

BENCHMARK ELECTRONICS INC
Form 10-Q
November 09, 2010

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

FORM 10-Q

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

For the quarterly period ended September 30, 2010.

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)

Texas
(State or other jurisdiction
of incorporation or organization)

74-2211011
(I.R.S. Employer
Identification No.)

3000 Technology Drive
Angleton, Texas
(Address of principal executive offices)

77515
(Zip Code)

(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.

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Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

As of November 8, 2010 there were 60,922,791 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)	September 30, 2010 (unaudited)	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 346,299	\$ 421,243
Accounts receivable, net of allowance for doubtful accounts of \$739 and \$417, respectively	426,868	417,268
Inventories, net	380,644	315,743
Prepaid expenses and other assets	40,472	31,034
Income taxes receivable	3,526	3,526
Deferred income taxes	9,248	9,861
Total current assets	1,207,057	1,198,675
Long-term investments	36,252	45,686
Property, plant and equipment, net of accumulated depreciation of \$297,131 and \$280,107 respectively	129,171	126,250
Goodwill, net	37,912	37,912
Deferred income taxes	21,829	17,713
Other long-term assets, net	38,212	39,484
	\$ 1,470,433	\$ 1,465,720
Liabilities and Shareholders' Equity		
Current liabilities:		
Current installments of capital lease obligations	\$ 348	\$ 300
Accounts payable	264,080	275,900
Income taxes payable	11,993	6,464
Accrued liabilities	53,211	56,916
Total current liabilities	329,632	339,580
Capital lease obligations, less current installments	11,110	11,381
Other long-term liabilities	24,064	23,856
Shareholders' equity:		
Preferred shares, \$0.10 par value; 5,000 shares authorized, none issued	—	—
Common shares, \$0.10 par value; 145,000 shares authorized; issued – 61,330 and 64,208, respectively; outstanding – 61,219 and 64,097, respectively	6,122	6,410
Additional paid-in capital	707,908	732,956
Retained earnings	397,840	356,802
Accumulated other comprehensive loss	(5,971)	(4,993)
Less treasury shares, at cost; 111 shares	(272)	(272)
Total shareholders' equity	1,105,627	1,090,903
Commitments and contingencies		
	\$ 1,470,433	\$ 1,465,720

See accompanying notes to condensed consolidated financial statements.

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

(in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Sales	\$ 613,864	\$ 510,461	\$ 1,775,218	\$ 1,489,030
Cost of sales	566,143	473,648	1,635,258	1,386,027
Gross profit	47,721	36,813	139,960	103,003
Selling, general and administrative expenses	23,379	21,385	68,927	62,903
Restructuring charges	452	3,754	2,149	5,901
Income from operations	23,890	11,674	68,884	34,199
Interest expense	(343)	(350)	(1,022)	(1,051)
Interest income	394	382	1,208	1,710
Other income (expense)	1,212	(575)	162	(970)
Income before income taxes	25,153	11,131	69,232	33,888
Income tax benefit (expense)	(2,155)	5,285	(7,207)	3,321
Net income	\$ 22,998	\$ 16,416	\$ 62,025	\$ 37,209
Earnings per share:				
Basic	\$ 0.37	\$ 0.25	\$ 0.99	\$ 0.57
Diluted	\$ 0.37	\$ 0.25	\$ 0.98	\$ 0.57
Weighted-average number of shares outstanding:				
Basic	61,712	64,754	62,597	64,955
Diluted	62,103	65,194	63,162	65,206

See accompanying notes to condensed consolidated financial statements.

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

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income	\$ 22,998	\$ 16,416	\$ 62,025	\$ 37,209
Other comprehensive income (loss):				
Foreign currency translation adjustments	6,283	2,999	(1,740)	4,484
Unrealized gain on investments, net of tax	543	462	791	1,044
Other	(30)	(1)	(29)	(6)
Comprehensive income	\$ 29,794	\$ 19,876	\$ 61,047	\$ 42,731

The components of accumulated other comprehensive loss are as follows:

(in thousands)	September 30, 2010	December 31, 2009
Foreign currency translation losses	\$ (2,193)	\$ (453)
Unrealized loss on investments, net of tax	(3,598)	(4,389)
Other	(180)	(151)
Accumulated other comprehensive loss	\$ (5,971)	\$ (4,993)

See accompanying notes to condensed consolidated financial statements.

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

(in thousands)	Shares	Common shares	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury shares	Total shareholders' equity
Balances, December 31, 2009	64,097	\$ 6,410	\$ 732,956	\$ 356,802	\$ (4,993)	\$ (272)	\$ 1,090,903
Stock-based compensation expense	—	—	4,376	—	—	—	4,376
Shares repurchased and retired	(3,004)	(300)	(32,290)	(20,987)	—	—	(53,577)
Stock options exercised	133	13	1,733	—	—	—	1,746
Restricted shares cancelled	(7)	(1)	1	—	—	—	—
Excess tax benefit of stock-based compensation	—	—	1,132	—	—	—	1,132
Comprehensive income (loss)	—	—	—	62,025	(978)	—	61,047
Balances, September 30, 2010	61,219	\$ 6,122	\$ 707,908	\$ 397,840	\$ (5,971)	\$ (272)	\$ 1,105,627

See accompanying notes to condensed consolidated financial statements.

