

BENCHMARK ELECTRONICS INC  
Form 10-Q  
November 06, 2015

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

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**FORM 10 Q**

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**X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2015**

**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: 1 10560**

**BENCHMARK ELECTRONICS, INC.**

(Exact name of registrant as specified in its charter)

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	<b>Texas</b>	<b>74 2211011</b>
	(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
	<b>3000 Technology Drive</b>	<b>77515</b>
	<b>Angleton, Texas</b>	(Zip Code)
	(Address of principal executive offices)	

**(979) 849 6550**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

As of November 5, 2015, there were 50,530,968 Common Shares of Benchmark Electronics, Inc., par value \$0.10 per share, outstanding.

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## TABLE OF CONTENTS

### PART I

		Page
<b>PART I—FINANCIAL INFORMATION</b>		
<u>Item 1.</u>	<u>Financial Statements (Unaudited)</u>	1
	<u>Condensed Consolidated Balance Sheets</u>	1
	<u>Condensed Consolidated Statements of Income</u>	2
	<u>Condensed Consolidated Statements of Comprehensive Income</u>	3
	<u>Condensed Consolidated Statement of Shareholders' Equity</u>	4
	<u>Condensed Consolidated Statements of Cash Flows</u>	5
	<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	25
<u>Item 4.</u>	<u>Controls and Procedures</u>	26
<b>PART II—OTHER INFORMATION</b>		
<u>Item 1.</u>	<u>Legal Proceedings</u>	27
<u>Item 1A.</u>	<u>Risk Factors</u>	27
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	27
<u>Item 6.</u>	<u>Exhibits</u>	28
	<u>SIGNATURES</u>	29

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**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements.****BENCHMARK ELECTRONICS, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets**

(in thousands, except par value)	September 30, 2015 (unaudited)	December 31, 2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 462,094	\$ 427,376
Accounts receivable, net of allowance for doubtful accounts of \$3,394 and \$2,943, respectively	467,241	520,389
Inventories	421,532	401,261
Prepaid expenses and other assets	37,313	29,018
Income taxes receivable	30	572
Deferred income taxes	3,951	8,502
Total current assets	1,392,161	1,387,118
Long-term investments	935	1,008
Property, plant and equipment, net of accumulated depreciation of \$375,149 and \$350,563 respectively	181,187	190,180
Goodwill, net	45,970	45,970
Deferred income taxes	22,078	25,017
Other, net	24,773	28,161
	\$ 1,667,104	\$ 1,677,454
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Current installments of capital lease obligations	\$ 751	\$ 676
Accounts payable	272,274	289,786
Income taxes payable	4,152	5,450
Accrued liabilities	63,982	63,166
Total current liabilities	341,159	359,078
Capital lease obligations, less current installments	8,270	8,845
Other long-term liabilities	17,266	17,800
Deferred income taxes	2,106	2,106
Shareholders' equity:		
Preferred shares, \$0.10 par value; 5,000 shares authorized, none issued	—	—
Common shares, \$0.10 par value; 145,000 shares authorized; issued and outstanding – 50,918 and 52,994, respectively	5,092	5,300

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Additional paid-in capital	632,065	649,715
Retained earnings	673,040	644,085
Accumulated other comprehensive loss	(11,894)	(9,475)
Total shareholders' equity	1,298,303	1,289,625
Commitments and contingencies		
	\$ 1,667,104	\$ 1,677,454

See accompanying notes to condensed consolidated financial statements.

**BENCHMARK ELECTRONICS, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Income****(unaudited)**

(in thousands, except per share data)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Sales	\$ 630,191	\$ 731,302	\$ 1,915,154	\$ 2,087,514
Cost of sales	575,907	676,008	1,753,375	1,923,346
Gross profit	54,284	55,294	161,779	164,168
Selling, general and administrative expenses	27,040	31,219	83,162	88,072
Restructuring charges and integration costs	1,096	2,160	7,553	6,176
Thailand flood related items, net of insurance	-	-	-	(1,571)
Income from operations	26,148	21,915	71,064	71,491
Interest expense	(495)	(494)	(1,427)	(1,443)
Interest income	246	535	971	1,718
Other expense	(1,121)	(1,359)	(1,582)	(1,517)
Income before income taxes	24,778	20,597	69,026	70,249
Income tax expense	4,213	3,691	13,046	12,346
Net income	\$ 20,565	\$ 16,906	\$ 55,980	\$ 57,903
Earnings per share:				
Basic	\$ 0.40	\$ 0.32	\$ 1.08	\$ 1.08
Diluted	\$ 0.40	\$ 0.31	\$ 1.07	\$ 1.06
Weighted-average number of shares outstanding:				
Basic	51,192	53,660	51,940	53,712
Diluted	51,588	54,265	52,448	54,387

See accompanying notes to condensed consolidated financial statements.

**BENCHMARK ELECTRONICS, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Comprehensive Income****(unaudited)**

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$ 20,565	\$ 16,906	\$ 55,980	\$ 57,903
Other comprehensive income (loss):				
Foreign currency translation adjustments	378	(2,712)	(2,386)	(2,945)
Unrealized gain (loss) on investments, net of tax	10	1,496	(23)	1,342
Other	(3)	(8)	(10)	(23)
Other comprehensive income (loss)	385	(1,224)	(2,419)	(1,626)
Comprehensive income	\$ 20,950	\$ 15,682	\$ 53,561	\$ 56,277

See accompanying notes to condensed consolidated financial statements.



**BENCHMARK ELECTRONICS, INC. AND SUBSIDIARIES****Condensed Consolidated Statement of Shareholders' Equity****(unaudited)**

(in thousands)	Common Shares Shares Outstanding	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balances, December 31, 2014	52,994	\$ 5,300	\$ 649,715	\$ 644,085	(9,475)	\$ 1,289,625
Stock-based compensation expense	-	-	6,021	-	-	6,021
Shares repurchased and retired	(2,296)	(230)	(25,068)	(27,025)	-	(52,323)
Stock options exercised	94	9	1,674	-	-	1,683
Vesting of restricted stock units, net of restricted share forfeitures	150	15	(15)	-	-	-
Shares withheld for taxes	(24)	(2)	(569)	-	-	(571)
Excess tax benefit of stock-based compensation	-	-	307	-	-	307
Comprehensive income	-	-	-	55,980	(2,419)	53,561
Balances, September 30, 2015	50,918	\$ 5,092	\$ 632,065	\$ 673,040	(11,894)	\$ 1,298,303

See accompanying notes to condensed consolidated financial statements.

**BENCHMARK ELECTRONICS, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows****(unaudited)**

(in thousands)	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 55,980	\$ 57,903
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	32,298	30,384
Amortization	4,192	3,601
Deferred income taxes	7,481	10,649
Gain on the sale of property, plant and equipment	(56)	(22)
Asset impairments	84	794
Thailand flood insurance recovery	-	(550)
Stock-based compensation expense	6,021	5,626
Excess tax benefit from stock-based compensation	(345)	(558)
Changes in operating assets and liabilities, net of effects from business acquisition:		
Accounts receivable	52,217	24,691
Inventories	(21,059)	(38,603)
Prepaid expenses and other assets	(9,015)	(3,088)
Accounts payable	(9,222)	17,545
Accrued liabilities	529	7,643
Income taxes	(383)	(2,647)
Net cash provided by operations	118,722	113,368
Cash flows from investing activities:		
Proceeds from sales and redemptions of investments	50	10,056
Additions to property, plant and equipment	(31,980)	(35,743)
Proceeds from the sale of property, plant and equipment	477	289
Additions to purchased software	(902)	(871)
Business acquisition, net of cash acquired	-	750
Thailand flood property insurance proceeds	-	550
Other	187	363
Net cash used in investing activities	(32,168)	(24,606)
Cash flows from financing activities:		
Proceeds from stock options exercised	1,683	11,748
Excess tax benefit from stock-based compensation	345	558
Principal payments on capital lease obligations	(500)	(431)
Share repurchases	(52,323)	(25,045)
	(50,795)	(13,170)

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	Net cash used in financing activities		
Effect of exchange rate changes		(1,041)	(911)
Net increase in cash and cash equivalents		34,718	74,681
Cash and cash equivalents at beginning of year		427,376	345,555
Cash and cash equivalents at end of period		\$ 462,094	\$ 420,236

See accompanying notes to condensed consolidated financial statements.

