

BENCHMARK ELECTRONICS INC  
Form 10-Q  
August 07, 2015

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

\_\_\_\_\_  
**FORM 10 Q**  
\_\_\_\_\_

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

**For the quarterly period ended June 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<br>of incorporation or organization) | (I.R.S. Employer<br>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 August 5, 2015, there were 51,140,993 Common Shares of Benchmark Electronics, Inc., par value \$0.10 per share, outstanding.

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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)   | June 30,<br>2015<br>(unaudited) | December 31,<br>2014 |
|--|---------------------------------|----------------------|
| <b>Assets</b>  |                                 |                      |
| Current assets:  |                                 |                      |
| Cash and cash equivalents  | \$ 409,315                      | \$ 427,376           |
| Accounts receivable, net of allowance for doubtful<br>accounts of \$3,033 and \$2,943, respectively                        | 500,713                         | 520,389              |
| Inventories  | 444,652                         | 401,261              |
| Prepaid expenses and other assets  | 40,313                          | 30,453               |
| Income taxes receivable  | 4                               | 572                  |
| Deferred income taxes  | 4,559                           | 8,502                |
| Total current assets   | 1,399,556                       | 1,388,553            |
| Long-term investments  | 924                             | 1,008                |
| Property, plant and equipment, net of accumulated<br>depreciation of \$366,272 and \$350,563 respectively                  | 185,535                         | 190,180              |
| Goodwill, net  | 45,970                          | 45,970               |
| Deferred income taxes  | 23,955                          | 25,017               |
| Other, net   | 26,561                          | 28,161               |
|  | \$ 1,682,501                    | \$ 1,678,889         |
| <b>Liabilities and Shareholders' Equity</b>  |                                 |                      |
| Current liabilities:   |                                 |                      |
| Current installments of capital lease obligations  | \$ 724                          | \$ 676               |
| Accounts payable   | 286,379                         | 289,786              |
| Income taxes payable   | 4,725                           | 5,470                |
| Accrued liabilities  | 68,284                          | 63,166               |
| Total current liabilities  | 360,112                         | 359,098              |
| Capital lease obligations, less current installments   | 8,470                           | 8,845                |
| Other long-term liabilities  | 17,487                          | 17,800               |
| Deferred income taxes  | 2,106                           | 2,106                |
| Shareholders' equity:  |                                 |                      |
| Preferred shares, \$0.10 par value; 5,000 shares<br>authorized, none issued  | —                               | —                    |
| Common shares, \$0.10 par value; 145,000 shares<br>authorized; issued and outstanding – 51,730 and<br>52,994, respectively | 5,173                           | 5,300                |

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|                                      |              |              |
|--------------------------------------|--------------|--------------|
| Additional paid-in capital           | 638,976      | 649,715      |
| Retained earnings                    | 662,456      | 645,500      |
| Accumulated other comprehensive loss | (12,279)     | (9,475)      |
| Total shareholders' equity           | 1,294,326    | 1,291,040    |
| Commitments and contingencies        |              |              |
|                                      | \$ 1,682,501 | \$ 1,678,889 |

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 |            | Six Months Ended |              |
|--|--------------------|------------|------------------|--------------|
|  | June 30,<br>2015   | 2014       | June 30,<br>2015 | 2014         |
| Sales  | \$ 664,038         | \$ 716,868 | \$ 1,284,963     | \$ 1,356,212 |
| Cost of sales                                  | 608,322            | 659,117    | 1,177,468        | 1,247,338    |
| Gross profit                                   | 55,716             | 57,751     | 107,495          | 108,874      |
| Selling, general and administrative expenses   | 27,920             | 28,700     | 56,122           | 56,853       |
| Restructuring charges and integration costs    | 1,588              | 1,907      | 6,457            | 4,016        |
| Thailand flood related items, net of insurance | -                  | -          | -                | (1,571)      |
| Income from operations                         | 26,208             | 27,144     | 44,916           | 49,576       |
| Interest expense                               | (497)              | (473)      | (932)            | (949)        |
| Interest income                                | 293                | 668        | 725              | 1,183        |
| Other income (expense)                         | 596                | 99         | (461)            | 125          |
| Income before income taxes                     | 26,600             | 27,438     | 44,248           | 49,935       |
| Income tax expense                             | 5,390              | 5,288      | 8,833            | 8,660        |
| Net income                                     | \$ 21,210          | \$ 22,150  | \$ 35,415        | \$ 41,275    |
| Earnings per share:                            |                    |            |                  |              |
| Basic  | \$ 0.41            | \$ 0.41    | \$ 0.68          | \$ 0.77      |
| Diluted  | \$ 0.40            | \$ 0.41    | \$ 0.67          | \$ 0.76      |
| Weighted-average number of shares outstanding: |                    |            |                  |              |
| Basic  | 52,180             | 53,826     | 52,321           | 53,738       |
| Diluted  | 52,671             | 54,405     | 52,884           | 54,394       |