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

(in thousands)	Nine Months Ended September 30,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 62,025	\$ 37,209
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	30,216	29,682
Deferred income taxes	(2,624)	(1,866)
(Gain) loss on the sale of property, plant and equipment	(69)	6
Asset impairment	105	—
Stock-based compensation expense	4,376	3,886
Excess tax benefits from stock-based compensation	(846)	(189)
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	(10,804)	45,089
Inventories	(65,981)	59,127
Prepaid expenses and other assets	(13,866)	(1,627)
Accounts payable	(11,183)	(51,414)
Accrued liabilities	(560)	3,484
Income taxes	4,348	(5,887)
Net cash provided by (used in) operations	(4,863)	117,500
Cash flows from investing activities:		
Proceeds from redemptions of investments	10,225	2,900
Additions to property, plant and equipment	(28,934)	(14,311)
Proceeds from the sale of property, plant and equipment	231	157
Additions to purchased software	(117)	(59)
Business acquisition	—	(10,552)
Purchase of intangible asset	—	(11,300)
Net cash used in investing activities	(18,595)	(33,165)
Cash flows from financing activities:		
Proceeds from stock options exercised	1,746	1,124
Excess tax benefits from stock-based compensation	846	189
Principal payments on capital lease obligations	(223)	(191)
Share repurchases	(53,577)	(10,024)
Proceeds from warrants exercised	—	203
Net cash used in financing activities	(51,208)	(8,699)
Effect of exchange rate changes	(278)	2,714
Net increase (decrease) in cash and cash equivalents	(74,944)	78,350
Cash and cash equivalents at beginning of year	421,243	359,694
Cash and cash equivalents at September 30	\$ 346,299	\$ 438,044

See accompanying notes to condensed consolidated financial statements.

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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 world-wide integrated electronic manufacturing services. The Company provides services to original equipment manufacturers (OEMs) of computers and related products for business enterprises, medical devices, industrial control equipment, testing and instrumentation products and telecommunication equipment. 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 which in the opinion of management are necessary 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, 2009.

Management of the Company 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. Actual results could differ from those estimates.

Note 2 – Stock-Based Compensation

The Benchmark Electronics, Inc. 2000 Stock Awards Plan (the 2000 Plan) and the Benchmark Electronics, Inc. 2010 Omnibus Incentive Compensation Plan (the 2010 Plan) permit the grant of a variety of types of awards, including stock options, restricted stock awards, restricted stock units, stock appreciation rights, performance awards, and phantom stock awards, or any combination thereof, to any director, officer, employee or consultant of the Company. Stock options are granted with an exercise price equal to the market price of the Company's common shares on the date of grant, vest over a four-year period from the date of grant and have a term of ten years. Restricted shares and phantom stock awards granted to employees 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 on February 16, 2010 and no additional grants can be made under that plan. The 2010 Plan was approved by the Company's shareholders on May 18, 2010 and replaced the 2000 Plan. Members of the Board of Directors of the Company who are not employees of the Company participate in a separate stock option plan that provides for the granting of stock options upon the occurrence of the non-employee director's election or re-election to the Board of Directors. All awards under the non-employee director stock option plan are fully vested upon the date of grant and have a term of ten years. As of September 30, 2010, 5.2 million additional common shares are available for issuance under the Company's existing plans.

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All share-based payments to plan participants, including grants of stock options, are recognized in the financial statements based on their fair values. The total compensation cost recognized for stock-based awards was \$1.2 million and \$4.4 million for the three and nine months ended September 30, 2010, and \$1.4 million and \$3.9 million for the three and nine months ended September 30, 2009. 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 and phantom stock are valued at the closing market price of the Company's common shares on the date of grant.

As of September 30, 2010, there was approximately \$5.6 million of total unrecognized compensation cost related to nonvested stock options. That cost is expected to be recognized over a weighted-average period of 1.6 years. As of September 30, 2010, there was \$3.1 million of total unrecognized compensation cost related to restricted share awards. That cost is expected to be recognized over a weighted-average period of 2.7 years. As of September 30, 2010, there was \$0.9 million of total unrecognized compensation cost related to phantom stock awards. That cost is expected to be recognized over a weighted-average period of 2.8 years.

The Company did not issue any options during the three months ended September 30, 2010 or 2009. During both the nine months ended September 30, 2010 and 2009, the Company issued 61 thousand options to the non-employee directors. The weighted-average assumptions used to value the options granted during the three and nine months ended September 30, 2010 and 2009, were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Expected term of options	—	—	7.0 years	7.0 years
Expected volatility	—	—	40%	44%
Risk-free interest rate	—	—	2.94%	3.03%
Dividend yield	—	—	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 stock. The risk-free interest rate is based on the U.S. Treasury zero-coupon rates in effect at the time of grant with an equivalent remaining term. The dividend yield reflects that the Company has not paid any cash dividends since inception and does not anticipate paying cash dividends in the foreseeable future.