**BENCHMARK ELECTRONICS, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

**(amounts in thousands, except per share data, unless otherwise noted)**

**(unaudited)**

**Note 1 – Basis of Presentation**

Benchmark Electronics, Inc. (the Company) is a Texas corporation. The Company provides integrated manufacturing, design and engineering services to original equipment manufacturers (OEMs) of industrial equipment (including equipment for the aerospace and defense industries), telecommunication equipment, computers & related products for business enterprises, medical devices, and test & instrumentation products. The Company has manufacturing operations located in the Americas, Asia and Europe.

The condensed consolidated financial statements included herein have been prepared by the Company without an audit pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). The financial statements reflect all normal and recurring adjustments necessary in the opinion of management for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and notes included in the Company's annual report on Form 10 K for the year ended December 31, 2014 (the 2014 10-K).

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). Actual results could differ from those estimates.

Certain reclassifications of prior period amounts have been made to conform to the current presentation.

**Note 2 – Stock-Based Compensation**

The Benchmark Electronics, Inc. 2000 Stock Awards Plan (the 2000 Plan) authorized, and the Benchmark Electronics, Inc. 2010 Omnibus Incentive Compensation Plan (the 2010 Plan) authorizes, the Company, upon approval of the compensation committee of the Board of Directors, to grant a variety of awards, including stock options, restricted shares, restricted stock units, stock appreciation rights, performance compensation awards, phantom stock awards and deferred share units, or any combination thereof, to any director, officer, employee or consultant (including any

prospective director, officer, employee or consultant) of the Company. Stock options are granted to employees with an exercise price equal to the market price of the Company's common shares on the date of grant, generally vest over a four-year period from the date of grant and have a term of ten years. Restricted shares and restricted stock units granted to employees generally vest over a four-year period from the date of grant, subject to the continued employment of the employee by the Company. The 2000 Plan expired in 2010, and no additional grants can be made under that plan. The 2010 Plan was approved by the Company's shareholders in 2010 and amended in 2014. Members of the Board of Directors who are not employees of the Company hold awards under the Benchmark Electronics, Inc. 2002 Stock Option Plan for Non-Employee Directors (the 2002 Plan) or the 2010 Plan. Stock options were granted pursuant to the 2002 Plan upon the occurrence of the non-employee director's election or re-election to the Board of Directors. All awards under the 2002 Plan were fully vested upon the date of grant and have a term of ten years. The 2002 Plan was approved by the Company's shareholders in 2002 and expired in 2012. No additional grants may be made under the 2002 Plan. Since 2011, awards under the 2010 Plan to non-employee directors have been in the form of restricted stock units, which vest in equal quarterly installments over a one-year period, starting on the grant date. As of September 30, 2015, 3.8 million additional common shares were available for issuance under the Company's 2010 Plan.

All share-based payments to employees, including grants of employee stock options, are recognized in the financial statements based on their grant date fair values. The total compensation cost recognized for stock-based awards was \$2.0 million and \$6.0 million for the three and nine months ended September 30, 2015, respectively, and \$1.9 million and \$5.6 million for the three and nine months ended September 30, 2014, respectively. The total income tax benefit recognized in the condensed income statement for stock-based awards was \$0.8 million and \$2.4 million for the three and nine months ended September 30, 2015, respectively, and \$0.7 million and \$2.4 million for the three and nine months ended September 30, 2014, respectively. The compensation expense for stock-based awards includes an estimate for forfeitures and is recognized over the vesting period of the awards using the straight-line method. Cash flows from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for stock-based awards (excess tax benefits) are classified as cash flows from financing activities. Awards of restricted shares, restricted stock units and performance-based restricted stock units are valued at the closing market price of the Company's common shares on the date of grant. For performance-based restricted stock units, compensation expense is based on the probability that the performance goals will be achieved, which is monitored by management throughout the requisite service period. When it becomes probable, based on the Company's expectation of performance during the measurement period, that more or less than the previous estimate of the awarded shares will vest, an adjustment to stock-based compensation expense is recognized as a change in accounting estimate.

As of September 30, 2015, the unrecognized compensation cost and remaining weighted-average amortization related to stock-based awards were as follows:

	Stock Options	Restricted Shares	Restricted Stock Units	Performance- based Restricted Stock Units <sup>(1)</sup>
(in thousands)				
Unrecognized compensation cost	\$ 4,823	\$ 239	\$ 7,853	\$ 2,795
Remaining weighted-average amortization period	1.8 years	0.4 years	2.4 years	2.1 years

<sup>(1)</sup> Based on the probable achievement of the performance goals identified in each award.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The weighted-average assumptions used to value the options granted during the three and nine months ended September 30, 2015 and 2014, were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2015	2014	2015	2014
Options granted	-	-	289	378
Expected term of options	N/A	N/A	6.4 years	7.0 years
Expected volatility	N/A	N/A	35%	39%
Risk-free interest rate	N/A	N/A	1.886%	2.081%
Dividend yield	N/A	N/A	zero	zero

The expected term of the options represents the estimated period of time until exercise and is based on historical experience, giving consideration to the contractual terms, vesting schedules and expectations of future plan participant behavior. Separate groups of plan participants that have similar historical exercise behavior are considered separately for valuation purposes. Expected stock price volatility is based on the historical volatility of the Company's common shares. The risk-free interest rate is based on the U.S. Treasury zero-coupon rates in effect at the time of grant with an equivalent remaining term. The dividend

yield reflects that the Company has not paid any cash dividends since inception and does not anticipate paying cash dividends in the foreseeable future.

The weighted-average fair value per option granted during the nine months ended September 30, 2015 was \$8.76. The total cash received as a result of stock option exercises for the nine months ended September 30, 2015 and 2014 was approximately \$1.7 million and \$11.7 million, respectively. The tax benefit realized as a result of stock option exercises and the vesting of other share-based awards during the nine months ended September 30, 2015 and 2014 was \$2.0 million and \$2.5 million, respectively. For the nine months ended September 30, 2015 and 2014, the total intrinsic value of stock options exercised was \$0.5 million and \$2.9 million, respectively.

The Company awarded performance-based restricted stock units to employees during the nine months ended September 30, 2015 and 2014. The number of performance-based restricted stock units that will ultimately be earned will not be determined until the end of the corresponding performance periods, and may vary from as low as zero to as high as three times the target number depending on the level of achievement of certain performance goals. The level of achievement of these goals is based upon the audited financial results of the Company for the last full calendar year within the performance period. The performance goals consist of certain levels of achievement using the following financial metrics: revenue growth, operating margin expansion, and return on invested capital. If the performance goals are not met based on the Company's financial results, the applicable performance-based restricted stock units will not vest and will be forfeited. Shares subject to forfeited performance-based restricted stock units will be available for issuance under the 2010 Plan.

The following table summarizes activities relating to the Company's stock options:

(in thousands, except per share data)	Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2014	2,437	\$ 20.07		
Granted	289	\$ 23.14		
Exercised	(94)	\$ 17.89		
Forfeited or expired	(21)	\$ 22.91		
Outstanding as of September 30, 2015	2,611	\$ 20.47	4.88	\$ 6,498
Exercisable as of September 30, 2015	1,832	\$ 20.16	3.05	\$ 5,353

The aggregate intrinsic value in the table above is before income taxes and is calculated as the difference between the exercise price of the underlying options and the Company's closing stock price as of the last business day of the period ended September 30, 2015 for options that had exercise prices that were below the closing price.



