in our manufacturing process are generally available, but future availability is unknown and could impact our ability to meet customer order requirements. If suppliers fail to meet commitments to us in terms of price, delivery, or quality, it could interrupt our operations and negatively impact our ability to meet commitments to customers.

Our operating results could be adversely affected by increases in the cost of fuel and other energy sources.
The cost of energy is a critical component of freight expense and the cost of operating manufacturing facilities. Increases in the cost of energy could reduce our profitability.
We are subject to manufacturing inefficiencies due to start-up of new programs, transfer of production, and other factors.
At times, we may experience labor or other manufacturing inefficiencies due to factors such as start-up of new programs, transfers of production among our manufacturing facilities, a sudden decline in sales, a new operating system, or turnover in personnel. Manufacturing inefficiencies could have an adverse impact on our financial position, results of operations, or cash flows.
A change in our sales mix among various products could have a negative impact on our gross profit margin.
Changes in product sales mix could negatively impact our gross margin as margins of different products vary. We strive to improve the margins of all products, but certain products have lower margins in order to price the product competitively or in connection with the start-up of a new program. An increase in the proportion of sales of products with lower margins could have an adverse impact on our financial position, results of operations, or cash flows.
We may implement future restructuring efforts and those efforts may not be successful.
We continually evaluate our manufacturing capabilities and capacities in relation to current and anticipated market conditions. We may implement restructuring plans in the future, and the successful execution of those restructuring initiatives will be dependent on various factors and may not be accomplished as quickly or effectively as anticipated.
We will face risks commonly encountered with growth through acquisitions.
Our sales growth plans may occur through both organic growth and acquisitions. Acquisitions involve many risks, including:

- difficulties in identifying suitable acquisition candidates and in negotiating and consummating acquisitions on terms attractive to us;
- difficulties in the assimilation of the operations of the acquired company;
- the diversion of resources, including diverting management’s attention from our current operations;
- risks of entering new geographic or product markets in which we have limited or no direct prior experience;
- the potential loss of key customers of the acquired company;
- the potential loss of key employees of the acquired company;
- the potential incurrence of indebtedness to fund the acquisition;
- the potential issuance of common stock for some or all of the purchase price, which could dilute ownership interests of our current Share Owners;
- the acquired business not achieving anticipated revenues, earnings, cash flow, or market share;
- excess capacity;
- the assumption of undisclosed liabilities;
- potential adverse tax effects; and
- dilution of earnings.

We may not be successful in launching start-up operations.
We are committed to growing our business, and therefore from time to time, we may determine that it would be in our best interest to start up a new operation. Start-up operations involve a number of risks and uncertainties, such as funding the capital expenditures related to the start-up operation, developing a management team for the new operation, diversion of management focus away from current operations, and creation of excess capacity. Any of these risks could have a material adverse effect on our financial position, results of operations, or cash flows.

If efforts to start-up new programs are not successful, this could limit sales growth or cause sales to decline.

As we depend on industries that utilize technologically advanced electronic components which often have short life cycles, we must continue to invest in advanced equipment and product development to remain competitive in this area. The start-up of new programs requires the coordination of the design and manufacturing processes. The design and engineering required for certain new programs can take an extended period of time, and further time may be required to achieve customer acceptance. Accordingly, the launch of any particular program may be delayed, less successful than we originally anticipated, or not successful at all. Difficulties or delays in starting up new programs or lack of customer acceptance of such programs could limit sales growth or cause sales to decline and adversely impact our operating results.

Our international operations involve financial and operational risks.

We have operations outside the United States, primarily in China, Mexico, Poland, Romania, and Thailand. Our international operations are subject to a number of risks, which may include the following:

- economic and political instability, including the uncertainties caused by the United Kingdom’s pending exit from the European Union;
- warfare, riots, terrorism, and other forms of violence or geopolitical disruption;
- compliance with laws, such as the Foreign Corrupt Practices Act, applicable to U.S. companies doing business outside the United States;
- changes in U.S. or foreign policies, regulatory requirements, and laws;
- tariffs and other trade barriers, including tariffs recently imposed by the United States as well as responsive tariffs imposed by China and the European Union;
- potentially adverse tax consequences, including changes in tax rates and the manner in which multinational companies are taxed in the United States and other countries; and
- foreign labor practices.

These risks could have an adverse effect on our financial position, results of operations, or cash flows. In addition, fluctuations in exchange rates could impact our operating results. Our risk management strategy includes the use of derivative financial instruments to hedge certain foreign currency exposures. Any hedging techniques we implement contain risks and may not be entirely effective. Exchange rate fluctuations could also make our products more expensive than competitors’ products not subject to these fluctuations, which could adversely affect our revenues and profitability in international markets.

Certain foreign jurisdictions restrict the amount of cash that can be transferred to the United States or impose taxes and penalties on such transfers of cash. To the extent we have excess cash in foreign locations that could be used in, or is needed by, our operations in the United States, we may incur significant penalties and/or taxes to repatriate these funds.

If customers do not perceive our engineering and manufacturing services to be innovative and of high quality, our reputation could suffer.

We believe that establishing and maintaining a good reputation is critical to our business. Promotion and enhancement of our name will depend on the effectiveness of marketing and advertising efforts and on successfully providing innovative and high quality electronic engineering and manufacturing services. If customers do not perceive our services to be innovative and of high quality, our reputation could suffer, which could have a material adverse effect on our business.

Failure to effectively manage working capital may adversely affect our cash flow from operations.

We closely monitor inventory and receivable efficiencies and continuously strive to improve these measures of working capital, but customer financial difficulties, cancellation or delay of customer orders, shifts in customer payment practices, transfers of production among our manufacturing facilities, or manufacturing delays could adversely affect our cash flow from operations.