The weighted-average fair value per option granted during the nine months ended September 30, 2010 was \$9.03. The total cash received as a result of stock option exercises for the nine months ended September 30, 2010 and 2009 was \$1.7 million and \$1.1 million, respectively, and the excess tax benefit realized as a result of the stock option exercises was \$1.2 million and \$0.2 million, respectively. For the nine months ended September 30, 2010 and 2009, the total intrinsic value of stock options exercised was \$0.9 million and \$0.6 million, respectively. The Company realized an excess tax benefit of \$24 thousand during the nine months ended September 30, 2010 related to the vesting of restricted shares, which has been recorded as an increase to additional paid-in capital.

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

	Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2009	5,531	\$ 19.20	6.18	
Granted	61	\$ 19.41		
Exercised	(133)	\$ 13.12		
Forfeited or expired	(223)	\$ 25.28		
Outstanding at September 30, 2010	5,236	\$ 19.10	5.61	\$ 6,986
Exercisable at September 30, 2010	3,263	\$ 20.20	4.20	\$ 4,310

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 of \$16.40 as of the last business day of the period ended September 30, 2010 for options that had exercise prices that were below the closing price.

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

	Shares	Weighted- Average Grant Date Fair Value
Non-vested shares outstanding at December 31, 2009	290	\$ 16.67
Vested	(19)	\$ 17.54
Forfeited	(7)	\$ 17.02
Non-vested shares outstanding at September 30, 2010	264	\$ 16.60

The following table summarizes the activities related to the Company's phantom stock awards:

	Shares	Weighted- Average Grant Date Fair Value
Non-vested shares outstanding at December 31, 2009	81	\$ 16.50
Forfeited	(6)	\$ 16.63
Non-vested shares outstanding at September 30, 2010	75	\$ 16.49

As of September 30, 2010, there were no vested phantom stock awards.

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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 during the three and nine months ended September 30, 2010 and 2009. 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 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 September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income	\$ 22,998	\$ 16,416	\$ 62,025	\$ 37,209
Denominator for basic earnings per share - weighted-average number of common shares outstanding during the period	61,712	64,754	62,597	64,955
Incremental common shares attributable to exercise of outstanding dilutive options	305	388	474	210
Incremental common shares attributable to outstanding restricted shares and phantom stock	86	50	91	27
Incremental common shares attributable to exercise of warrants	—	2	—	14
Denominator for diluted earnings per share	62,103	65,194	63,162	65,206
Basic earnings per share	\$ 0.37	\$ 0.25	\$ 0.99	\$ 0.57
Diluted earnings per share	\$ 0.37	\$ 0.25	\$ 0.98	\$ 0.57

Options to purchase 3.7 million and 2.9 million common shares for both the three and nine months ended September 30, 2010, respectively, were not included in the computation of diluted earnings per share because the option exercise price was greater than the average market price of the common shares. Options to purchase 3.3 million and 3.6 million common shares for the three and nine months September 30, 2009, respectively, were not included in the computation of diluted earnings per share because the option exercise price was greater than the average market price of the common shares.

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Note 4 – Goodwill and Other Intangible Assets

Goodwill associated with the Company's Asia business segment totaled \$37.9 million at September 30, 2010 and December 31, 2009.

Other intangible assets included in other long-term assets in the accompanying condensed consolidated balance sheet as of September 30, 2010 and December 31, 2009 were as follows:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 17,849	\$ (6,737)	\$ 11,112
Technology licenses	11,300	(3,629)	7,671
Other	868	(88)	780
Other intangible assets, September 30, 2010	\$ 30,017	\$ (10,454)	\$ 19,563

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 17,944	\$ (5,432)	\$ 12,512
Technology licenses	11,300	(1,698)	9,602
Other	868	(70)	798
Other intangible assets, December 31, 2009	\$ 30,112	\$ (7,200)	\$ 22,912

Customer relationships are being amortized on a straight-line basis over a period of ten years. In March 2009, the Company acquired certain technology licenses for \$11.3 million. Technology licenses are being amortized over their estimated useful lives in proportion to the economic benefits consumed. Amortization of other intangible assets for the nine months ended September 30, 2010 and 2009 was \$3.3 million and \$2.4 million, respectively.

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

Year ending December 31,	Amount
2010 (remaining three months)	\$ 979
2011	4,371
2012	4,391
2013	3,818
2014	1,812

Note 5 – Borrowing Facilities

Under the terms of a Credit Agreement (the Credit Agreement), the Company has a \$100 million five-year revolving credit facility for general corporate purposes with a maturity date of December 21, 2012. 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.