The following table summarizes activities related to the Company's restricted shares:

(in thousands, except per share data)	Number of Shares		Weighted- Average Grant Date Fair Value
Non-vested shares outstanding as of December 31, 2014	109	\$	16.33
Vested	(70)	\$	16.84
Forfeited	(1)	\$	16.57
Non-vested shares outstanding as of September 30, 2015	38	\$	15.38

The following table summarizes the activities related to the Company's time-based restricted stock units:

(in thousands, except per share data)	Number of Units		Weighted- Average Grant Date Fair Value
Non-vested awards outstanding as of December 31, 2014	412	\$	20.33
Granted	210	\$	23.22
Vested	(151)	\$	20.29
Forfeited	(9)	\$	21.24
Non-vested awards outstanding as of September 30, 2015	462	\$	21.64

The following table summarizes the activities related to the Company's performance-based restricted stock units:

(in thousands, except per share data)	Number of Units		Weighted- Average Grant Date Fair Value
Non-vested units outstanding as of December 31, 2014	274	\$	18.56
Granted <sup>(1)</sup>	85	\$	22.93
Forfeited or expired	(53)	\$	18.57
Non-vested units outstanding as of September 30, 2015	306	\$	19.77

<sup>(1)</sup> Represents target number of units that can vest based on the achievement of the performance goals.

### Note 3 – Earnings Per Share

Basic earnings per share is computed using the weighted-average number of shares outstanding. Diluted earnings per share is computed using the weighted-average number of shares outstanding adjusted for the incremental shares attributed to outstanding stock equivalents. Stock equivalents include common shares issuable upon the exercise of stock options and other equity instruments, and are computed using the treasury stock method. Under the treasury stock method, the exercise price of a share, the amount of compensation cost, if any, for future service that the Company has not yet recognized, and the amount of estimated excess tax benefits that would be recorded in paid-in-capital, if any, when the share is exercised are assumed to be used to repurchase shares in the current period.

The following table sets forth the calculation of basic and diluted earnings per share:

(in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$ 20,565	\$ 16,906	\$ 55,980	\$ 57,903

Denominator for basic earnings per share -

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weighted-average number of common shares outstanding during the period	51,192	53,660	51,940	53,712
Incremental common shares attributable to exercise of dilutive options	292	445	326	460
Incremental common shares attributable to outstanding restricted shares and restricted stock units	104	160	182	215
Denominator for diluted earnings per share	51,588	54,265	52,448	54,387
Basic earnings per share	\$ 0.40	\$ 0.32	\$ 1.08	\$ 1.08
Diluted earnings per share	\$ 0.40	\$ 0.31	\$ 1.07	\$ 1.06

Options to purchase 1.3 million common shares for both the three- and nine-month periods ended September 30, 2015 were not included in the computation of diluted earnings per share because their effect

would have been anti-dilutive. Options to purchase 0.8 million and 0.7 million common shares for the three- and nine-month periods ended September 30, 2014, respectively, were not included in the computation of diluted earnings per share because their effect would also have been anti-dilutive.

#### Note 4 – Goodwill and Other Intangible Assets

Goodwill allocated to the Company's reportable segments was as follows:

(in thousands)	Americas	Asia	Total
Goodwill at December 31, 2014 and September 30, 2015	\$ 7,868	\$ 38,102	\$ 45,970

Other assets consist primarily of acquired identifiable intangible assets and capitalized purchased software costs. Other intangible assets as of September 30, 2015 and December 31, 2014 were as follows:

(in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 33,095	\$ (18,499)	\$ 14,596
Technology licenses	11,300	(9,982)	1,318
Other	868	(207)	661
Other intangible assets, September 30, 2015	\$ 45,263	\$ (28,688)	\$ 16,575

(in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 33,188	\$ (16,099)	\$ 17,089
Technology licenses	11,300	(9,434)	1,866
Other	868	(190)	678
Other intangible assets, December 31, 2014	\$ 45,356	\$ (25,723)	\$ 19,633

Customer relationships are amortized on a straight-line basis over a period of ten years. Technology licenses are amortized over their estimated useful lives in proportion to the economic benefits consumed. Amortization of other intangible assets for the nine months ended September 30, 2015 and 2014 was \$3.0 million and \$2.5 million, respectively.

The estimated future amortization expense of other intangible assets for each of the next five years is as follows (in thousands):

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Year ending December 31,	Amount
2015 (remaining three months)	\$ 948
2016	3,996
2017	2,099
2018	1,574
2019	1,574

**Note 5 – Borrowing Facilities**

Under the terms of a credit agreement (the Credit Agreement), the Company has a \$200 million five-year revolving credit facility for general corporate purposes with a maturity date of July 30, 2017. The Credit Agreement includes an accordion feature under which total commitments under the facility may be increased by an additional \$100 million, subject to satisfaction of certain conditions and lender approval.

Interest on outstanding borrowings under the Credit Agreement is payable quarterly, at the Company's option, at either LIBOR plus 1.75% to 2.75% or a prime rate plus 0.75% to 1.75%, based upon the Company's leverage ratio as specified in the Credit Agreement. A commitment fee of 0.30% to 0.40% per annum (based upon the Company's liquidity ratio as specified in the Credit Agreement) on the unused portion of the revolving credit line is payable quarterly in arrears. As of September 30, 2015 and December 31, 2014, the Company had no borrowings outstanding under the Credit Agreement, \$1.6 million and \$1.2 million, respectively, in outstanding letters of credit and \$198.4 million and \$198.8 million, respectively, was available for future borrowings under the revolving credit facility.

The Credit Agreement is secured by the Company's domestic inventory and accounts receivable, 100% of the stock of the Company's domestic subsidiaries, 65% of the voting capital stock of each direct foreign subsidiary and substantially all of the other tangible and intangible assets of the Company and its domestic subsidiaries. The Credit Agreement contains customary financial covenants as to debt leverage and fixed charges, and restricts the Company's ability to incur additional debt, pay dividends, repurchase shares, sell assets and merge or consolidate with other persons. As of both September 30, 2015 and December 31, 2014, the Company was in compliance with all of these covenants and restrictions.

The Company's Thailand subsidiary has a multi-purpose credit facility with Kasikornbank Public Company Limited (the Thai Credit Facility) that provides for 350 million Thai baht working capital availability. The Thai Credit Facility is secured by land and buildings in Thailand owned by the Company's Thailand subsidiary. Availability of funds under the Thai Credit Facility is reviewed annually and is currently accessible through October 2016. As of both September 30, 2015 and December 31, 2014, there were no working capital borrowings outstanding under the facility.

**Note 6 – Inventories**

Inventory costs are summarized as follows:

(in thousands)	September 30, 2015	December 31, 2014
Raw materials	\$ 291,763	\$ 266,556
Work in process	79,803	84,673
Finished goods	49,966	50,032
	\$ 421,532	\$ 401,261

**Note 7 – Income Taxes**

Income tax expense consists of the following:

(in thousands)	Nine Months Ended September 30,	
	2015	2014
Federal – Current	\$ 483	\$ 617
Foreign – Current	4,786	626
State – Current	296	454
Deferred	7,481	10,649
	\$ 13,046	\$ 12,346

Income tax expense differs from the amount computed by applying the U.S. federal statutory income tax rate to income before income tax primarily due to the mix of taxable income by taxing jurisdiction, the

impact of tax incentives and tax holidays in foreign locations, and state income taxes (net of federal benefit).

The Company considers earnings from foreign subsidiaries to be indefinitely reinvested and, accordingly, no provision for U.S. federal and state income taxes has been made for these earnings. Upon distribution of foreign subsidiary earnings in the form of dividends or otherwise, such distributed earnings would be reportable for U.S. income tax purposes (subject to adjustment for foreign tax credits). Determination of the amount of any unrecognized deferred tax liability on these undistributed earnings is not practicable.