We may not be able to achieve maximum utilization of our manufacturing capacity.

Most of our customers do not commit to long-term production schedules, and we are unable to forecast the level of customer orders with certainty over a given period of time. As a result, at times it can be difficult for us to schedule production and maximize utilization of our manufacturing capacity. Fluctuations and deferrals of customer orders may have a material adverse effect on our ability to utilize our fixed capacity and thus negatively impact our operating margins.

We could incur losses due to asset impairment.

As business conditions change, we must continually evaluate and work toward the optimum asset base. It is possible that certain assets such as, but not limited to, facilities, equipment, intangible assets, or goodwill could be impaired at some point in the future depending on changing business conditions. Such impairment could have an adverse impact on our financial position and results of operations.

Fluctuations in our effective tax rate could have a significant impact on our financial position, results of operations, or cash flows.

Our 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 could have a material impact on our operating results. Judgment is required in determining the worldwide provision for income taxes, other tax liabilities, interest, and penalties. We base our tax position upon the anticipated nature and conduct of our business and upon our understanding of the tax laws of the various countries in which we have assets or conduct activities. Our tax position, however, is subject to review and possible challenge by taxing authorities and to possible changes in law (including adverse changes to the manner in which the United States and other countries tax multinational companies or interpret their tax laws). We cannot determine in advance the extent to which some jurisdictions may assess additional tax or interest and penalties on such additional taxes. In addition, our effective tax rate may be increased by changes in the valuation of deferred tax assets and liabilities, changes in our cash management strategies, changes in local tax rates, or countries adopting more aggressive interpretations of tax laws.

Several countries where we operate provide tax incentives to attract and retain business. We have obtained incentives where available and practicable. Our taxes could increase if: certain incentives were retracted, they were not renewed upon expiration, we no longer qualify for such programs, or tax rates applicable to us in such jurisdictions were otherwise increased. In addition, further acquisitions may cause our effective tax rate to increase. Given the scope of our international operations and our international tax arrangements, changes in tax rates and the manner in which multinational companies are taxed in the United States and other countries could have a material impact on our financial results and competitiveness. For example, on December 22, 2017, the United States enacted the Tax Cuts and Jobs Act (“Tax Reform”), which includes a number of significant changes to previous U.S. tax laws that impact us, including provisions for a one-time transition tax on deemed repatriation of undistributed foreign earnings and a reduction in the corporate tax rate from 35% to 21%, among other changes. Tax Reform also transitions U.S. international taxation from a worldwide system to a modified territorial system and includes base erosion prevention measures on non-U.S. earnings.

Certain of our subsidiaries provide financing, products, and services to, and may undertake certain significant transactions with, other subsidiaries in different jurisdictions. Moreover, several jurisdictions in which we operate have tax laws with detailed transfer pricing rules which require that all transactions with non-resident related parties be priced using arm’s length pricing principles and that contemporaneous documentation must exist to support such pricing. Due to inconsistencies among jurisdictions in the application of the arm’s length standard, our 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 Organization for Economic Cooperation and Development (“OECD”) known as 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 our 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 our income tax expense.

A failure to comply with the financial covenants under our primary credit facility could adversely impact us.

Our primary credit facility requires us to comply with certain financial covenants. We believe the most significant covenants under this credit facility are the ratio of consolidated indebtedness minus unencumbered U.S. cash on hand in the United States in excess of $15 million to adjusted consolidated EBITDA, as defined in the credit facility, and the fixed charge coverage ratio. More detail on these financial covenants is discussed in Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations. As of June 30, 2018, we had $6.0 million in short-term borrowings under this credit facility and had total cash and cash equivalents of $46.4 million. In the future, a default on the financial covenants under our credit facility could cause an increase in the borrowing rates or make it more difficult for us to secure future financing, which could adversely affect our financial condition.

Our business may be harmed due to failure to successfully implement information technology solutions or a lack of reasonable safeguards to maintain data security, including adherence to data privacy laws and physical security measures.

The operation of our business depends on effective information technology systems, which are subject to the risk of security breach or cybersecurity threat, including misappropriation of assets or other sensitive information, such as confidential business information and personally identifiable data relating to employees, customers, and other business partners, or data corruption which could cause operational disruption. As we could be the target of cyber and other security threats, we must continuously monitor and develop our information technology networks and infrastructure to prevent, detect, address, and mitigate the risk of unauthorized access, misuse, computer viruses, and other events that could have a security impact. Information systems require an ongoing commitment of significant resources to maintain and enhance existing systems and to develop new systems in order to keep pace with changes in information processing technology and evolving industry standards as well as to protect against cyber risks and security breaches. While we provide employee awareness training around phishing, malware, and other cyber threats to help protect against these cyber and security risks, we cannot ensure the success of such training.

Implementation delays, poor execution, or a breach of information technology systems could disrupt our operations, damage our reputation, or increase costs related to the mitigation of, response to, or litigation arising from any such issue. Similar risks exist with our third-party vendors. Any problems caused by these third parties, including those resulting from disruption in communications services, cyber attacks, or security breaches, have the potential to hinder our ability to conduct business. In addition, new data privacy laws and regulations, including the new European Union General Data Protection Regulation (“GDPR”), effective May 25, 2018, pose increasingly complex compliance challenges and potentially elevate costs, and any failure to comply with these laws and regulations could result in significant penalties.

Failure to protect our intellectual property could undermine our competitive position.