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Interest on outstanding borrowings under the Credit Agreement is payable quarterly, at the Company's option, at either LIBOR plus 0.75% to 1.75% or a prime rate plus 0.00% to 0.25%, based upon the Company's debt ratio as specified in the Credit Agreement. A commitment fee of 0.15% to 0.35% per annum (based upon the Company's debt ratio) on the unused portion of the revolving credit line is payable quarterly in arrears. As of September 30, 2010, the Company had no borrowings outstanding under the Credit Agreement, \$0.1 million in outstanding letters of credit and \$99.9 million 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 working capital, debt leverage, fixed charges, and consolidated net worth, and restricts the ability of the Company to incur additional debt, pay dividends, sell assets, and to merge or consolidate with other persons. As of September 30, 2010, the Company was in compliance with all such 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 approximately \$11.4 million (350 million Thai baht) in working capital availability. The Thai Credit Facility is secured by land and buildings in Thailand. Availability of funds under the Thai Credit Facility is reviewed annually and is currently accessible through October 2011. As of September 30, 2010, the Company's Thailand subsidiary had no working capital borrowings outstanding.

Note 6 – Inventories

Inventory costs are summarized as follows:

	September 30, 2010	December 31, 2009
Raw materials	\$ 287,434	\$ 237,294
Work in process	66,232	54,197
Finished goods	26,978	24,252
	\$ 380,644	\$ 315,743

Note 7 – Income Taxes

Income tax benefit (expense) consists of the following:

	Nine Months Ended September 30,	
	2010	2009
Federal – Current	\$ (3,052)	\$ 4,101
Foreign – Current	(6,406)	(2,275)
State – Current	(373)	(371)
Deferred	2,624	1,866
	\$ (7,207)	\$ 3,321

In 2010 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 impact of tax incentives and tax holidays in foreign locations, state income taxes (net of federal benefit), and adjustments to valuation allowances on deferred tax assets in the U.S.

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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 practical.

The Company has been granted certain tax incentives, including tax holidays, for its subsidiaries in China, Ireland, Malaysia and Thailand. These tax incentives, including tax holidays, expire on various dates through 2015, and are subject to certain conditions with which the Company expects to comply. The net impact of these tax incentives was to lower income tax expense for the nine month periods ended September 30, 2010 and 2009 by approximately \$6.7 million (approximately \$0.11 per diluted share) and \$7.7 million (approximately \$0.12 per diluted share), respectively.

As of September 30, 2010, the total amount of the reserve for uncertain tax benefits including interest and penalties is \$18.2 million. The reserve is classified as a long-term liability in the consolidated balance sheet unless cash settlement is expected in the next 12 months. The amount of accrued potential interest and penalties on unrecognized tax benefits included in the reserve as of September 30, 2010 is \$1.8 million and \$1.6 million, respectively. During the three months ended September 30, 2010, the reserve was reduced by \$1.4 million as a result of the expiration of the statute of limitations primarily related to an intercompany transaction between two of the Company's subsidiaries. No other material changes affected the reserve during the three and nine months ended September 30, 2010.

As of September 30, 2010, 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 2009. The Company's subsidiary in Thailand has filed for the refund of \$7.7 million of previously paid taxes which is included in prepaid expenses and other assets. The Thailand tax authorities are currently conducting an examination of the applicable filings which is expected to be completed in 2011.

The Company is subject to examination by tax authorities for varying periods in various U.S. and foreign tax jurisdictions. During the course of such examinations disputes occur as to matters of fact and/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 the taxing authority from conducting an 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.

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Note 8 – Segment and Geographic Information

The Company has manufacturing facilities in the Americas, Asia and Europe to serve its customers. The Company is operated and managed geographically. The Company's 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net sales:				
Americas	\$ 392,153	\$ 309,098	\$ 1,134,922	\$ 898,861
Asia	222,548	181,923	638,529	524,369
Europe	38,637	43,962	121,705	131,778
Elimination of intersegment sales	(39,474)	(24,522)	(119,938)	(65,978)
	\$ 613,864	\$ 510,461	\$ 1,775,218	\$ 1,489,030
Depreciation and amortization:				
Americas	\$ 4,800	\$ 5,136	\$ 15,251	\$ 14,302
Asia	3,388	3,434	10,132	10,487
Europe	717	716	2,156	2,015
Corporate	893	915	2,677	2,878
	\$ 9,798	\$ 10,201	\$ 30,216	\$ 29,682
Income (loss) from operations:				
Americas	\$ 16,569	\$ 9,408	\$ 47,342	\$ 22,135
Asia	15,475	13,871	45,527	38,990
Europe	1,607	(3,152)	4,091	(1,308)
Corporate and intersegment eliminations	(9,761)	(8,453)	(28,076)	(25,618)
	\$ 23,890	\$ 11,674	\$ 68,884	\$ 34,199
Capital expenditures:				
Americas	\$ 3,782	\$ 3,148	\$ 13,814	\$ 4,885
Asia	4,864	611	12,922	6,244
Europe	713	885	1,570	3,037
Corporate	447	85	745	204
	\$ 9,806	\$ 4,729	\$ 29,051	\$ 14,370
Total assets:				
Americas			\$ 578,542	\$ 567,494
Asia			507,312	418,208
Europe			248,303	263,025
Corporate and other			136,276	216,993
			\$ 1,470,433	\$ 1,465,720