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 |           | Six Months Ended |           |
|---|--------------------|-----------|------------------|-----------|
|   | June 30,<br>2015   | 2014      | June 30,<br>2015 | 2014      |
| Net income                                    | \$ 21,210          | \$ 22,150 | \$ 35,415        | \$ 41,275 |
| Other comprehensive income (loss):            |                    |           |                  |           |
| Foreign currency translation adjustments      | 698                | (206)     | (2,764)          | (233)     |
| Unrealized loss on investments,<br>net of tax | (38)               | (145)     | (33)             | (154)     |
| Other   | (3)                | (7)       | (7)              | (15)      |
| Other comprehensive income (loss):            | 657                | (358)     | (2,804)          | (402)     |
| Comprehensive income                          | \$ 21,867          | \$ 21,792 | \$ 32,611        | \$ 40,873 |

See accompanying notes to condensed consolidated financial statements.



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

| (in thousands)                                 | Common Shares<br>Shares<br>Outstanding | Par<br>Value | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Total<br>Shareholders'<br>Equity |
|--|--|--------------|----------------------------------|----------------------|---|----------------------------------|
| Balances, December 31, 2014                    | 52,994                                 | \$ 5,300     | \$ 649,715                       | \$ 645,500           | (9,475)                                       | \$ 1,291,040                     |
| Stock-based compensation expense               | -                                      | -            | 4,020                            | -                    | -   | 4,020                            |
| Shares repurchased and retired                 | (1,461)                                | (147)        | (15,952)                         | (18,459)             | -   | (34,558)                         |
| Stock options exercised                        | 80                                     | 8            | 1,463                            | -                    | -   | 1,471                            |
| Vesting of restricted stock units              | 141                                    | 14           | (14)                             | -                    | -   | -                                |
| Shares withheld for taxes                      | (24)                                   | (2)          | (569)                            | -                    | -   | (571)                            |
| Excess tax benefit of stock-based compensation | -                                      | -            | 313                              | -                    | -   | 313                              |
| Comprehensive income                           | -                                      | -            | -                                | 35,415               | (2,804)                                       | 32,611                           |
| Balances, June 30, 2015                        | 51,730                                 | \$ 5,173     | \$ 638,976                       | \$ 662,456           | (12,279)                                      | \$ 1,294,326                     |

See accompanying notes to condensed consolidated financial statements.

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

| (in thousands)   | Six Months Ended<br>June 30, |           |
|--|------------------------------|-----------|
|  | 2015                         | 2014      |
| Cash flows from operating activities:  |                              |           |
| Net income   | \$ 35,415                    | \$ 41,275 |
| Adjustments to reconcile net income to net cash provided by operating activities:      |                              |           |
| Depreciation   | 21,778                       | 19,841    |
| Amortization   | 2,702                        | 2,358     |
| Deferred income taxes  | 5,000                        | 6,674     |
| Gain on the sale of property, plant and equipment                                      | (15)                         | (69)      |
| Asset impairments  | 84                           | 610       |
| Thailand flood insurance recovery  | -                            | (550)     |
| Stock-based compensation expense   | 4,020                        | 3,680     |
| Excess tax benefit from stock-based compensation                                       | (340)                        | (538)     |
| Changes in operating assets and liabilities, net of effects from business acquisition: |                              |           |
| Accounts receivable  | 18,606                       | 60,259    |
| Inventories  | (44,446)                     | (24,738)  |
| Prepaid expenses and other assets  | (10,205)                     | (5,673)   |
| Accounts payable   | 3,441                        | (21,060)  |
| Accrued liabilities  | 4,895                        | 6,805     |
| Income taxes   | 178                          | (3,180)   |
| Net cash provided by operations  | 41,113                       | 85,694    |
| Cash flows from investing activities:  |                              |           |
| Proceeds from sales and redemptions of investments                                     | 50                           | 57        |
| Additions to property, plant and equipment   | (24,308)                     | (29,442)  |
| Proceeds from the sale of property, plant and equipment                                | 420                          | 202       |
| Additions to purchased software  | (698)                        | (855)     |
| Business acquisition, net of cash acquired   | -                            | 750       |
| Thailand flood property insurance proceeds   | -                            | 550       |
| Other  | 19                           | 359       |
| Net cash used in investing activities  | (24,517)                     | (28,379)  |
| Cash flows from financing activities:  |                              |           |
| Proceeds from stock options exercised  | 1,471                        | 10,768    |
| Excess tax benefit from stock-based compensation                                       | 340                          | 538       |
| Principal payments on capital lease obligations  | (327)                        | (281)     |
| Share repurchases  | (34,558)                     | (11,895)  |
|  | (33,074)                     | (870)     |