Competing effectively depends, to a significant extent, on maintaining the proprietary nature of our intellectual property. We attempt to protect our intellectual property rights worldwide through a combination of trademark, copyright, and trade secret laws, as well as licensing agreements and third-party non-disclosure and assignment agreements. Because of the differences in foreign laws concerning proprietary rights, our intellectual property rights do not generally receive the same degree of protection in foreign countries as they do in the United States, and therefore in some parts of the world, we have limited protections, if any, for our intellectual property. If we are unable to adequately protect our intellectual property embodied in our solutions, designs, processes, and products, the competitive advantages of our proprietary technology could be reduced or eliminated, which would harm our business and could have a material adverse effect on our results of operations and financial position.

We may be sued by third parties for alleged infringement of their intellectual property rights and incur substantial litigation or other costs.

We may be sued by third parties who allege that our products or services infringe their intellectual property rights. Such claims, regardless of their merits, could result in substantial costs and diversion of resources in the defense or settlement of such claims. In the event of a claim upheld against us, we may be required to spend a significant amount of money and effort to develop non-infringing alternatives or obtain and maintain licenses. We may not be successful in developing such alternatives or obtaining or maintaining such licenses on reasonable terms or at all, which could have a material adverse effect on our results of operations, financial position, and cash flows.

Our insurance may not adequately protect us from liabilities related to product defects.

We maintain product liability and other insurance coverage that we believe to be generally in accordance with industry practices. However, our insurance coverage may not be adequate to protect us fully against substantial claims and costs that may arise from liabilities related to product defects, particularly if we have a large number of defective products or if the root cause is disputed.

Our failure to maintain Food and Drug Administration (FDA) registration of one or more of our registered manufacturing facilities could negatively impact our ability to produce products for our customers in the medical industry.

To maintain FDA registration, Kimball Electronics is subject to FDA audits of the manufacturing process. FDA audit failure could result in a partial or total suspension of production, fines, or criminal prosecution. Failure or noncompliance could have an adverse effect on our reputation in addition to an adverse impact on our financial position, results of operations, or cash flows.

We are subject to extensive environmental regulation and significant potential environmental liabilities.
The past and present operation and ownership by Kimball Electronics of manufacturing plants and real property are subject to extensive and changing federal, state, local, and foreign environmental laws and regulations, including those relating to discharges in air, water, and land, the handling and disposal of solid and hazardous waste, the use of certain hazardous materials in the production of select products, and the remediation of contamination associated with releases of hazardous substances. In addition, the increased prevalence of global climate change concerns may result in new regulations that may negatively impact us. We cannot predict what environmental legislation or regulations will be enacted in the future, how existing or future laws or regulations will be administered or interpreted, or what environmental conditions may be found to exist. Compliance with more stringent laws or regulations, or stricter interpretation of existing laws, may require additional expenditures, some of which could be material. In addition, any investigations or remedial efforts relating to environmental matters could involve material costs or otherwise result in material liabilities.
Our failure to retain the existing management team, maintain our engineering, technical, and manufacturing process expertise, or continue to attract qualified personnel could adversely affect our business.
We depend significantly on our executive officers and other key personnel. The unexpected loss of the services of any one of these executive officers or other key personnel may have an adverse effect on us.
Our success also depends on keeping pace with technological advancements and adapting services to provide manufacturing capabilities which meet customers' changing needs. Therefore, we must retain our qualified engineering and technical personnel and successfully anticipate and respond to technological changes in a cost effective and timely manner. Our culture and guiding principles focus on continuous training, motivating, and development of employees, and we strive to attract, motivate, and retain qualified personnel. Failure to retain and attract qualified personnel could adversely affect our business.
Availability of manufacturing labor and turnover in personnel could cause manufacturing inefficiencies and increase operating costs.
The demand for manufacturing labor and the low unemployment rate in certain geographic areas in which we operate makes recruiting new production employees and retaining experienced production employees difficult. Shortage of production workers could adversely impact our ability to complete our customers' orders on a timely basis, which could adversely affect our relations with customers, potentially resulting in reduction in orders from customers or loss of customers. Turnover in personnel could result in additional training and inefficiencies that could adversely impact our operating results.
Natural disasters or other catastrophic events may impact our production schedules and, in turn, negatively impact profitability.
Natural disasters or other catastrophic events, including severe weather, terrorist attacks, power interruptions, and fires, could disrupt operations and likewise our ability to produce or deliver products. Our manufacturing operations require significant amounts of energy, including natural gas and oil, and governmental regulations may control the allocation of such fuels to Kimball Electronics. Employees are an integral part of our business, and events such as a pandemic could reduce the availability of employees reporting for work. In the event we experience a temporary or permanent interruption in our ability to produce or deliver product, revenues could be reduced, and business could be materially adversely affected. In addition, catastrophic events, or the threat thereof, can adversely affect U.S. and world economies, and could result in delayed or lost revenue for our services. In addition, any continuing disruption in our computer systems could adversely affect the ability to receive and process customer orders, manufacture products, and ship products on a timely basis, and could adversely affect relations with customers, potentially resulting in reduction in orders from customers or loss of customers. We maintain insurance to help protect us from costs relating to some of these matters, but such may not be sufficient or paid in a timely manner to us in the event of such an interruption.
Imposition of government regulations may significantly increase our operating costs in the United States and abroad.
Legislative and regulatory reforms by the U.S. federal and foreign governments could significantly impact the profitability of Kimball Electronics by burdening us with forced cost choices that cannot be recovered by increased pricing or, if we increase our pricing, this could negatively impact demand for our products. For example:

- International Traffic in Arms Regulations (ITAR) must be followed when producing defense related products for the U.S. government. A breach of these regulations could have an adverse impact on our financial condition, results of operations, or cash flows.
- Foreign regulations are increasing in many areas such as data privacy, hazardous waste disposal, labor relations, and employment practices.