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Geographic net sales:				
United States	\$ 452,617	\$ 380,160	\$ 1,316,912	\$ 1,100,945
Asia	58,270	42,522	149,811	128,319
Europe	90,919	79,957	271,819	234,535
Other Foreign	12,058	7,822	36,676	25,231
	\$ 613,864	\$ 510,461	\$ 1,775,218	\$ 1,489,030
			September 30,	December 31,
			2010	2009
Long-lived assets:				
United States		\$ 73,172	\$ 77,675	
Asia		69,130	65,555	
Europe		10,064	9,344	
Other		15,017	13,160	
		\$ 167,383	\$ 165,734	

Note 9 – Supplemental Cash Flow Information

The following is additional information concerning supplemental disclosures of cash payments.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Income taxes paid, net	\$ 1,774	\$ 3,510	\$ 5,345	\$ 5,442
Interest paid	369	376	1,032	1,055

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.

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Note 11 – Impact of Recently Issued Accounting Standards

In October 2009, the Financial Accounting Standards Board (FASB) issued amendments to the accounting and disclosure for revenue recognition. These amendments, effective for fiscal years beginning on or after June 15, 2010 (early adoption is permitted), modify the criteria for recognizing revenue in multiple element arrangements. The Company is currently assessing the impact of these amendments on its consolidated financial position and results of operations.

In October 2009, the FASB issued guidance which amends the scope of existing software revenue recognition accounting. Tangible products containing software components and non-software components that function together to deliver the product's essential functionality would be scoped out of the accounting guidance on software and accounted for based on other appropriate revenue recognition guidance. This guidance is effective for all new or materially modified arrangements entered into on or after June 15, 2010, with earlier application permitted. Full retrospective application of the new guidance is optional. This guidance must be adopted in the same period that the Company adopts the amended accounting for arrangements with multiple deliverables described in the preceding paragraph. The Company is currently assessing the impact of this new guidance on its consolidated financial position and results of operations.

In January 2010, the FASB issued guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). This guidance is effective for interim and annual reporting periods beginning after December 15, 2009, or January 1, 2010 for the Company, except for the disclosure on the roll forward activities for Level 3 fair value measurements, which does not become effective until fiscal years beginning after December 15, 2010, or January 1, 2011 for the Company. Adoption of this new guidance is for disclosure purposes only and did not have any impact on the Company's consolidated financial position or results of operations.

On March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act (the Act), which is a comprehensive health care reform bill for the U.S. In addition, on March 30, 2010, President Obama signed into law the reconciliation measure ("Heath Care and Education Reconciliation Act of 2010"), which modifies certain provisions of the Act. Although the new legislation did not have an impact on the Company's consolidated financial position, results of operation or cash flows in the first nine months of 2010, the Company is continuing to assess the potential impacts on its future obligations, costs, and cash flows related to its health care benefits and post-retirement health-care obligations.

The Company has determined that all other recently issued accounting standards will not have a material impact on its consolidated financial position, results of operations and cash flows, or do not apply to its operations.

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Note 12 – Restructuring Charges

The Company has undertaken initiatives to restructure its business operations with the intention of improving utilization and realizing cost savings in the future. 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 the nine months ended September 30, 2010 and during 2009 primarily related to capacity reduction in Europe and the Americas and reductions in workforce in certain facilities worldwide. In 2008 and 2007, the Company recognized restructuring charges primarily related to reductions in workforce and the re-sizing of certain facilities. The Company also recorded an assumed liability for expected facility closures in connection with a merger during 2007. These charges were recorded pursuant to plans developed and approved by management.

The following table summarizes the 2010 activity in the accrued restructuring balances related to the various restructuring activities described above:

	Balance as of December 31, 2009	Restructuring Charges	Cash Payment	Non-Cash Activity	Foreign Exchange Adjustments	Balance as of September 30, 2010
2010 Restructuring:						
Severance	\$ —	\$ 1,137	\$ (895)	\$ —	\$ —	242
Other exit costs	—	94	(94)	—	—	—
	—	1,231	(989)	—	—	242
2009 Restructuring:						
Severance	1,099	153	(1,247)	—	2	7
Lease facility costs	2,472	99	(650)	—	(193)	1,728
Other exit costs	113	901	(877)	(105)	—	32
	3,684	1,153	(2,774)	(105)	(191)	1,767
2007 Restructuring:						
Lease facility costs	373	48	(396)	—	(25)	—
Other exit costs	415	(283)	(73)	—	(40)	19
	788	(235)	(469)	—	(65)	19
Total	\$ 4,472	\$ 2,149	\$ (4,232)	\$ (105)	\$ (256)	\$ 2,028

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Note 13 – Investments

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 required the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

The Company's financial instruments consist of cash equivalents, accounts receivable, accrued liabilities, accounts payable and capital lease obligations. The Company believes that the carrying value of these instruments approximates their fair value. As of September 30, 2010, \$39.9 million (par value) of long-term investments were recorded at fair value. The long-term investments consist of auction rate securities, primarily secured by guaranteed student loans backed by a U.S. government agency, and are classified as available-for-sale. These investments are of a high credit quality with primarily AAA type credit ratings because of the government agency guarantee and other insurance. Auction rate securities are adjustable rate debt instruments whose interest rates were intended to reset every 7 to 35 days through an auction process. Overall changes in the global credit and capital markets led to failed auctions for these securities beginning in early 2008. These failed auctions, in addition to overall global economic conditions, impacted the liquidity of these investments and resulted in our continuing to hold these securities beyond their typical auction reset dates. The market for these types of securities remains illiquid as of September 30, 2010. These securities are classified as long-term investments and the contractual maturity of these securities is over ten years.