The Company has been granted certain tax incentives, including tax holidays, for its subsidiaries in China, Malaysia and Thailand that will expire at various dates, unless extended or otherwise renegotiated, through December 2015 in China, 2016 in Malaysia and 2026 in Thailand, and are subject to certain conditions with which the Company expects to comply. The net impact of these tax incentives was to lower income tax expense for the nine months ended September 30, 2015 and 2014 by approximately \$7.1 million (approximately \$0.13 per diluted share) and \$10.0 million (approximately \$0.18 per diluted share), respectively, as follows:

(in thousands)	Nine Months Ended September 30,	
	2015	2014
China	\$ 1,573	\$ 2,321
Malaysia	1,565	1,731
Thailand	3,936	5,913
	\$ 7,074	\$ 9,965

As of September 30, 2015, the total amount of the reserve for uncertain tax benefits including interest and penalties was \$17.2 million. The reserve is classified as a current or long-term liability in the condensed consolidated balance sheets based on the Company's expectation of when the items will be settled. The amount of accrued potential interest and penalties, respectively, on unrecognized tax benefits included in the reserve as of September 30, 2015, was \$1.7 million and \$1.6 million. No material changes affected the reserve during the nine months ended September 30, 2015.

The Company and its subsidiaries in Brazil, China, Ireland, Luxembourg, Malaysia, Mexico, the Netherlands, Romania, Singapore, Thailand and the United States remain open to examination by the various local taxing authorities, in total or in part, for fiscal years 2004 to 2014. During the course of such examinations, disputes may occur as to matters of fact or law. Also, in most tax jurisdictions, the passage of time without examination will result in the expiration of applicable statutes of limitations thereby precluding examination of the tax period(s) for which such statute of limitation has expired. The Company believes that it has adequately provided for its tax liabilities.



**Note 8 – Segment and Geographic Information**

The Company currently has manufacturing facilities in the United States, Mexico, Asia and Europe, and is operated and managed geographically. Management evaluates performance and allocates the Company's resources on a geographic basis. Intersegment sales are generally recorded at prices that approximate arm's length transactions. Operating segments' measure of profitability is based on income from operations. The accounting policies for the reportable operating segments are the same as for the Company taken as a whole. The Company has three reportable operating segments: the Americas, Asia and Europe. Information about operating segments was as follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net sales:				
Americas	\$ 398,570	\$ 426,060	\$ 1,193,194	\$ 1,278,430
Asia	219,400	288,962	692,609	796,356
Europe	35,399	39,613	106,647	110,296
Elimination of intersegment sales	(23,178)	(23,333)	(77,296)	(97,568)
	\$ 630,191	\$ 731,302	\$ 1,915,154	\$ 2,087,514
Depreciation and amortization:				
Americas	\$ 5,965	\$ 5,593	\$ 18,094	\$ 15,542
Asia	4,126	4,385	12,928	12,796
Europe	683	738	1,929	2,216
Corporate	1,236	1,070	3,539	3,431
	\$ 12,010	\$ 11,786	\$ 36,490	\$ 33,985
Income from operations:				
Americas	\$ 21,153	\$ 9,186	\$ 53,165	\$ 44,272
Asia	16,216	21,449	50,143	57,771
Europe	973	2,739	4,273	4,985
Corporate and intersegment eliminations	(12,194)	(11,459)	(36,517)	(35,537)
	\$ 26,148	\$ 21,915	\$ 71,064	\$ 71,491
Capital expenditures:				
Americas	\$ 4,391	\$ 4,771	\$ 14,731	\$ 28,139
Asia	1,526	607	10,922	4,313
Europe	577	807	3,873	3,375
Corporate	1,382	132	3,356	787
	\$ 7,876	\$ 6,317	\$ 32,882	\$ 36,614
Total assets:				
Americas			\$ 677,547	\$ 711,153
Asia			669,424	666,717
Europe			262,383	239,274
Corporate and other			57,750	60,310

\$ 1,667,104 \$ 1,677,454

Geographic net sales information reflects the destination of the product shipped. Long-lived assets information is based upon the physical location of the asset.

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
<b>Geographic net sales:</b>				
United States	\$ 452,255	\$ 535,786	\$ 1,391,414	\$ 1,520,192
Asia	75,479	98,432	237,490	282,873
Europe	58,307	64,493	159,781	201,344
Other Foreign	44,150	32,591	126,469	83,105
	\$ 630,191	\$ 731,302	\$ 1,915,154	\$ 2,087,514
			September 30,	December 31,
			2015	2014
<b>Long-lived assets:</b>				
United States			\$ 86,692	\$ 93,679
Asia			78,635	88,375
Europe			10,123	8,114
Other			30,510	28,173
			\$ 205,960	\$ 218,341

### Note 9 – Supplemental Cash Flow Information

The following information concerns supplemental disclosures of cash payments.

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Income taxes paid (refunded), net	\$ 2,288	\$ (751)	\$ 6,144	\$ 4,342
Interest paid	448	447	1,298	1,313

### Note 10 – Contingencies

The Company is involved in various legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position or results of operations.

### Note 11 – Impact of Recently Enacted Accounting Standards

In September 2015, the Financial Accounting Standards Board (FASB) issued an accounting standards update to simplify the accounting for measurement-period adjustments for an acquirer in a business combination. The update will require an acquirer to recognize any adjustments to provisional amounts of the initial accounting for a business

combination with a corresponding adjustment to goodwill in the reporting period in which the adjustments are determined, as opposed to revising prior periods presented in financial statements. Thus, an acquirer shall adjust its financial statements as needed, including recognizing in its current-period earnings the full effect of changes in depreciation, amortization, or other income effects, by line item, if any, as a result of the change to the provisional amounts calculated as if the accounting had been completed at the acquisition date. This update is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted, and the update must be applied prospectively. The Company is currently evaluating the impact of this update and the timing of adoption.

In July 2015, the FASB issued an accounting standards update, which applies to inventory that is measured using first-in, first-out or average cost, with new guidance on simplifying the measurement of inventory. Inventory within the scope of this update is required to be measured at the lower of its cost or net realizable value, with net realizable value being the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The standards update is effective

prospectively for fiscal years and interim periods beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the impact this standard will have on its consolidated financial statements.

In May 2014, the FASB issued a new standard that will supersede most of the existing revenue recognition requirements in current U.S. GAAP. The new standard will require companies to recognize revenue in an amount reflecting the consideration to which they expect to be entitled in exchange for transferring goods or services to a customer. The new standard will also require significantly expanded disclosures regarding the qualitative and quantitative information of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The new standard will permit the use of either the retrospective or cumulative effect transition method, with early application not permitted. In July 2015, the FASB deferred the effective date of the new revenue standard. As a result, the Company will be required to adopt the new standard as of January 1, 2018. Early adoption is permitted to the original effective date of January 1, 2017. The Company is currently evaluating the impact the pronouncement will have on its consolidated financial statements and related disclosures and has not yet selected a transition method. As the new standard will supersede all existing revenue guidance affecting the Company under U.S. GAAP, it could impact revenue and cost recognition on contracts across all its business segments, in addition to its business processes and information technology systems. As a result, the Company's evaluation of the effect of the new standard will likely extend over several future periods.

The Company has determined that no other recently issued accounting standards will have a material impact on its consolidated financial position, results of operations or cash flows, or apply to its operations.

#### **Note 12 – Restructuring Charges**

The Company has undertaken initiatives to restructure its business operations to improve utilization and realize cost savings. These initiatives have included changing the number and location of production facilities, largely to align capacity and infrastructure with current and anticipated customer demand. This alignment includes transferring programs from higher cost geographies to lower cost geographies. The process of restructuring entails moving production between facilities, reducing staff levels, realigning our business processes, reorganizing our management and other activities.