- 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. As another example, the U.S. government has recently imposed tariffs on certain products imported from China as well as steel and aluminum imported from the European Union, Mexico, and Canada. China and the European Union have imposed tariffs on U.S. products in retaliation. These tariffs could force our customers or us to consider various strategic options including, but not limited to, looking for different suppliers, shifting production to facilities in different geographic regions, absorbing the additional costs, or passing the cost on to customers. Ultimately, these tariffs could adversely affect the competitiveness of our domestic operations, which could lead to the reduction or exit of certain U.S. manufacturing capacity. The U.S. government has also indicated its intent to renegotiate certain existing trade agreements and impose additional tariffs on automotive imports. Depending on the types of changes made, demand for our foreign manufacturing facilities could be reduced, or operating costs in our U.S. manufacturing facilities could be increased, which could negatively impact our financial performance. Moreover, any retaliatory actions by other countries where we operate could also negatively impact our financial performance.

SEC "Conflict Minerals" regulation may increase our costs and reduce our sales levels.

As a result of the Dodd-Frank Act, the SEC adopted rules establishing due diligence, disclosure, and reporting requirements for public companies which manufacture products that include components containing certain minerals referred to as "conflict minerals." Since certain products we manufacture for our customers contain such minerals, we are required to determine, disclose, and report whether or not such minerals in our products originate from the Democratic Republic of Congo ("DRC") and adjoining countries. Such regulations could decrease the availability and increase the prices of components used in our products, particularly if we choose (or are required by our customers) to source such components from different suppliers. In addition, as our supply chain is complex and the process to comply with the SEC rules is cumbersome, the ongoing compliance process is both time-consuming and costly. We may face reduced sales if we are unable to timely verify the origins of minerals contained in the components included in our products, or supply disruptions if our due diligence process reveals that materials we source contain minerals that originated in the DRC or adjoining countries.

Risks Relating to the Spin-Off

If the distribution pursuant to the spin-off does not qualify as a tax-free transaction, tax could be imposed on the Share Owners and former Parent, and we may be required to indemnify former Parent for its tax.

In connection with the spin-off, former Parent received (i) a ruling from the Internal Revenue Service (the "IRS") that the Parent stock unification will not cause Parent to recognize income or gain as a result of the distribution; and (ii) an opinion of Squire Patton Boggs (US) LLP to the effect that the distribution satisfies the requirements to qualify as a tax-free transaction for U.S. federal income tax purposes under Section 355 of the Code. However, the validity of both the IRS ruling and the tax opinion is subject to the accuracy of factual representations and assumptions provided by former Parent and us in connection with obtaining the IRS ruling and the tax opinion, including with respect to post-spin-off operations and conduct of the parties. Neither former Parent nor we are aware of any facts or circumstances that would cause these statements or representations to be incomplete or untrue or cause the facts on which the opinion is based to be materially different from the facts at the time of the spin-off. However, if these representations and assumptions are inaccurate or incomplete in any material respect, including those relating to the past and future conduct of the business, then we will not be able to rely on the IRS ruling or the tax opinion. Furthermore, the tax opinion is not binding on the Internal Revenue Service or the courts. Accordingly, the IRS or the courts may reach conclusions with respect to the spin-off that are different from the conclusions reached in the opinion. If, notwithstanding our receipt of the tax opinion, the spin-off is determined to be taxable, then (i) former Parent would be subject to tax as if it sold the Kimball Electronics common stock in a taxable sale for its fair market value; and (ii) each Share Owner who received Kimball Electronics common stock would be treated as receiving a distribution of property in an amount equal to the fair market value of the Kimball Electronics common stock that would generally result in varied tax liabilities for each Share Owner depending on the facts and circumstances.

Pursuant to the Tax Matters Agreement entered into in connection with the spin-off, (i) we agreed (a) not to enter into any transaction that could cause any portion of the spin-off to be taxable to former Parent, including under Section 355(e) of the Code; and (b) to indemnify former Parent for any tax liabilities resulting from such transactions; and (ii) former Parent agreed to indemnify us for any tax liabilities resulting from such transactions entered into by former Parent. In addition, under U.S. Treasury regulations, each member of former Parent's consolidated group at the time of the spin-off (including us and our subsidiaries) is jointly and severally liable for the resulting U.S. federal income tax liability if all or a portion of the spin-off does not qualify as a tax-free transaction, and we have agreed to indemnify former Parent for a portion of certain tax liabilities incurred in connection with the spin-off under certain circumstances. These obligations may discourage, delay, or prevent a change of control of our company.

We currently share directors with former Parent, which means the overlap may give rise to conflicts.

Certain members of our Board of Directors serve as directors of former Parent, but the overlapping directors do not constitute a majority of our Board members. These directors may have actual or apparent conflicts of interest with respect to matters involving or affecting us or former Parent. For example, there could be the potential for a conflict of interest when we or former Parent look at acquisitions and other corporate opportunities that may be suitable for both companies. Also, conflicts may arise if there are issues or disputes under the commercial arrangements that may exist between former Parent and us. Our Board of Directors and the Board of Directors of former Parent will review and address any potential conflict of interests that may arise between former Parent and us. Although no specific measures to resolve such conflicts of interest have been formulated, our Board of Directors and the Board of Directors of former Parent have a fiduciary obligation to deal fairly and in good faith. Our Board of Directors exercises reasonable judgment and takes such steps as they deem necessary under all of the circumstances in resolving any specific conflict of interest which may occur and will determine what, if any, specific measures, such as retention of an independent advisor, independent counsel, or special committee, may be necessary or appropriate. Any such conflict could have a material adverse effect on our business.

Risks Relating to Our Common Stock

Our stock price may fluctuate significantly.