These long-term investments were valued using Level 3 inputs as of September 30, 2010, as the assets were subject to valuation using significant unobservable inputs. The Company estimated the fair value of each security with the assistance of an independent valuation firm using a discounted cash flow model to calculate the present value of projected cash flows based on a number of inputs and assumptions including the security structure and terms, the current market conditions and the related impact on the expected weighted average life, interest rate estimates and default risk of the securities.

As of September 30, 2010, the Company has recorded an unrealized loss of \$3.6 million on the long-term investments based upon this valuation. This unrealized loss reduced the fair value of the Company's auction rate securities as of September 30, 2010 to \$36.3 million. These investments have been in an unrealized loss position for greater than 12 months.

The Company conducts periodic reviews to identify and evaluate each investment that has an unrealized loss. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. Due to the unrealized losses on the auction rate securities held, the Company has assessed whether the calculated impairment is other-than-temporary. In performing this assessment, even though the Company has no intention to sell the securities before the amortized cost basis is recovered and believes it is more-likely-than-not it will not be required to sell the securities prior to recovery, the Company has performed additional analyses to determine if a portion of the unrealized loss is considered a credit loss. A credit loss would be identified as the amount of the principal cash flows not expected to be received over the remaining term of the security as projected using the Company's best estimates. The Company has assessed each security for credit impairment, taking into account factors such as (i) the length of time and the extent to which fair value has been below cost; (ii) activity in the market of the issuer which may indicate adverse credit conditions; (iii) the payment structure of the security; and (iv) the failure of the issuer of the security to make scheduled payments. The Company used an independent valuation firm to assist in making these assessments.

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Based on these assessments, the Company has determined that there is no credit loss associated with its auction rate securities as of September 30, 2010, as shown by the cash flows expected to be received over the remaining life of the securities.

The following table provides a reconciliation of the beginning and ending balance of our auction rate securities classified as long-term investments measured at fair value using significant unobservable inputs (Level 3 inputs):

	2010	2009
Balance as of January 1	\$ 45,686	\$ 48,162
Net unrealized gains included in other comprehensive loss	791	1,044
Redemptions of investments	(10,225)	(2,900)
Balance as of September 30	\$ 36,252	\$ 46,306
Unrealized losses still held as of September 30	\$ 3,598	\$ 4,269

The cumulative unrealized loss is included as a component of accumulated other comprehensive loss within shareholders' equity in the accompanying condensed consolidated balance sheet. As of September 30, 2010, there were no long-term investments measured at fair value using Level 1 or Level 2 inputs. All income generated from these investments is recorded as interest income.

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

References in this report to “the Company,” “Benchmark,” “we,” or “us” mean Benchmark Electronics, Inc. together with its subsidiaries. The following Management’s Discussion and Analysis of Financial Condition and Results of Operations contains certain 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. These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. They use words such as “anticipate,” “believe,” “intend,” “plan,” “projection,” “forecast,” “strategy,” “position,” “continue,” “estimate,” “expect,” “may,” “will,” or those terms or other variations of them or comparable terminology. In particular, statements, express or implied, concerning future operating results or the ability to generate sales, income or cash flow are forward-looking statements. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions, including those discussed under Part II, Item 1A of this report. The future results of our operations may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results are beyond our ability to control or predict. Undue reliance should not be placed on any forward-looking statements. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated.

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements and Notes thereto.

OVERVIEW

We are a world-wide provider of integrated electronic manufacturing services. We provide our services to original equipment manufacturers (OEMs) of computers and related products for business enterprises, medical devices, industrial control equipment, testing and instrumentation products, and telecommunication equipment. The services that we provide 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 manufacturing and assembly operations 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. Our recently added precision technology manufacturing capabilities complement our proven electronic manufacturing expertise by providing further vertical integration of critical mechanical components. These capabilities include precision machining, advanced metal joining, high level assemblies and functional testing for multiple industries including medical, instrumentation, aerospace and semiconductor capital equipment. We also are able to provide specialized engineering services, including product design, printed circuit board layout, prototyping, and test development. We believe that we have developed strengths 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 Brazil, China, Malaysia, Mexico, Romania and Thailand.