The Company recognized restructuring charges during 2015 and 2014 primarily related to the closure of facilities in the Americas, capacity reduction and reductions in workforce in certain facilities across various regions.

The following table summarizes the 2015 activity in the accrued restructuring balances related to the restructuring activities initiated prior to September 30, 2015:

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(in thousands)	Balance as of December 31, 2014	Restructuring Charges	Cash Payment	Non-Cash Activity	Balance as of September 30, 2015
2015 Restructuring:					
Severance	\$ -	\$ 2,306	\$ (1,834)	\$ -	472
Leased facilities and equipment	-	2,334	(1,009)	-	1,325
Other exit costs	-	1,559	(1,099)	(7)	453
Total	\$ -	\$ 6,199	\$ (3,942)	(7)	\$ 2,250

15

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**Note 13 – Fair Value**

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A three-tier fair value hierarchy of inputs is employed to determine fair value measurements. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities. Level 2 inputs are observable prices that are not quoted on active exchanges, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable. Level 3 inputs are unobservable inputs employed for measuring the fair value of assets or liabilities. This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

The carrying amounts of cash equivalents, accounts receivable, accrued liabilities and accounts payable approximate fair value. As of September 30, 2015, \$1.0 million (par value) of long-term investments were recorded at fair value using Level 3 inputs.

**Note 14 – Accumulated Other Comprehensive Loss**

The changes in accumulated other comprehensive loss by component were as follows:

(in thousands)	Foreign currency translation adjustments	Unrealized loss on investments, net of tax	Other	Total
Balances, December 31, 2014	\$ (9,688)	\$ (64)	\$ 277	\$ (9,475)
Other comprehensive loss before reclassifications	(2,386)	(23)	-	(2,409)
Amounts reclassified from accumulated other comprehensive loss	-	-	(10)	(10)
Net current period other comprehensive loss	(2,386)	(23)	(10)	(2,419)
Balances, September 30, 2015	\$ (12,074)	\$ (87)	\$ 267	\$ (11,894)

Amounts reclassified from accumulated other comprehensive loss during the nine months ended September 30, 2015 affected selling, general and administrative expenses.

**Note 15 – Adjustments to Previously Reported Amounts**

During the third quarter of 2015, management identified and recorded a correction of an immaterial error related to the remeasurement of a foreign-currency-denominated receivable at one of the Company's foreign locations. Management evaluated the materiality of the error from qualitative and quantitative perspectives and determined the error to be

immaterial to the consolidated financial statements for the current and prior periods. The Company has revised its previously reported 2014 historical consolidated financial statements as published herein to reflect the correction of this immaterial error. The effect on certain line items in the December 31, 2014 condensed consolidated balance sheet was as follows:

(in thousands)	December 31, 2014	
	(as previously reported)	(as revised)
Prepays and other assets	\$ 30,453	\$ 29,018
Income taxes payable	5,470	5,450
Retained earnings	\$ 645,500	\$ 644,085



The effect on certain line items in the condensed consolidated statements of income as previously reported was as follows:

(in thousands)	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	(as previously reported)	(as revised)	(as previously reported)	(as revised)
Other expense	\$ (1,105)	\$ (1,359)	\$ (980)	\$ (1,517)
Income tax expense	3,695	3,691	12,355	12,346
Net income	\$ 17,156	\$ 16,906	\$ 58,431	\$ 57,903
Earnings per share:				
Basic	\$ 0.32	\$ 0.32	\$ 1.09	\$ 1.08
Diluted	\$ 0.32	\$ 0.31	\$ 1.07	\$ 1.06

The effect on certain line items in the condensed consolidated statements of cash flows as previously reported was as follows:

(in thousands)	September 30, 2014	
	(as previously reported)	(as revised)
Net cash provided by operations	\$ 113,905	\$ 113,368
Effect of exchange rate changes	\$ (1,448)	\$ (911)

#### Note 16 – Subsequent Event

On October 20, 2015, the Company entered into a definitive agreement to acquire Secure Communication Systems, Inc. and its subsidiaries (Secure Technology) (the Transaction). Under the terms and conditions of the Purchase Agreement among the Company, SCS Secure Holdings LLC, a Delaware limited liability company (SCS), and MCSC LLC (the Seller), the Company agreed to purchase all of the outstanding membership interests of SCS from the Seller. Upon closing the Transaction, SCS will become a wholly owned subsidiary of the Company. Secure Technology, headquartered in Santa Ana, California, is a leading provider of customized high performance electronics, sub-systems, and component solutions for mission critical applications in highly regulated industrial, aerospace and defense markets.

The Company will pay a cash purchase price of approximately \$230 million to acquire Secure Technology on a debt-free, cash-free basis subject to a working capital adjustment. The Transaction will be funded with the Company's bank credit facility and is expected to close in the fourth quarter of 2015, subject to customary closing conditions, including regulatory approvals. The Purchase Agreement includes typical representations, warranties, termination rights and covenants by the parties.

Subject to certain exceptions and limitations, the Company and the Seller have agreed to indemnify each other for breaches of representations, warranties, covenants and other specified matters contained in the Purchase Agreement. Approximately \$10 million of the cash consideration otherwise payable to the Seller at the closing will be held in an escrow account for a period of up to 12 months to satisfy Seller's indemnification obligations. In addition, the Company has obtained representation and warranty insurance, which provides \$30 million of coverage for losses related to breaches of the representations and warranties of Secure Technology or the Seller contained in the Purchase Agreement, subject to deductibles and certain other terms and conditions.



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*This quarterly report (this Report) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts and include words such as "anticipate," "believe," "intend," "plan," "projection," "forecast," "strategy," "position," "continue," "estimate," "expect," "may," "will," or the negative or other variations thereof. In particular, statements, whether express or implied, concerning future operating results or the ability to generate sales, income or cash flow are forward-looking statements. Undue reliance should not be placed on any forward-looking statements. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions that are beyond our ability to control or predict, including those discussed under Part II, Item 1A of this Report and in Part I, Item 1A of the 2014 10-K. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual outcomes, including the future results of our operations, may vary materially from those indicated. The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements and accompanying notes, and the 2014 10-K.*

### OVERVIEW

We are a worldwide provider of integrated manufacturing, design and engineering services. In this Report, references to Benchmark or the Company or use of the words "we", "our" and "us" include the subsidiaries of Benchmark unless otherwise noted.

We provide our services to OEMs of industrial equipment (including equipment for the aerospace and defense industries), telecommunication equipment, computers and related products for business enterprises, medical devices, and test and instrumentation products.

We offer our customers comprehensive and integrated design and manufacturing services—from initial product design to volume production including direct order fulfillment and post-deployment services. Our operations comprise three principal areas:

- *Manufacturing and assembly operations*, which include printed circuit boards and subsystem assembly, box build and systems integration, the process of integrating subsystems and, often, downloading and integrating software, to produce a fully configured product.
- *Precision technology manufacturing*, which complements our electronic manufacturing expertise by providing further vertical integration of critical mechanical components. These capabilities include precision machining, advanced metal joining, assembly and functional testing for multiple industries including medical, instrumentation, aerospace and semiconductor capital equipment.

- *Specialized engineering services*, which include product design, printed circuit board layout, prototyping, automation and test development.

Our core strength lies in the manufacturing process for large, complex, high-density printed circuit boards, as well as the ability to manufacture high- and low-volume products in lower cost regions such as China, Malaysia, Mexico, Romania and Thailand. Our global manufacturing presence increases our ability to respond to our customers' needs by providing accelerated time-to-market and time-to-volume production of high-quality products.

These capabilities enable us to build strong strategic relationships with our customers and to become an integral part of their operations. As our customers have continued to expand their globalization strategy, we have continued to make the necessary changes to align our business operations with their demand. In

support of our growth, we make acquisitions from time to time that expand our global reach, customer access and product capabilities.