The market price of our common stock may fluctuate widely, depending on many factors, some of which may be beyond our control, including:

- actual or anticipated fluctuations in our operating results due to factors related to our business;
- wins and losses on contract competitions and new business pursuits;
- success or failure of our business strategy;
- our quarterly or annual earnings, or those of other companies in our industry;
- our ability to obtain financing as needed;
- announcements by us or our competitors of significant acquisitions or dispositions;
- changes in accounting standards, policies, guidance, interpretations or principles;
- the failure of securities analysts to cover our common stock;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;
- the operating and stock price performance of other comparable companies;
- the changes in customer requirements for our products and services;
- natural or environmental disasters that investors believe may affect us;
- overall market fluctuations;
- results from any material litigation or government investigation;
- changes in laws and regulations affecting our business; and
- general economic conditions and other external factors.

Stock markets in general have experienced volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations, coupled with changes in results of operations and general economic, political, and market conditions, could adversely affect the trading price of our common stock.

Anti-takeover provisions in our organizational documents, the Tax Matters Agreement, and Indiana law could delay or prevent a change in control.

We have adopted the Amended and Restated Articles of Incorporation and the Amended and Restated Bylaws. Certain provisions of the Amended and Restated Articles of Incorporation and the Amended and Restated Bylaws may delay or prevent a merger or acquisition that a Share Owner may consider favorable. For example, the Amended and Restated Articles of Incorporation authorizes our Board of Directors to issue one or more series of preferred stock, prevents Share Owners from acting by written consent, and requires a supermajority Share Owner approval for certain business combinations with related persons. These provisions may discourage acquisition proposals or delay or prevent a change in control, which could harm our stock price. Indiana law also imposes some restrictions on potential acquirers.

Under the Tax Matters Agreement entered into in connection with the spin-off, we have agreed not to enter into any transaction involving an acquisition (including issuance) of our common stock or any other transaction (or, to the extent we have the right to prohibit it, to permit any such transaction) that could cause the distribution pursuant to the spin-off to be taxable to former Parent. We have also agreed to indemnify former Parent for any tax resulting from any such transactions. Generally, former Parent will recognize taxable gain on the distribution if there are one or more acquisitions (including issuances) of our capital stock, directly or indirectly, representing 50% or more, measured by vote or value, of our then-outstanding capital stock, and the acquisitions or issuances are deemed to be part of a plan or series of related transactions that include the distribution. As a result, our obligations may limit our ability to pursue strategic transactions or engage in new business or other transactions that may maximize our business and might discourage, delay, or prevent a change of control of our company.

We cannot assure you that we will pay dividends on our stock in the future.

We have not paid any dividends on our common stock since the spin-off. The timing, declaration, amount, and payment of future dividends to our Share Owners will fall within the discretion of our Board of Directors and will depend on many factors, including our financial condition, results of operations and capital requirements, industry practice, and other business considerations that our Board of Directors considers relevant from time to time. In addition, our ability to declare or the amount of any future dividends may be restricted by the provisions of Indiana law and covenants in our primary credit facility. We do not have a plan to pay future dividends at this time. There can be no assurance that we will pay a dividend in the future or continue to pay any dividend if we do commence the payment of dividends. To the extent that expectations by market participants regarding the potential payment, or amount, of any dividend prove to be incorrect, the price of our common stock may be materially and negatively affected, and investors that bought shares of our common stock based on those expectations may suffer a loss on their investment.

Item 1B - Unresolved Staff Comments

None.

Item 2 - Properties

As of June 30, 2018, we had nine manufacturing facilities with three located in Indiana and one located in each of Florida, China, Mexico, Poland, Romania, and Thailand. These facilities occupy approximately 1,221,000 square feet in aggregate, all of which are owned. In addition, we own two administration facilities in Indiana occupying approximately 48,000 square feet, which include our headquarters located in Jasper, Indiana. See Note 15 - Geographic Information of Notes to Consolidated Financial Statements for additional information.

Generally, our manufacturing facilities are utilized at normal capacity levels on a multiple shift basis. At times, certain facilities utilize reduced shifts. Due to demand and sales fluctuations, not all facilities were utilized at normal capacity during fiscal year 2018. We continually assess our capacity needs and evaluate our operations to optimize our service levels by geographic region. See Item 1A - Risk Factors for information regarding financial and operational risks related to our international operations.

Significant loss of income resulting from a facility catastrophe would be partially offset by business interruption insurance coverage.

The Company holds land leases for our facilities in China and Thailand and a warehouse facility lease in Indiana, with these leases expiring from fiscal year 2021 to 2056. See Note 5 - Commitments and Contingent Liabilities of Notes to Consolidated Financial Statements for additional information concerning leases. In addition, we own approximately 97 acres of land which includes land where our facilities reside.

Item 3 - Legal Proceedings

We and our subsidiaries are not parties to any pending legal proceedings, other than ordinary routine litigation incidental to the business. The outcome of current routine pending litigation, individually and in the aggregate, is not expected to have a material adverse impact on our business or financial condition.

Item 4 - Mine Safety Disclosures

Not applicable.

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Executive Officers of the Registrant

Our executive officers as of August 28, 2018 are as follows:

(Age as of August 28, 2018)

Name	Age	Office and Area of Responsibility
Donald D. Charron	54	Chairman of the Board and Chief Executive Officer
Michael K. Sergesketter	58	Vice President, Chief Financial Officer
John H. Kahle	61	Vice President, General Counsel, Chief Compliance Officer, and Secretary
Christopher J. Thyen	55	Vice President, New Platforms
Jessica L. DeLorenzo	33	Vice President, Human Resources
Sandy A. Smith	55	Vice President, Information Technology
Janusz F. Kasprzyk	58	Vice President, European Operations
Steven T. Korn	54	Vice President, North American Operations
Roger Chang (Chang Shang Yu)	61	Vice President, Asian Operations
Desiree L. Castillejos	47	Vice President, Corporate Development and M&A, and Chief Strategy Officer
Kathy R. Thomson	49	Vice President, Global Business Development and Design Services

Executive officers are appointed annually by the Board of Directors. The following is a brief description of the business experience during the past five or more years of each of our executive officers.