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|  | Net cash used in financing<br>activities |            |
|--|--|------------|
| Effect of exchange rate changes                      | (1,583)                                  | (131)      |
| Net increase (decrease) in cash and cash equivalents | (18,061)                                 | 56,314     |
| Cash and cash equivalents at beginning of year       | 427,376                                  | 345,555    |
| Cash and cash equivalents at end of period           | \$ 409,315                               | \$ 401,869 |

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 that provides worldwide integrated manufacturing services. The Company provides integrated manufacturing, design and engineering services to original equipment manufacturers (OEMs) of industrial control 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 June 30, 2015, 3.7 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 \$2.1 million and \$4.0 million for the three and six months ended June 30, 2015, respectively, and \$2.2 million and \$3.7 million for the three and six months ended June 30, 2014, respectively. The total income tax benefit recognized in the condensed income statement for stock-based awards was \$1.0 million and \$1.6 million for the three and six months ended June 30, 2015, respectively, and \$1.0 million and \$1.7 million for the three and six months ended June 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 June 30, 2015, the unrecognized compensation cost and remaining weighted-average amortization related to stock-based awards were as follows:

| (in thousands)                                    | Stock<br>Options | Restricted<br>Shares | Restricted<br>Stock<br>Units | Performance-<br>based<br>Restricted<br>Stock<br>Units <sup>(1)</sup> |
|---|------------------|----------------------|------------------------------|--|
| Unrecognized compensation cost                    | \$ 5,390         | \$ 395               | \$ 8,821                     | \$ 2,972   |
| Remaining weighted-average<br>amortization period | 2.0 years        | 0.6 years            | 2.6 years                    | 2.0 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 six months ended June 30, 2015 and 2014, were as follows:

| (in thousands)           | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|--------------------------|--------------------------------|-----------|------------------------------|-----------|
|                          | 2015                           | 2014      | 2015                         | 2014      |
| Options granted          | -                              | 65        | 289                          | 378       |
| Expected term of options | N/A                            | 8.1 years | 6.4 years                    | 7.0 years |
| Expected volatility      | N/A                            | 39%       | 35%                          | 39%       |
| Risk-free interest rate  | N/A                            | 2.479%    | 1.886%                       | 2.081%    |
| Dividend yield           | N/A                            | zero      | 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 six months ended June 30, 2015 was \$8.76. The total cash received as a result of stock option exercises for the six months ended June 30, 2015 and 2014 was approximately \$1.5 million and \$10.8 million, respectively. The tax benefit realized as a result of stock option exercises and the vesting of other share-based awards during the six months ended June 30, 2015 and 2014 was \$1.9 million and \$2.3 million, respectively. For the six months ended June 30, 2015 and 2014, the total intrinsic value of stock options exercised was \$0.5 million and \$2.7 million, respectively.

The Company awarded performance-based restricted stock units to employees during the six months ended June 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<br>Options | Weighted-<br>Average<br>Exercise<br>Price | Weighted-<br>Average<br>Remaining<br>Contractual<br>Term (Years) | Aggregate<br>Intrinsic<br>Value |
|---------------------------------------|----------------------|---|--|---------------------------------|
| Outstanding as of December 31, 2014   | 2,437                | \$ 20.07                                  |  |                                 |
| Granted                               | 289                  | \$ 23.14                                  |  |                                 |
| Exercised                             | (80)                 | \$ 18.30                                  |  |                                 |
| Forfeited or expired                  | (15)                 | \$ 22.83                                  |  |                                 |
| Outstanding as of June 30, 2015       | 2,631                | \$ 20.45                                  | 5.13   | \$ 6,614                        |
| Exercisable as of June 30, 2015       | 1,847                | \$ 20.13                                  | 3.31   | \$ 5,461                        |