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We believe that our global manufacturing presence increases our ability to be responsive to our customers' needs by providing accelerated time-to-market and time-to-volume production of high quality products. These capabilities should enable us to build stronger strategic relationships with our customers and to become a more integral part of their operations. Our customers face challenges in planning, procuring and managing their inventories efficiently due to customer demand fluctuations, product design changes, short product life cycles and component price fluctuations. We employ production management systems to manage their 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 enables us to 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 and determinable and collectibility 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 assume no significant obligations after product shipment as we typically warrant workmanship only. Therefore, our warranty provisions are immaterial.

Our cost of sales includes the cost of materials, electronic components and other materials 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 manufacturing facilities. Operating income margins have generally improved during periods of high production volume and high capacity utilization. During periods of low production volume, we generally have idle capacity and reduced operating income margins.

Summary of Results

Sales for the three months ended September 30, 2010 increased 20% to \$613.9 million compared to \$510.5 million for the same period of 2009. This increase is a result of a combination of new program wins, an expansion of our service offerings and a continued improvement in the overall business environment when compared to the third quarter of 2009. The increase in sales when comparing the third quarter of 2010 to 2009 has been broad based with increases in all of the industry sectors we serve, except for the medical devices industry. During the three months ended September 30, 2010, sales to customers in the computers and related products for business enterprises industry, testing and instrumentation products industry, industrial control equipment industry, and telecommunication equipment industry increased 5%, 174%, 46% and 16%, respectively, from 2009. In the third quarter of 2010, these increases were partially offset by a 21% decrease in sales to customers in the medical devices industry.

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Our future sales are dependent 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 have an adverse effect on us. Adverse worldwide economic conditions have resulted, and may result in the future, in lower information technology spending by businesses, which in turn affects demand for our customers' products and thus adversely affects our sales.

Our gross profit as a percentage of sales increased to 7.8% in the three months ended September 30, 2010 from 7.2% in the same period of 2009 primarily due to a better product mix, our operating efficiencies and a better utilization rate due to the higher level of sales. We experience fluctuations in gross profit from period to period. Different programs can 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. 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, 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's discussion and analysis of financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. Our significant accounting policies are summarized in Note 1 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2009. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to allowance for doubtful accounts, inventories, deferred taxes, impairment of long-lived assets, and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Allowance for doubtful accounts

Our accounts receivable balance is recorded net of allowances for amounts not expected to be collected from our customers. Because our accounts receivable are typically unsecured, we periodically evaluate the collectibility of our accounts based on a combination of factors, including a particular customer's ability to pay as well as the age of the receivables. To evaluate a specific customer's ability to pay, we analyze financial statements, payment history, third-party credit analysis reports and various information or disclosures by the customer or other publicly available information. In cases where the evidence suggests a customer may not be able to satisfy its obligation to us, we set up a specific allowance in an amount we determine appropriate for the perceived risk. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

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Inventory obsolescence reserve

We purchase inventory based on forecasted demand and record inventory at the lower of cost or market. We reserve for estimated obsolescence as necessary in an amount equal to the difference between the cost of inventory and estimated market value based on assumptions of future demands and market conditions. We evaluate our inventory valuation on a quarterly basis based on current and forecasted usage and the latest forecasts of product demand and production requirements from our customers. Customers frequently make changes to their forecasts, requiring us to make changes to our inventory purchases, commitments, and production scheduling and may require us to cancel open purchase commitments with our vendors. This process may lead to on-hand inventory quantities and on-order purchase commitments that are in excess of our customers' revised needs, or parts that become obsolete before use in production. We record inventory reserves on excess and obsolete inventory. These reserves are established on inventory which we have determined that our customers are not responsible for or on inventory which we believe our customers will be unable to fulfill their obligation to ultimately purchase. If actual market conditions are less favorable than those we projected, additional inventory write-downs may be required.

Income Taxes

We estimate our income tax provision in each of the jurisdictions in which we operate, including estimating exposures related to uncertain tax positions. We must also make judgments regarding the ability to realize the deferred tax assets. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event we were to subsequently determine that we would be able to realize our deferred tax assets in excess of our net recorded amount, an adjustment to the valuation allowance would increase income in the period such determination was made. Similarly, should we determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the valuation allowance would reduce income in the period such determination was made.

We are subject to examination by tax authorities for varying periods in various U.S. and foreign tax jurisdictions. During the course of such examinations disputes occur as to matters of fact and/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 the taxing authority from conducting an examination of the tax period(s) for which such statute of limitations has expired. We believe that we have adequately provided for our tax liabilities.

Impairment of Long-Lived Assets

Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge would be recognized by the amount that the carrying amount of the asset exceeds the fair value of the asset.

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Goodwill is tested annually for impairment, and is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss would be recognized to the extent that the carrying amount exceeds the asset's fair value. Goodwill is measured at the reporting unit level, which we have determined to be consistent with our operating segments as defined in Note 8 to the Condensed Consolidated Financial Statements in Item 1 of this report by determining the fair values of the reporting units and comparing those fair values to the carrying values, including goodwill, of the reporting unit. We completed the annual impairment test during the fourth quarter of 2009 and determined that no impairment existed as of December 31, 2009. We estimated that the fair value of our Asia business segment exceeded its carrying amount by approximately 147% at the time our 2009 impairment test was performed. As of September 30, 2010, we had goodwill associated with our Asia business segment of approximately \$37.9 million. Circumstances that may lead to future impairment of goodwill include unforeseen decreases in future performance or industry demand and the restructuring of our operations as a result of a change in our business strategy or other factors.