Our customers face challenges in planning, procuring and managing their inventories efficiently due to fluctuations in their customer demand, product design changes, short product life cycles and component price fluctuations. We employ enterprise resource planning (ERP) systems to manage the procurement and manufacturing processes in an efficient and cost-effective manner so that, where possible, components arrive on a just-in-time, as-and-when-needed basis. We are a significant purchaser of electronic components and other raw materials and can capitalize on the economies of scale associated with our relationships with suppliers to negotiate price discounts, obtain components and other raw materials that are in short supply, and return excess components. Our expertise in supply chain management and our relationships with suppliers across the supply chain enable us to help reduce our customers' cost of goods sold and inventory exposure.

We recognize revenue from the sale of manufactured products built to customer specifications and excess inventory when title and risk of ownership have passed, the price to the buyer is fixed or determinable and recoverability is reasonably assured, which generally is when the goods are shipped. Revenue from design, development and engineering services is recognized when the services are performed and collectibility is reasonably certain. Such services provided under fixed price contracts are accounted for using the percentage-of-completion method. We generally assume no significant obligations after shipment as we typically warrant workmanship only. Therefore, our warranty provisions are generally not significant.

Our cost of sales includes the cost of materials, electronic components and other items that comprise the products we manufacture, the cost of labor and manufacturing overhead and adjustments for excess and obsolete inventory. Our procurement of materials for production requires us to commit significant working capital to our operations and to manage the purchasing, receiving, inspection and stocking of materials. Although we bear the risk of fluctuations in the cost of materials and excess scrap, we periodically negotiate cost of materials adjustments with our customers. Our gross margin for any product depends on the sales price, the proportionate mix of the cost of materials in the product and the cost of labor and manufacturing overhead allocated to the product. We typically have the potential to realize higher gross margins on products where the proportionate level of labor and manufacturing overhead is greater than that of materials. As we gain experience in manufacturing a product, we usually achieve increased efficiencies, which result in lower labor and manufacturing overhead costs for that product and higher gross margins. Our operating results are impacted by the level of capacity utilization of our manufacturing facilities. Operating income margins typically improve during periods of high production volume and high capacity utilization. During periods of low production volume, we generally have idle capacity and reduced gross profit.

## 2015 Highlights

Sales for the three months ended September 30, 2015 decreased 14% to \$630.2 million compared to \$731.3 million for 2014. During the three months ended 2015, sales to customers in our various industry sectors fluctuated from the comparable 2014 period as follows:

- Industrials decreased by 10%,
- Telecommunications decreased by 36%,
- Computing decreased by 10%,
- Medical increased by 15%, and
- Test & Instrumentation increased by 17%.

A significant portion of the overall decrease in sales resulted from a decrease in Telecommunications revenue primarily related to product lifecycle transitions at one of our top customers that had strong demand in 2014 driven by new programs. In addition, five of our top six Telecommunications customers experienced modest order declines during the quarter ended September 30, 2015, and we expect further declines in the fourth quarter of 2015 related to broader demand weakness associated with reduced infrastructure spending. Customers are remaining deliberate in their decision-making and are delaying spending as they await positive future catalysts. In general, our Telecommunications customers are offering a cautious outlook regarding near-term market recovery.

Our future sales depend on the success of our customers, some of which operate in businesses associated with rapid technological change and consequent product obsolescence. Developments adverse to our major customers or their products, or the failure of a major customer to pay for components or services, can adversely affect us. A substantial percentage of our sales are made to a small number of customers, and the loss of a major customer, if not replaced, would adversely affect us. Sales to our ten largest customers represented 48% and 51% of our sales in the nine months ended September 30, 2015 and 2014, respectively. Our largest customer in 2015, International Business Machines Corporation, represented 10% of our total sales during the nine months ended September 30, 2015. In 2014, sales to our two largest customers, which individually accounted for greater than 10% of our sales, represented 23% of our sales during the nine months ended September 30, 2014.

We experience fluctuations in gross profit from period to period. Different programs contribute different gross profits depending on factors such as the types of services involved, location of production, size of the program, complexity of the product and level of material costs associated with the various products. Moreover, new programs can contribute relatively less to our gross profit in their early stages when manufacturing volumes are usually lower, resulting in inefficiencies and unabsorbed manufacturing overhead costs. In addition, a number of our new and higher volume programs remain subject to competitive constraints that could exert downward pressure on our margins.

We have undertaken initiatives to restructure our business operations with the intention of improving utilization and realizing cost savings. During the first nine months of 2015, we recognized \$6.2 million of restructuring charges and \$1.4 million of integration costs, primarily related to the closing of certain facilities in the Americas.

**RESULTS OF OPERATIONS**

The following table presents the percentage relationship that certain items in our Condensed Consolidated Statements of Income bear to sales for the periods indicated. The financial information and the discussion below should be read in conjunction with the Condensed Consolidated Financial Statements and Notes thereto in Item 1 of this Report.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	91.4	92.4	91.6	92.1
Gross profit	8.6	7.6	8.4	7.9
Selling, general and administrative expenses	4.3	4.3	4.3	4.2
Restructuring charges and integration costs	0.2	0.3	0.4	0.3
Thailand flood-related items	-	-	-	(0.1)
Income from operations	4.1	3.0	3.7	3.4
Other expense, net	(0.2)	(0.2)	(0.1)	(0.0)
Income before income taxes	3.9	2.8	3.6	3.4
Income tax expense	0.7	0.5	0.7	0.6
Net income	3.3%	2.3%	2.9%	2.8%

**Sales**

Sales for the third quarter of 2015 were \$630.2 million, a 14% decrease from sales of \$731.3 million for the same quarter in 2014. Sales for the first nine months of 2015 were \$1.9 billion, an 8% decrease from sales of \$2.1 billion for the same period in 2014. A significant portion of the overall decrease in sales related primarily to the decrease in Telecommunications revenue described above and the loss of a Test & Instrumentation customer that declared bankruptcy on October 6, 2014. The following table sets forth, for the periods indicated, the percentages of our sales by industry sector.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Industrials	31%	30%	31%	29%
Telecommunications	24	32	26	29
Computing	22	21	21	21
Medical	14	10	13	11
Test & Instrumentation	9	7	9	10
	100%	100%	100%	100%



**Industrials** Sales for the third quarter of 2015 decreased 10% to \$197.6 million from \$219.0 million for the same quarter of 2014, and decreased 3% to \$597.6 million during the first nine months of 2015 from \$615.9 million in the same period of 2014. The decrease was due to lower demand from our customers that support the energy industry and the impact of the strengthening U.S. dollar.

**Telecommunications** Sales for the third quarter of 2015 decreased 36% to \$147.2 million from \$230.8 million for the same quarter of 2014, and decreased 19% to \$490.2 million during the first nine months of 2015 from \$605.5 million in the same period of 2014. The decrease was primarily related to product lifecycle transitions at one of our top customers who had strong demand in 2014 driven by new programs. In addition, five of our top six Telecommunications customers experienced modest order declines during the quarter ended September 30, 2015.

**Computing** Sales for the third quarter of 2015 decreased 10% to \$139.6 million from \$155.5 million for the same quarter of 2014, and decreased 9% to \$396.0 million during the first nine months of 2015 from \$433.9 million in the same period of 2014. The decrease was primarily due to lower demand from our customers.

**Medical** Sales for the third quarter of 2015 increased 15% to \$87.5 million from \$76.0 million for the same quarter of 2014, and increased 13% to \$259.1 million during the first nine months of 2015 from \$229.9 million in the same period of 2014, primarily as a result of new programs.

**Test & Instrumentation** Sales for the third quarter of 2015 increased 17% to \$58.3 million from \$50.0 million for the same quarter of 2014 primarily due to increased demand from our customers. Sales decreased 15% to \$172.3 million during the first nine months of 2015 from \$202.3 million in the same period of 2014 primarily due to the loss of the customer that declared bankruptcy in 2014 offset by increased demand from other customers. The customer that declared bankruptcy in 2014 accounted for \$50.7 million of our sales during the first nine months of 2014.