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 June 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<br>Shares |    | Weighted-<br>Average<br>Grant Date<br>Fair Value |
|---|---------------------|----|--|
| Non-vested shares outstanding as of December 31, 2014 | 109                 | \$ | 16.33  |
| Vested  | (70)                | \$ | 16.84  |
| Forfeited   | (1)                 | \$ | 16.93  |
| Non-vested shares outstanding as of June 30, 2015     | 38                  | \$ | 15.39  |

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

| (in thousands, except per share data)                 | Number of<br>Units |    | Weighted-<br>Average<br>Grant Date<br>Fair Value |
|---|--------------------|----|--|
| Non-vested awards outstanding as of December 31, 2014 | 412                | \$ | 20.33  |
| Granted   | 205                | \$ | 23.28  |
| Vested  | (142)              | \$ | 20.05  |
| Forfeited   | (6)                | \$ | 20.61  |
| Non-vested awards outstanding as of June 30, 2015     | 469                | \$ | 21.70  |

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

| (in thousands, except per share data)                | Number of<br>Units |    | Weighted-<br>Average<br>Grant Date<br>Fair Value |
|--|--------------------|----|--|
| Non-vested units outstanding as of December 31, 2014 | 274                | \$ | 18.56  |
| Granted <sup>(1)</sup>                               | 76                 | \$ | 23.14  |
| Forfeited or expired                                 | (53)               | \$ | 18.57  |
| Non-vested units outstanding as of June 30, 2015     | 297                | \$ | 19.74  |

<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:

| Three Months Ended<br>June 30, | Six Months Ended<br>June 30, |
|--------------------------------|------------------------------|
|--------------------------------|------------------------------|

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| (in thousands, except per share data)   | 2015      | 2014      | 2015      | 2014      |
|---|-----------|-----------|-----------|-----------|
| Net income  | \$ 21,210 | \$ 22,150 | \$ 35,415 | \$ 41,275 |
| Denominator for basic earnings per share -<br>weighted-average number of common<br>shares outstanding during the period | 52,180    | 53,826    | 52,321    | 53,738    |
| Incremental common shares attributable to<br>exercise of dilutive options   | 386       | 443       | 387       | 461       |
| Incremental common shares attributable<br>to outstanding restricted shares and<br>restricted stock units                | 105       | 136       | 176       | 195       |
| Denominator for diluted earnings per share  | 52,671    | 54,405    | 52,884    | 54,394    |
| Basic earnings per share  | \$ 0.41   | \$ 0.41   | \$ 0.68   | \$ 0.77   |
| Diluted earnings per share  | \$ 0.40   | \$ 0.41   | \$ 0.67   | \$ 0.76   |

Options to purchase 1.0 million common shares for both the three- and six-month periods ended June 30, 2015 were not included in the computation of diluted earnings per share because their effect would have been anti-dilutive. Options to purchase 0.7 million common shares for both the three- and six-month periods ended June 30, 2014 were not included in the computation of diluted earnings per share because their effect would 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 June 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 June 30, 2015 and December 31, 2014 were as follows:

| (in thousands)                         | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|--|-----------------------|--------------------------|---------------------|
| Customer relationships                 | \$ 33,081             | \$ (17,662)              | \$ 15,419           |
| Technology licenses                    | 11,300                | (9,709)                  | 1,591               |
| Other                                  | 868                   | (201)                    | 667                 |
| Other intangible assets, June 30, 2015 | \$ 45,249             | \$ (27,572)              | \$ 17,677           |

| (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 six months ended June 30, 2015 and 2014 was \$1.9 million and \$1.7 million, respectively.

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

| Year ending December 31,    | Amount   |
|-----------------------------|----------|
| 2015 (remaining six months) | \$ 2,059 |
| 2016                        | 3,996    |
| 2017                        | 2,102    |
| 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 June 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.