Mr. Charron is our Chairman of the Board and Chief Executive Officer. Prior to the spin-off, he served as an Executive Vice President of former Parent, a member of the Board of Directors of former Parent, and the President of the Kimball Electronics Group that now comprises Kimball Electronics following the spin-off. Mr. Charron had led the EMS segment of former Parent since joining former Parent in 1999. Mr. Charron’s extensive contract electronics industry experience prior to joining former Parent, as well as his intimate knowledge of former Parent’s EMS operations, provides valuable operational, strategic, and global market insights.

Mr. Sergesketter is our Vice President, Chief Financial Officer. Prior to the spin-off, he served as Vice President, Chief Financial Officer for Kimball Electronics Group that now comprises Kimball Electronics following the spin-off. Mr. Sergesketter had served in this role with former Parent since 1996.

Mr. Kahle is our Vice President, General Counsel, Chief Compliance Officer, and Secretary. Mr. Kahle was appointed Chief Compliance Officer in April 2016 in addition to his Vice President, General Counsel, and Secretary role. Prior to the spin-off, he served as Executive Vice President, General Counsel and Secretary of former Parent and had served in this role with former Parent since 2001.

Mr. Thyen was appointed our Vice President, New Platforms, in August 2018. Prior to this, he served as Vice President, Business Development since 2008.

Ms. DeLorenzo was appointed Vice President, Human Resources, effective June 29, 2018. Ms. DeLorenzo joined Kimball Electronics in 2015 in the position of Director, Organizational Development. Before joining Kimball Electronics, she held the position of Director, Student Services at Vincennes University since 2011.

Ms. Smith is our Vice President, Information Technology and has served in this role since 2004.

Mr. Kasprzyk is our Vice President, European Operations and has served in this role since 2008.

Mr. Korn is our Vice President, North American Operations and has served in this role since 2007.

Mr. Chang is our Vice President, Asian Operations and has served in this role since 2004.

Ms. Castillejos was appointed Vice President, Corporate Development and M&A, and Chief Strategy Officer effective August 13, 2018. Prior to joining Kimball Electronics, she held the position of Vice President, Corporate Development for Nokia Technology since 2016. Prior to Nokia Technology, she served as the Vice President, Corporate Development for Persistent Systems since 2010.

Ms. Thomson was appointed Vice President, Global Business Development and Design Services effective August 20, 2018. Previously Ms. Thomson held the position of Vice President of Business Development for Creation Technologies since 2012.

PART II

Item 5 - Market for Registrant’s Common Equity, Related Share Owner Matters and Issuer Purchases of Equity Securities

Market Prices

The Company’s common stock trades on the NASDAQ Global Select Market of The NASDAQ Stock Market LLC (“NASDAQ”) under the symbol: KE. High and low sales prices by quarter for the last two fiscal years, as quoted by the NASDAQ system, were as follows:

	2018		2017	
	High	Low	High	Low
First Quarter	$22.05	$17.46	$14.28	$11.54
Second Quarter	$22.45	$18.14	$19.00	$13.38
Third Quarter	$19.70	$15.75	$18.45	$15.05
Fourth Quarter	$19.70	$15.80	$18.90	$15.90

The last reported sales price of our common stock on August 15, 2018, as reported by NASDAQ, was $19.95.

Dividends

We have not paid any dividends on our common stock since the spin-off. We do not have a plan to pay future dividends at this time.

Share Owners

On August 15, 2018, the Company’s common stock was owned by approximately 1,294 Share Owners of record.

Securities Authorized for Issuance Under Equity Compensation Plans

The information required by this item concerning securities authorized for issuance under equity compensation plans is incorporated by reference to Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Share Owner Matters of Part III.

Issuer Purchases of Equity Securities

On October 21, 2015, our Board of Directors (the “Board”) approved an 18-month stock repurchase plan, authorizing the repurchase of up to $20 million worth of our common stock. On September 26, 2016, the Board extended the stock repurchase plan authorizing the repurchase of up to an additional $20 million worth of common stock with no expiration date. On August 23, 2017, the Board increased the Plan to allow the repurchase of up to an additional $20 million worth of common stock with no expiration date. This latest increase brings the total authorized stock repurchases under the Plan to $60 million. At June 30, 2018, $15.5 million remained available under the repurchase program.

During fiscal year 2018, the Company has repurchased $9.4 million of common stock under the Plan. The following table contains information about our purchases of equity securities during the three months ended June 30, 2018.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plan
April 1, 2018 - April 30, 2018	—	$—	—	$18,608,701
May 1, 2018 - May 31, 2018	52,177	$18.61	52,177	$17,637,743
June 1, 2018 - June 30, 2018	110,794	$19.15	110,794	$15,516,025
Total	162,971	$18.98	162,971	

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Performance Graph

The following performance graph is not deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A or 14C under the Exchange Act or to the liabilities of Section 18 of the Exchange Act and will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent the Company specifically incorporates it by reference into such a filing.