Our international operations are subject to the risks of doing business abroad. See Part I, Item 1A of our 2014 10-K for factors pertaining to our international sales and fluctuations in the exchange rates of foreign currency and for further discussion of potential adverse effects in operating results associated with the risks of doing business abroad. During the first nine months of 2015 and 2014, 51% and 52%, respectively, of our sales were from our international operations.

## **Gross Profit**

Gross profit decreased 2% to \$54.3 million for the three months ended September 30, 2015 from \$55.3 million in the same quarter of 2014, and decreased 1% to \$161.8 million for the nine months ended September 30, 2015 from \$164.2 million in the same period of 2014. For the three months ended September 30, 2014, we incurred a \$2.3 million charge for the write-down of inventory associated with the bankruptcy of GT Advanced Technologies. Including the inventory charge, gross profit as a percentage of sales was 7.6% for the three months ended September 30, 2014, and 7.9% for the nine months ended September 30, 2014. Excluding this inventory charge, gross profit as a percentage of sales increased to 8.6% for the three months ended September 30, 2015 from 7.9% in the same period of 2014, and increased to 8.4% for the nine months ended September 30, 2015 from 8.0% in the same period of 2014 primarily due to benefits from our diversified revenue base, ongoing operational excellence initiatives, as well as increased utilization with our continuing integration and restructuring activities. We experience fluctuations in gross profit from period to period. Different programs contribute different gross profits depending on factors such as the types of services involved, location of production, size of the program, complexity of the product and level of material costs associated with the various products. Moreover, new programs can contribute relatively less to our gross profit in their early stages when manufacturing volumes are usually lower, resulting in inefficiencies and unabsorbed manufacturing overhead costs. In addition, a number of our new and higher volume programs remain subject to competitive constraints that could exert downward pressure on our margins. During periods of low production volume, we generally have idle capacity and reduced gross profit.

**Selling, General and Administrative Expenses**

SG&A decreased by 13% to \$27.0 million in the third quarter of 2015 compared to \$31.2 million in the same quarter of 2014, and decreased by 6% to \$83.2 million in the first nine months of 2015 compared to \$88.1 million in the same period of 2014. These decreases were primarily attributable to reduced costs related to our continued integration and restructuring activities, a \$2.7 million charge for provisions to accounts receivable associated with the GT Advance Technologies bankruptcy filing in the third quarter of

2014, and lower variable compensation expenses. Including the provisions to accounts receivable associated with the referenced bankruptcy, SG&A as a percentage of sales was 4.3% for the three months ended September 30, 2014 and 4.2% for the nine months ended September 30, 2014. Excluding the provisions to accounts receivable associated with the referenced bankruptcy, SG&A, as a percentage of sales, increased to 4.3% for the third quarter of 2015 from 3.9% in the same period of 2014. Excluding the provisions to accounts receivable associated with the referenced bankruptcy, SG&A, as a percentage of sales, increased to 4.3% for the nine months ended September 30, 2015 from 4.1% in the same period of 2014. The increase in SG&A as a percentage of sales related primarily to the factors noted above and the decreased sales volumes.

### **Restructuring Charges and Integration Costs**

During 2015, we recognized \$7.6 million of restructuring charges and integration costs, primarily related to the closure of certain facilities in the Americas. In 2014, we recognized \$6.2 million of restructuring and integration costs, primarily related to the integration of certain sites acquired in 2013. See Note 12 to the Condensed Consolidated Financial Statements in Item 1 of this Report.

### **Thailand Flood-Related Items**

During the three months ended March 31, 2014, we received the final \$1.6 million of insurance proceeds related to the flooding of our facilities in Ayudhaya, Thailand during the fourth quarter of 2011. As a result of the flooding, we have been unable to renew or otherwise obtain adequate cost-effective flood insurance to cover assets at our facilities in Thailand. We continue to monitor the insurance market in Thailand. In the event we were to experience a significant uninsured loss in Thailand or elsewhere, it could have a material adverse effect on our business, financial condition and results of operations.

### **Income Tax Expense**

Income tax expense of \$13.0 million represented an effective tax rate of 18.9% for 2015, compared with \$12.3 million that represented an effective tax rate of 17.6% for 2014. We received a tax incentive in China in the first quarter of 2014 that was retroactively applied to the 2013 calendar year and continues through 2015. The tax adjustment for the \$1.2 million retroactive incentive for 2013 was recorded as a discrete tax benefit as of March 31, 2014. Excluding this tax item, the effective tax rate would have been 18.9% in 2015 compared to 19.3% in 2014.

We have been granted certain tax incentives, including tax holidays, for our subsidiaries in China, Malaysia and Thailand that will expire at various dates, unless extended or otherwise renegotiated, through December 2015 in China, 2016 in Malaysia, and 2026 in Thailand. See Note 7 to the Condensed Consolidated Financial Statements in Item 1 of this report.

### **Net Income**

We reported net income of \$56.0 million, or diluted earnings per share of \$1.07 for the first nine months of 2015, compared with net income of \$57.9 million, or diluted earnings per share of \$1.06 for the same period of 2014. The net decrease of \$1.9 million from 2014 was due to the factors discussed above.

## **LIQUIDITY AND CAPITAL RESOURCES**

We have historically financed our growth and operations through funds generated from operations. Cash and cash equivalents totaled \$462.1 million at September 30, 2015 and \$427.4 million at December 31, 2014, of which \$408.8 million at September 30, 2015 and \$333.3 million at December 31, 2014 was held outside the U.S. in various foreign subsidiaries. Substantially all of the amounts held outside of the U.S. are intended to be permanently reinvested in foreign operations. Under current tax laws and regulations, if cash and cash equivalents held outside the U.S. were to be distributed to the U.S. in the form of dividends or otherwise, we would be subject to additional U.S. income taxes and foreign withholding taxes.

Cash provided by operating activities was \$118.7 million for the first nine months of 2015 and consisted primarily of \$56.0 million of net income adjusted for \$36.5 million of depreciation and amortization, a \$52.2 million decrease in accounts receivable offset by a \$21.1 million increase in inventories. The decrease in accounts receivable was primarily driven by the decrease in sales from the fourth quarter of 2014 to the third quarter of 2015. Inventories have increased in support of our customers in higher mix businesses with extended supply chains. Working capital was \$1.1 billion and \$1.0 billion at September 30, 2015 and at December 31, 2014, respectively.

We are continuing the practice of purchasing components only after customer orders or forecasts are received, which mitigates, but does not eliminate, the risk of loss on inventories. Supplies of electronic components and other materials used in operations are subject to industry-wide shortages. In certain instances, suppliers may allocate available quantities to us. If shortages of these components and other material supplies used in operations occur, vendors may not ship the quantities we need for production and we may be forced to delay shipments, which would increase backorders and therefore impact cash flows.

Cash used in investing activities was \$32.2 million for the first nine months of 2015 primarily due to purchases of additional property, plant and equipment totaling \$32.0 million. These purchases were primarily for machinery and equipment in the Americas and Asia.

Cash used in financing activities was \$50.8 million for the first nine months of 2015. Share repurchases totaled \$52.3 million, and we received \$1.7 million from the exercise of stock options.

Under the terms of the Credit Agreement, we currently have a \$200.0 million five-year revolving credit facility that may be used for general corporate purposes with a maturity date of July 30, 2017. The Credit Agreement includes an accordion feature pursuant to which total commitments under the facility may be increased by an additional \$100 million, subject to satisfaction of certain conditions and lender approval. As of September 30, 2015 and December 31, 2014, we had no borrowings outstanding under the Credit Agreement, \$1.6 million and \$1.2 million, respectively, in outstanding letters of credit and \$198.4 million and \$198.8 million, respectively, was available for future borrowings. See Note 5 to the Condensed Consolidated Financial Statements included in Item 1 of this Report for more information regarding the terms of the Credit Agreement. We are currently in negotiations to extend the Credit Agreement, including possibly adding a term-loan feature, which could be used to fund the acquisition described above in Note 16 to the Condensed Consolidated Financial Statements included in Item 1 of this Report.