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 June 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 2015. As of both June 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)  | June 30,<br>2015 | December 31,<br>2014 |
|-----------------|------------------|----------------------|
| Raw materials   | \$ 299,942       | \$ 266,556           |
| Work in process | 84,127           | 84,673               |
| Finished goods  | 60,583           | 50,032               |
|                 | \$ 444,652       | \$ 401,261           |

**Note 7 – Income Taxes**

Income tax expense consists of the following:

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| (in thousands)    | Six Months Ended |          |
|-------------------|------------------|----------|
|                   | June 30,         |          |
|                   | 2015             | 2014     |
| Federal – Current | \$ 320           | \$ 361   |
| Foreign – Current | 3,321            | 1,330    |
| State – Current   | 192              | 295      |
| Deferred          | 5,000            | 6,674    |
|                   | \$ 8,833         | \$ 8,660 |

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 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 six months ended June 30, 2015 and 2014 by approximately \$4.6 million (approximately \$0.09 per diluted share) and \$6.5 million (approximately \$0.12 per diluted share), respectively, as follows:

| (in thousands) | Six Months Ended |          |
|----------------|------------------|----------|
|                | June 30,         |          |
|                | 2015             | 2014     |
| China          | \$ 950           | \$ 1,876 |
| Malaysia       | 1,109            | 1,214    |
| Thailand       | 2,515            | 3,362    |
|                | \$ 4,574         | \$ 6,452 |

As of June 30, 2015, the total amount of the reserve for uncertain tax benefits including interest and penalties was \$17.9 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 June 30, 2015, was \$1.7 million and \$1.6 million. No material changes affected the reserve during the six months ended June 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. The Company is operated and managed geographically, and 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 |            | Six Months Ended |              |
|---|--------------------|------------|------------------|--------------|
|   | June 30,           |            | June 30,         |              |
|   | 2015               | 2014       | 2015             | 2014         |
| Net sales:                              |                    |            |                  |              |
| Americas                                | \$ 413,642         | \$ 440,869 | \$ 794,624       | \$ 852,370   |
| Asia                                    | 242,989            | 268,609    | 473,209          | 507,394      |
| Europe                                  | 35,549             | 36,522     | 71,248           | 70,683       |
| Elimination of intersegment sales       | (28,142)           | (29,132)   | (54,118)         | (74,235)     |
|   | \$ 664,038         | \$ 716,868 | \$ 1,284,963     | \$ 1,356,212 |
| Depreciation and amortization:          |                    |            |                  |              |
| Americas                                | \$ 6,234           | \$ 5,229   | \$ 12,129        | \$ 9,949     |
| Asia                                    | 4,332              | 4,224      | 8,802            | 8,411        |
| Europe                                  | 600                | 744        | 1,246            | 1,478        |
| Corporate                               | 1,176              | 1,204      | 2,303            | 2,361        |
|   | \$ 12,342          | \$ 11,401  | \$ 24,480        | \$ 22,199    |
| Income from operations:                 |                    |            |                  |              |
| Americas                                | \$ 19,523          | \$ 19,527  | \$ 32,012        | \$ 35,086    |
| Asia                                    | 17,742             | 18,102     | 33,927           | 36,322       |
| Europe                                  | 1,828              | 1,466      | 3,300            | 2,246        |
| Corporate and intersegment eliminations | (12,885)           | (11,951)   | (24,323)         | (24,078)     |
|   | \$ 26,208          | \$ 27,144  | \$ 44,916        | \$ 49,576    |
| Capital expenditures:                   |                    |            |                  |              |
| Americas                                | \$ 3,412           | \$ 12,891  | \$ 10,340        | \$ 23,368    |
| Asia                                    | 1,506              | 724        | 9,396            | 3,706        |
| Europe                                  | 1,657              | 1,549      | 3,296            | 2,568        |
| Corporate                               | 1,604              | 517        | 1,974            | 655          |
|   | \$ 8,179           | \$ 15,681  | \$ 25,006        | \$ 30,297    |
| Total assets:                           |                    |            |                  |              |
| Americas                                |                    |            | \$ 696,763       | \$ 712,588   |
| Asia                                    |                    |            | 698,142          | 666,717      |
| Europe                                  |                    |            | 241,172          | 239,274      |
| Corporate and other                     |                    |            | 46,424           | 60,310       |