The graph below compares the cumulative total return to Share Owners of the Company’s common stock from November 3, 2014, the first day of trading in the Company’s common stock, through June 30, 2018, the last business day of the fiscal year, to the cumulative total return of the NASDAQ Stock Market (U.S.) and a peer group index for the same period of time. The peer group index is comprised of publicly traded companies in the EMS industry and includes: Benchmark Electronics, Inc., Flex Ltd., Jabil Inc., Plexus Corp., and Sanmina Corporation. The public companies included in the peer group each have a larger revenue base than we do.

The graph assumes $100 is invested in the Company’s stock and each of the two indexes at the closing market quotations on November 3, 2014, the first day of trading in Kimball Electronics common stock, and that dividends, if any, are reinvested. The performances shown on the graph are not necessarily indicative of future price performance.

	11/03/2014	06/30/2015	06/30/2016	06/30/2017	06/30/2018
Kimball Electronics, Inc.	$ 100.00	$ 202.08	$ 172.44	$ 250.00	$ 253.46
NASDAQ Stock Market (U.S.)	$ 100.00	$ 108.38	$ 106.56	$ 136.71	$ 168.97
Peer Group Index	$ 100.00	$ 99.49	$ 101.36	$ 145.47	$ 131.37

Item 6 - Selected Financial Data

This information should be read in conjunction with Item 8 - Financial Statements and Supplementary Data and Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations. The Consolidated Financial Statements for periods prior to the spin-off, which occurred on October 31, 2014, were derived from the accounting records of former Parent as if we operated on a stand-alone basis. Our historical results of operations, financial position, or cash flows presented in the Consolidated Financial Statements for periods prior to the spin-off may not be indicative of what they would have been had the Company operated as a stand-alone public company for the entirety of the periods presented.

	Year Ended June 30				
(Amounts in Thousands, Except for Per Share Data)	2018	2017	2016	2015	2014
Consolidated Statements of Income Data:					
Net Sales	$1,072,061	$930,914	$842,060	$819,350	$741,530
Net Income (1)	$16,752	$34,179	$22,287	$26,205	$24,613
Earnings Per Share: (2)					
Basic	$0.63	$1.25	$0.77	$0.90	$0.84
Diluted	$0.62	$1.24	$0.76	$0.89	$0.84

	As of June 30				
(Amounts in Thousands)	2018	2017	2016	2015	2014
Consolidated Balance Sheet Data:					
Total Assets	$608,758	$554,944	$510,565	$483,257	$408,730
Long-Term Debt, Less Current Maturities	$—	$—	$—	$—	$—

(1) Fiscal year 2018 net income included income tax expense of $17.9 million ($0.66 per diluted share) due to the U.S. Tax Cuts and Jobs Act ("Tax Reform") that was enacted into law in December 2017 and relates to the deemed repatriation of unremitted foreign earnings and the revaluation of net deferred tax assets.

Fiscal year 2017 net income included $2.5 million ($0.09 per diluted share) of after-tax income resulting from settlements received related to an antitrust class action lawsuit in which the Company was a member and $0.9 million ($0.03 per diluted share) of after-tax income resulting from the bargain purchase gain recognized in the acquisition of Aircom Manufacturing, Inc. See Note 2 - Acquisitions of Notes to Consolidated Financial Statements for more information regarding the acquisition and bargain purchase gain.

Fiscal year 2016 net income included a foreign income tax benefit of $1.8 million ($0.06 per diluted share) as a result of a favorable tax ruling related to the fiscal year 2015 capitalization of the Company's Romania subsidiary and $0.1 million ($0.01 per diluted share) of after-tax expense related to the spin-off.

Fiscal year 2015 net income included $2.4 million ($0.08 per diluted share) of after-tax expense related to the spin-off.

Fiscal year 2014 net income included $0.3 million ($0.01 per diluted share) of after-tax restructuring expenses, $3.5 million ($0.12 per diluted share) of after-tax income resulting from settlements received related to two antitrust class action lawsuits in which the Company was a member, and $2.2 million ($0.08 per diluted share) of after-tax expense related to the spin-off.

(2) Basic and diluted earnings per share for the period ended prior to the spin-off on October 31, 2014 were retrospectively restated adjusting the number of Kimball Electronics shares outstanding for the stock split effective on October 16, 2014 to 29.1 million shares.

Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations
Business Overview
We are a global contract electronic manufacturing services ("EMS") company that specializes in producing durable electronics for the automotive, medical, industrial, and public safety markets. We also offer diversified contract manufacturing services for non-electronic components, medical disposables, plastics, and metal fabrication. Our manufacturing services, including engineering and supply chain support, utilize common production and support capabilities globally. We are well recognized by our customers and the EMS industry for our excellent quality, reliability, and innovative service, and we were named the 2016 EMS Company of the Year by CIRCUITS ASSEMBLY, a leading brand and technical publication for electronics manufacturers worldwide. In 2018, we were recognized for achieving the Highest Overall Customer Rating in CIRCUITS ASSEMBLY's 2018 Service Excellence Awards.

The EMS industry is very competitive. As a mid-sized player in the EMS market, we can expect to be challenged by the agility and flexibility of the smaller, regional players, and we can expect to be challenged by the scale and price competitiveness of the larger, global players. We enjoy a unique market position between these extremes which allows us to compete with the larger scale players for high-volume projects, but also maintain our competitive position in the generally lower volume durable electronics market space. We expect to continue to effectively operate in this market space; however, one significant challenge will be maintaining our profit margins while we continue our revenue growth. Price increases are uncommon in the market as production efficiencies and material pricing advantages for most projects drive costs and prices down over the life of the projects. This characteristic of the contract electronics marketplace is expected to continue.