Our operations, and the operations of businesses we acquire, are subject to certain foreign, federal, state and local regulatory requirements relating to environmental, waste management, health and safety matters. We believe we operate in substantial compliance with all applicable requirements and we seek to ensure that newly acquired businesses comply or will comply substantially with applicable requirements. To date, the costs of compliance and workplace and environmental remediation have not been material to us. However, material costs and liabilities may arise from these requirements or from new, modified or more stringent requirements in the future. In addition, our past, current and future operations, and the operations of businesses we have or may acquire, may give rise to claims

of exposure by employees or the public, or to other claims or liabilities relating to environmental, waste management or health and safety concerns.

As of September 30, 2015, we had cash and cash equivalents totaling \$462.1 million and \$198.4 million available for borrowings under the Credit Agreement. During the next 12 months, we believe our capital expenditures will be approximately \$40 million to \$50 million, principally for machinery and equipment to support our ongoing business around the globe.

On December 4, 2014, our Board of Directors approved the repurchase of up to \$100 million of our

outstanding common shares (the 2014 Repurchase Program). As of September 30, 2015, we had \$50.7 million remaining under the 2014 Repurchase Program to repurchase additional shares. We are under no commitment or obligation to repurchase any particular amount of common shares. Management believes that our existing cash balances and funds generated from operations will be sufficient to permit us to meet our liquidity requirements over the next 12 months. Management further believes that our ongoing cash flows from operations and any borrowings we may incur under our credit facilities will enable us to meet operating cash requirements in future years. Should we desire to consummate significant acquisition opportunities, our capital needs would increase and could possibly result in our need to increase available borrowings under our Credit Agreement or access public or private debt and equity markets. There can be no assurance, however, that we would be successful in raising additional debt or equity on terms that we would consider acceptable.

### **CONTRACTUAL OBLIGATIONS**

We have certain contractual obligations for operating and capital leases that were summarized in a table of Contractual Obligations in our 2014 10-K. There have been no material changes to our contractual obligations, outside of the ordinary course of our business, since December 31, 2014.

### **OFF-BALANCE SHEET ARRANGEMENTS**

As of September 30, 2015, we did not have any significant off-balance sheet arrangements.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Management's discussion and analysis is based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. Our significant accounting policies are summarized in Note 1 to the Consolidated Financial Statements included in our 2014 10-K. See Note 11 to the Condensed Consolidated Financial Statements for a discussion of recently enacted accounting principles.

### **Item 3 – Quantitative and Qualitative Disclosures About Market Risk**

Our international sales comprise a significant portion of our net sales. We are exposed to risks associated with operating internationally, including:



- Foreign currency exchange risk
- Import and export duties, taxes and regulatory changes;
- Inflationary economies or currencies; and
- Economic and political instability.

Additionally, some of our operations are in developing countries. Certain events, including natural disasters, can impact the infrastructure of a developing country more severely than they would impact the infrastructure of a developed country. A developing country can also take longer to recover from such events, which could lead to delays in our ability to resume full operations.

We transact business in various foreign countries and are subject to foreign currency fluctuation risks. We use natural hedging and forward contracts to economically hedge transactional exposure primarily associated with trade accounts receivable and trade accounts payable denominated in a currency other than the functional currency of the respective operating entity. We do not use derivative financial instruments for speculative purposes. The forward contract in place as of September 30, 2015 has not been designated as an accounting hedge and, therefore, changes in fair value are recorded within our Condensed Consolidated Statements of Income.

Our sales are substantially denominated in U.S. dollars. Our foreign currency cash flows are generated in certain European and Asian countries and Mexico.

We are also exposed to market risk for changes in interest rates, a portion of which relates to our invested cash balances. We do not use derivative financial instruments in our investing activities. We place cash and cash equivalents and investments with various major financial institutions. We protect our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by generally investing in investment grade securities.

#### **Item 4 – Controls and Procedures**

As of the end of the period covered by this Report, the Company's management (with the participation of our chief executive officer and chief financial officer) conducted an evaluation pursuant to Rule 13a-15 promulgated under the Exchange Act, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the chief executive officer and chief financial officer concluded that as of the end of the period covered by this Report such disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to our management, including the Company's chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in our internal control over financial reporting that occurred during the last fiscal quarter covered by this Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls and internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management overriding the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential

future conditions; over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

**PART II—OTHER INFORMATION****Item 1. Legal Proceedings**

We are involved in various legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position or results of operations.

**Item 1A. Risk Factors**

There are no material changes to the risk factors set forth in Part I, Item 1A of our 2014 10-K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

(c) The following table provides information about the Company's repurchases of its equity securities that are registered pursuant to Section 12 of the Exchange Act during the quarter ended September 30, 2015, at a total cost of \$17.8 million:

**ISSUER PURCHASES OF EQUITY SECURITIES**

Period	(a) Total Number of Shares (or Units) Purchased <sup>(1)</sup>	(b) Average Price Paid per Share (or Unit) <sup>(2)</sup>	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs <sup>(3)</sup>
July 1 to 31, 2015	590,000	\$21.27	590,000	\$55.9 million
September 1 to 30, 2015	245,000	\$21.22	245,000	\$50.7 million
Total	835,000	\$21.26	835,000	

<sup>(1)</sup> All share repurchases were made on the open market.

<sup>(2)</sup> Average price paid per share is calculated on a settlement basis and excludes commission.

<sup>(3)</sup> Share purchases under the 2014 Repurchase Program may be made in the open market, in privately negotiated transactions or block transactions, at the discretion of the Company's management and as market conditions warrant. Purchases are funded from available cash and may be commenced, suspended or discontinued at any time without prior notice. Shares repurchased under the program are retired.

**Item 6. Exhibits**

- 3.1 Restated Certificate of Formation of the Company dated November 4, 2014 (incorporated by reference to Exhibit 3.1 to the Company's quarterly report on Form 10-Q filed with the SEC on November 7, 2014) (the 10-Q) (Commission file number 1-10560)
- 3.2 Amended and Restated Bylaws of the Company dated November 4, 2014 (incorporated by reference to Exhibit 3.2 to the 10-Q)
- 4.1 Specimen form of certificate evidencing the Common Shares (incorporated by reference to Exhibit 4.1 to the 10-Q)
- 31.1\* Section 302 Certification of Chief Executive Officer
- 31.2\* Section 302 Certification of Chief Financial Officer
- 32.1\* Section 1350 Certification of Chief Executive Officer
- 32.2\* Section 1350 Certification of Chief Financial Officer
- 101.INS<sup>(1)</sup> XBRL Instance Document
- 101.SCH<sup>(1)</sup> XBRL Taxonomy Extension Schema Document
- 101.CAL<sup>(1)</sup> XBRL Taxonomy Extension Calculation Linkbase Document
- 101.LAB<sup>(1)</sup> XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE<sup>(1)</sup> XBRL Taxonomy Extension Presentation Linkbase Document
- 101.DEF<sup>(1)</sup> XBRL Taxonomy Extension Definition Linkbase Document

\* Filed herewith.

<sup>(1)</sup> XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is not deemed filed for purposes of section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized on November 6, 2015.

	BENCHMARK ELECTRONICS, INC.
	(Registrant)
	By: <u>/s/ Gayla J. Delly</u>
	Gayla J. Delly
	President and Chief Executive Officer
	(Principal Executive Officer)
	By: <u>/s/ Donald F. Adam</u>
	Donald F. Adam
	Chief Financial Officer
	(Principal Financial Officer)

**EXHIBIT INDEX**

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