\$ 1,682,501 \$ 1,678,889

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 |            | Six Months Ended |              |
|------------------------------|--------------------|------------|------------------|--------------|
|                              | June 30,           |            | June 30,         |              |
|                              | 2015               | 2014       | 2015             | 2014         |
| <b>Geographic net sales:</b> |                    |            |                  |              |
| United States                | \$ 491,834         | \$ 522,135 | \$ 939,159       | \$ 984,406   |
| Asia                         | 79,620             | 96,975     | 162,011          | 184,441      |
| Europe                       | 48,767             | 68,574     | 101,474          | 136,851      |
| Other Foreign                | 43,817             | 29,184     | 82,319           | 50,514       |
|                              | \$ 664,038         | \$ 716,868 | \$ 1,284,963     | \$ 1,356,212 |
| <br>                         |                    |            |                  |              |
|                              |                    |            | June 30,         | December 31, |
|                              |                    |            | 2015             | 2014         |
| <b>Long-lived assets:</b>    |                    |            |                  |              |
| United States                |                    |            | \$ 88,616        | \$ 93,679    |
| Asia                         |                    |            | 81,471           | 88,375       |
| Europe                       |                    |            | 10,446           | 8,114        |
| Other                        |                    |            | 31,563           | 28,173       |
|                              |                    |            | \$ 212,096       | \$ 218,341   |

### Note 9 – Supplemental Cash Flow Information

The following information concerns supplemental disclosures of cash payments.

| (in thousands)         | Three Months Ended |          | Six Months Ended |          |
|------------------------|--------------------|----------|------------------|----------|
|                        | June 30,           |          | June 30,         |          |
|                        | 2015               | 2014     | 2015             | 2014     |
| Income taxes paid, net | \$ 2,452           | \$ 4,390 | \$ 3,856         | \$ 5,093 |
| Interest paid          | 449                | 424      | 850              | 866      |

### 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 July 2015, the Financial Accounting Standards Board (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, among other activities, moving production between facilities, reducing staff levels, realigning our business processes and reorganizing our management.

The Company recognized restructuring charges during 2015 and 2014 primarily related to the closure of facilities, 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 June 30, 2015:

| (in thousands)                  | Balance as of<br>December 31,<br>2014 | Restructuring<br>Charges | Cash<br>Payment   | Non-Cash<br>Activity | Balance as of<br>June 30,<br>2015 |
|---------------------------------|---------------------------------------|--------------------------|-------------------|----------------------|-----------------------------------|
| 2015 Restructuring:             |                                       |                          |                   |                      |                                   |
| Severance                       | \$ -                                  | \$ 1,633                 | \$ (1,633)        | \$ -                 | -                                 |
| Leased facilities and equipment | -                                     | 2,253                    | (530)             | -                    | 1,723                             |
| Other exit costs                | -                                     | 1,278                    | (943)             | (3)                  | 332                               |
| <b>Total</b>                    | <b>\$ -</b>                           | <b>\$ 5,164</b>          | <b>\$ (3,106)</b> | <b>(3)</b>           | <b>\$ 2,055</b>                   |

### 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, accounts payable and capital lease obligations approximate fair value. As of June 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<br>currency<br>translation<br>adjustments | Unrealized<br>loss on<br>investments,<br>net of tax | Other  | Total       |
|---|---|---|--------|-------------|
| Balances, December 31, 2014                                       | \$ (9,688)  | \$ (64)   | \$ 277 | \$ (9,475)  |
| Other comprehensive loss before<br>reclassifications              | (2,764)   | (33)  | -      | (2,797)     |
| Amounts reclassified from accumulated<br>other comprehensive loss | -   | -   | (7)    | (7)         |
| Net current period other comprehensive loss                       | (2,764)   | (33)  | (7)    | (2,804)     |
| Balances, June 30, 2015   | \$ (12,452)                                       | \$ (97)   | \$ 270 | \$ (12,279) |

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

**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 electronic manufacturing 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 control 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. Our services are commonly referred to as electronics manufacturing services (EMS).



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 June 30, 2015 decreased 7% to \$664.0 million compared to \$716.9 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:

- Industrial Controls decreased by 5%,
- Telecommunications decreased by 14%,
- Computing decreased by 7%,
- Medical increased by 11%, and
- Test & Instrumentation decreased by 17%.

The overall decrease in sales related primarily to the loss of a Test & Instrumentation customer that declared bankruptcy in the fourth quarter of 2014 and a decrease in Telecommunications revenue due to lower demand from customers in 2015 compared with strong demand in the second quarter of 2014, which was driven by new programs.