Key economic indicators currently point toward continued strengthening in the overall economy. However, uncertainties still exist and may pose a threat to our future growth as they have the tendency to cause disruption in business strategy, execution, and timing in many of the markets in which we compete. One such trend that the EMS industry is beginning to experience is component shortages and component allocations. Component shortages or allocations could increase component costs and potentially interrupt our operations and negatively impact our ability to meet commitments to customers. We are taking various actions to mitigate the risk and minimize the adverse effect the component shortages or allocations could have on our results and the impact to our customers. In addition, the impact from the recently imposed and additional proposed tariffs on components we utilize in our domestic manufacturing process, of which many currently can only be sourced via China, may adversely affect the competitiveness of our domestic operations.

The March 2018 edition of the Manufacturing Market Insider published by New Venture Research indicated the group of leading EMS companies that comprise its annual list of the 50 largest EMS providers for 2017, of which we are a member, experienced revenue growth of 11.4% in calendar year 2017. Excluding the two largest EMS providers, there was revenue growth of 8.0% in calendar year 2017. During calendar year 2017, we experienced growth of approximately 11%.

Our overall expectation for the EMS market is moderate growth with mixed demand. Our focus is on the four key vertical markets of automotive, medical, industrial, and public safety. Our current goal is to grow at an 8% annual organic growth rate.

The automotive end market has improved from both new product introductions and increased demand on existing products, and it continues to benefit from the trend of increasing electronic content that is placed in automobiles. The industrial market is showing improvement with increased end market demand for smart metering and climate control products. Overall in the public safety market, we have experienced mixed demand and may continue to see demand fluctuations as we wind down our International Traffic in Arms Regulations (ITAR) compliance programs and turn our focus to growth in our non-defense related business. Sales in the current fiscal year in the public safety market declined compared to the prior fiscal year resulting from programs reaching end of life, which more than offset increased volumes from new product introductions. In the medical market, growth was driven largely from new program launches in addition to an overall strengthening of the market. We continue to monitor the current economic environment and its potential impact on our customers.

We invest in capital expenditures prudently for projects in support of both organic growth and potential acquisitions that would enhance our capabilities and diversification while providing an opportunity for growth and improved profitability. For example, the acquisitions of Medivative Technologies, LLC (“Medivative”) and Aircom Manufacturing, Inc. (“Aircom”) within the last several fiscal years provide capabilities that will enhance our medical end market as well as support our mechanical assembly needs in all four key vertical markets by offering our customers design engineering and manufacturing expertise in precision metals and plastics. We have a strong focus on cost control and closely monitor market changes and our liquidity in order to proactively adjust our operating costs and discretionary capital spending as needed. Managing working capital in conjunction with fluctuating demand levels is likewise key. In addition, a long-standing component of our profit sharing incentive bonus plan is that it is linked to our financial performance which results in varying amounts of compensation expense as profits change.

As discussed in Item 1 - Business, we entered into an agreement on May 11, 2018 with GES Holdings, Inc., Global Equipment Services and Manufacturing, Inc., and its subsidiaries (collectively referred to as "GES") to acquire substantially all of the assets and assume certain liabilities of GES. The pending GES acquisition supports our new platform strategy as GES specializes in production processing and test equipment design, volume manufacturing, and global services for the semiconductor and electronics product manufacturing industry. See Item 1A - Risk Factors for risks associated with this acquisition and Note 2 - Acquisitions of Notes to Consolidated Financial Statements for more information on this pending acquisition.

We continue to maintain a strong balance sheet as of the end of fiscal year 2018, which included no long-term debt and Share Owners' equity of $356 million. Our short-term liquidity available, represented as cash and cash equivalents plus the unused amount of our credit facilities, totaled $108.7 million at June 30, 2018.

In addition to the above discussion related to the current market conditions, management currently considers the following events, trends, and uncertainties to be most important to understanding our financial condition and operating performance:

- Due to the contract and project nature of the EMS industry, fluctuation in the demand for our products and variation in the gross margin on those projects is inherent to our business. Effective management of manufacturing capacity is, and will continue to be, critical to our success.
- The nature of the EMS industry is such that the start-up of new customers and new programs to replace expiring programs occurs frequently. While our agreements with customers generally do not have a definitive term and thus could be canceled at any time with little or no notice, we generally realize relatively few cancellations prior to the end of the product's life cycle. We attribute this to our focus on long-term customer relationships, meeting customer expectations, required capital investment, and product qualification cycle times. As such, our ability to continue contractual relationships with our customers, including our principal customers, is not certain. New customers and program start-ups generally cause losses early in the life of a program, which are generally recovered as the program becomes established and matures. Risk factors within our business include, but are not limited to, general economic and market conditions, customer order delays, globalization, impact related to tariffs and other trade barriers, foreign currency exchange rate fluctuations, rapid technological changes, component availability, supplier and customer financial stability, the contract nature of this industry, the concentration of sales to large customers, and the potential for customers to choose a dual sourcing strategy or to in-source a greater portion of their electronics manufacturing. The continuing success of our business is dependent upon our ability to replace expiring customers/programs with new customers/programs. We monitor our success in this area by tracking the number of customers and the percentage of our net sales generated from them by years of service as depicted in the table below. While variation in the size of program award makes it difficult to directly correlate this data to our sales trends, we believe it does provide useful information regarding our customer loyalty and new business growth. Additional risk factors that could have an effect on our performance are located within Item 1A - Risk Factors.

	Year End		
Customer Service Years	2018	2017	2016
More than 10 Years			
% of Net Sales	61 %	56 %	56%
# of Customers	28	28	25
5 to 10 Years			
% of Net Sales	28 %	36 %	38%
# of Customers	18	22	29
Less than 5 Years			
% of Net Sales	11 %	8 %	6 %
# of Customers	30	32	32
Total			
% of Net Sales	100%	100%	