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, could 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 six months ended June 30, 2015 and 2014, respectively. We had no customers greater than 10% of total sales during the six months ended June 30, 2015. In 2014, sales to our two largest customers, which individually accounted for greater than 10% of our sales, represented 21% of our sales during the six months ended June 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 six months of 2015, we recognized \$5.2 million of restructuring charges and \$1.3 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 |        | Six Months Ended |        |
|--|--------------------|--------|------------------|--------|
|  | June 30,           |        | June 30,         |        |
|  | 2015               | 2014   | 2015             | 2014   |
| Sales  | 100.0%             | 100.0% | 100.0%           | 100.0% |
| Cost of sales                                | 91.6               | 91.9   | 91.6             | 92.0   |
| Gross profit                                 | 8.4                | 8.1    | 8.4              | 8.0    |
| Selling, general and administrative expenses | 4.2                | 4.0    | 4.4              | 4.2    |
| Restructuring charges and integration costs  | 0.2                | 0.3    | 0.5              | 0.3    |
| Thailand flood-related items                 | -                  | -      | -                | (0.1)  |
| Income from operations                       | 3.9                | 3.8    | 3.5              | 3.7    |
| Other income (expense), net                  | 0.1                | 0.0    | (0.1)            | 0.0    |
| Income before income taxes                   | 4.0                | 3.8    | 3.4              | 3.7    |
| Income tax expense                           | 0.8                | 0.7    | 0.7              | 0.6    |
| Net income                                   | 3.2%               | 3.1%   | 2.8%             | 3.0%   |

**Sales**

Sales for the second quarter of 2015 were \$664.0 million, a 7% decrease from sales of \$716.9 million for the same quarter in 2014. Sales for the first six months of 2015 were \$1.3 billion, a 5% decrease from sales of \$1.4 billion for the same period in 2014. The overall decrease in sales related primarily to the loss of a Test & Instrumentation customer described above and the decrease in Telecommunications revenue also described above. The following table sets forth, for the periods indicated, the percentages of our sales by industry sector.

|                        | Three Months Ended |      | Six Months Ended |      |
|------------------------|--------------------|------|------------------|------|
|                        | June 30,           |      | June 30,         |      |
|                        | 2015               | 2014 | 2015             | 2014 |
| Industrial Controls    | 30%                | 29%  | 31%              | 29%  |
| Telecommunications     | 27                 | 29   | 27               | 28   |
| Computing              | 20                 | 21   | 20               | 21   |
| Medical                | 14                 | 11   | 13               | 11   |
| Test & Instrumentation | 9                  | 10   | 9                | 11   |
|                        | 100%               | 100% | 100%             | 100% |

**Industrial Controls** Sales for the second quarter of 2015 decreased 5% to \$200.9 million from \$211.5 million for the same quarter of 2014 primarily as a result of lower demand from customers that support the energy industry and the

impact of the strengthening U.S. dollar. Sales increased 1% to \$400.0 million during the first six months of 2015 from \$396.9 million in the same period of 2014. This increase was due to new programs offset by lower demand from our customers that support the energy industry and the impact of the strengthening U.S. dollar.

**Telecommunications** Sales for the second quarter of 2015 decreased 14% to \$176.6 million from \$205.1 million for the same quarter of 2014, and decreased 8% to \$343.0 million during the first six months of 2015 from \$374.8 million in the same period of 2014. The decrease was primarily due to lower demand from our customers in 2015 as compared with strong demand in the second quarter of 2014, which was

driven by new programs.

**Computing** Sales for the second quarter of 2015 decreased 7% to \$136.8 million from \$147.5 million for the same quarter of 2014, and decreased 8% to \$256.4 million during the first six months of 2015 from \$278.4 million in the same period of 2014. The decrease was primarily due to lower demand from our customers.

**Medical** Sales for the second quarter of 2015 increased 11% to \$90.3 million from \$81.0 million for the same quarter of 2014, and increased 11% to \$171.5 million during the first six months of 2015 from \$153.9 million in the same period of 2014, primarily as a result of new programs.

**Test & Instrumentation** Sales for the second quarter of 2015 decreased 17% to \$59.4 million from \$71.8 million for the same quarter of 2014, and decreased 25% to \$114.1 million during the first six months of 2015 from \$152.3 million in the same period of 2014 primarily due to a customer that declared bankruptcy in 2014 offset by increased demand from other customers. Our customer that declared bankruptcy in 2014 accounted for \$26.8 million and \$50.3 million, respectively, of our sales during the second quarter and the first six 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 six months of both 2015 and 2014, 52% of our sales were from our international operations.

### **Gross Profit**

Gross profit decreased 4% to \$55.7 million for the three months ended June 30, 2015 from \$57.8 million in the same quarter of 2014, and decreased 1% to \$107.5 million for the six months ended June 30, 2015 from \$108.9 million in the same period of 2014. Gross profit as a percentage of sales increased to 8.4% for the three months ended June 30, 2015 from 8.1% in the same period of 2014, and increased to 8.4% for the six months ended June 30, 2015 from 8.0% in the same period of 2014 primarily due to benefits from our ongoing operational excellence initiatives, increased utilization with our continuing integration and restructuring activities, as well as benefits from our diversified revenue base. 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 3% to \$27.9 million in the second quarter of 2015 compared to \$28.7 million in the same quarter of 2014, and decreased by 1% to \$56.1 million in the first six months of 2015 compared to \$56.9 million in the same period of 2014. These decreases were primarily attributable to reduced costs related to our continued integration and restructuring activities. SG&A, as a percentage of sales, increased to 4.2% for the second quarter of 2015 from 4.0% from the same quarter of 2014. SG&A, as a percentage of sales, increased to 4.4% for the six months ended June 30, 2015 from 4.2% 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 \$6.5 million of restructuring charges and integration costs, primarily related to the closure of certain facilities in the Americas. In 2014, we recognized \$4.0 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 \$8.8 million represented an effective tax rate of 20.0% for 2015, compared with \$8.7 million that represented an effective tax rate of 17.3% 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 20.0% in 2015 compared to 19.8% 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 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 \$35.4 million, or diluted earnings per share of \$0.67 for the first six months of 2015, compared with net income of \$41.3 million, or diluted earnings per share of \$0.76 for the same period of 2014. The net decrease of \$5.9 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 \$409.3 million at June 30, 2015 and \$427.4 million at December 31, 2014, of which \$352.6

million at June 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 \$41.1 million for the first six months of 2015 and consisted primarily of \$35.4 million of net income adjusted for \$24.5 million of depreciation and amortization, an \$18.6 million decrease in accounts receivable, a \$3.4 million increase in accounts payable, a \$4.9 million increase in accrued liabilities offset by a \$44.4 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 second quarter of 2015. Inventories have increased in support of our customers in higher mix businesses with extended supply chains. The increase in accounts payable is a result of the timing of payments. Working capital was \$1.0 billion at June 30, 2015 and at December 31, 2014.

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 \$24.5 million for the first six months of 2015 primarily due to purchases of additional property, plant and equipment totaling \$24.3 million. These purchases were primarily for machinery and equipment in the Americas and Asia.

Cash used in financing activities was \$33.1 million for the first six months of 2015. Share repurchases totaled \$34.6 million, and we received \$1.5 million from the exercise of stock options.

Under the terms of the Credit Agreement, we have a \$200.0 million five-year revolving credit facility to 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 June 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 in Item 1 of this Report for more information regarding the terms of the Credit Agreement.

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 June 30, 2015, we had cash and cash equivalents totaling \$409.3 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 June 30, 2015, we had \$68.5 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 June 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, in addition, have recently begun to enter into 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 June 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 Asia 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 June 30, 2015, at a total cost of \$18.8 million:

**ISSUER PURCHASES OF EQUITY SECURITIES**

| Period              | (a) Total<br>Number of<br>Shares (or<br>Units)<br>Purchased <sup>(1)</sup> | (b) Average<br>Price Paid per Share<br>(or Unit) <sup>(2)</sup> | (c) Total<br>Number of<br>Shares<br>(or Units)<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | (d) Maximum<br>Number (or<br>Approximate<br>Dollar Value)<br>of Shares<br>(or Units) that<br>May Yet Be<br>Purchased<br>Under the<br>Plans or<br>Programs <sup>(3)</sup> |
|---------------------|--|---|--|--|
| April 1 to 30, 2015 | 102,500  | \$24.47   | 102,500  | \$84.8 million   |
| May 1 to 31, 2015   | 266,875  | \$23.93   | 266,875  | \$78.4 million   |
| June 1 to 30, 2015  | 429,500  | \$22.98   | 429,500  | \$68.5 million   |
| Total               | 798,875  | \$23.49   | 798,875  |  |

<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 August 7, 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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| 31.2*                            | Section 302 Certification of Chief Financial Officer   |
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