Stock-Based Compensation

We recognize stock-based compensation expense in our consolidated statements of income. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. Option-pricing models require the input of subjective assumptions, including the expected life of the option and the expected stock price volatility. Judgment is also required in estimating the number of option awards that are expected to vest as a result of satisfaction of time-based vesting schedules. If actual results or future changes in estimates differ significantly from our current estimates, stock-based compensation could increase or decrease. See Note 2 to the Condensed Consolidated Financial Statements in Item 1 of this report.

Recently Enacted Accounting Principles

See Note 11 to the Condensed Consolidated Financial Statements for a discussion of recently enacted accounting principles.

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 September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	92.2	92.8	92.1	93.1
Gross profit	7.8	7.2	7.9	6.9
Selling, general and administrative expenses	3.8	4.2	3.9	4.2
Restructuring charges	0.1	0.7	0.1	0.4
Income from operations	3.9	2.3	3.9	2.3
Other income (expense), net	0.2	(0.1)	0.0	(0.0)
Income before income taxes	4.1	2.2	3.9	2.3
Income tax benefit (expense)	(0.4)	1.0	(0.4)	0.2
Net income	3.7%	3.2%	3.5%	2.5%

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Sales

Sales for the third quarter of 2010 were \$613.9 million, a 20% increase from sales of \$510.5 million for the same quarter in 2009. Sales for the nine months ended September 30, 2010 were \$1.8 billion, a 19% increase from sales of \$1.5 billion for the same period in 2009. This increase is a result of a combination of new program wins, an expansion of our service offerings and a continued improvement in the overall business environment when compared to the first nine months of 2009. The following table sets forth, for the periods indicated, the percentages of our sales by industry sector.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Computers and related products for business enterprises	31%	36%	31%	39%
Telecommunication equipment	22	23	23	24
Industrial control equipment	26	21	25	20
Medical devices	10	15	11	14
Testing and instrumentation products	11	5	10	3
	100%	100%	100%	100%

During the nine months ended September 30, 2010, sales to customers in the testing and instrumentation products industry, industrial control equipment industry, and telecommunication equipment industry increased 326%, 51% and 12%, respectively, from 2009. In the first nine months of 2010, these increases were partially offset by a 4% decrease in sales to customers in computers and related products for business enterprises industry and an 11% decrease in sales to customers in the medical devices industry.

Our future sales are dependent 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 have an adverse effect on us. A substantial percentage of our sales have been made to a small number of customers, and the loss of a major customer, if not replaced, would adversely affect us.

Our international operations are subject to the risks of doing business abroad. These risks have not had a material adverse effect on our results of operations through September 30, 2010. However, we can make no assurances that there will not be an adverse impact in the future. See Part II, Item 1A for factors pertaining to our international sales and fluctuations in the exchange rates of foreign currency and for further discussion of potential adverse effects in operating results associated with the risks of doing business abroad. During the first nine months of 2010 and 2009, 48% of our sales were from our international operations.

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Gross Profit

Gross profit increased 30% to \$47.7 million for the three months ended September 30, 2010 from \$36.8 million in the same period of 2009 and increased 36% to \$140.0 million for the nine months ended September 30, 2010 from \$103.0 million in the same period of 2009 due primarily to an increase in sales. Gross profit as a percentage of sales increased to 7.8% during the third quarter of 2010 from 7.2% in 2009 and increased to 7.9% during the first nine months of 2010 from 6.9% in 2009 primarily due to a better product mix, our operating efficiencies and a better utilization rate due to the higher level of sales. 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

Selling, general and administrative expenses increased 9% to \$23.4 million in the third quarter of 2010 from \$21.4 million in the third quarter of 2009 and increased 10% to \$68.9 million in the first nine months of 2010 from \$62.9 million in the same period of 2009. Selling, general and administrative expenses, as a percentage of sales, were 3.8% and 4.2%, respectively, for the third quarter of 2010 and 2009, and 3.9% and 4.2%, respectively, for the first nine months of 2010 and 2009. The increase in selling, general and administrative expenses is primarily due to resources necessary to support our customers' higher sales volumes in 2010. The decrease in selling, general and administrative expenses as a percentage of sales is primarily associated with the impact of higher sales volumes during 2010.

Restructuring Charges

We recognized \$2.1 million in restructuring charges during the first nine months of 2010 related to capacity reduction and reductions in workforce in certain facilities in the Americas and Asia. See Note 12 to the Condensed Consolidated Financial Statements in Item 1 of this report. In the fourth quarter of 2010, we expect to incur approximately \$5.0 million in restructuring charges.

Interest Income

Interest income for the nine-month periods ended September 30, 2010 and 2009 was \$1.2 million and \$1.7 million, respectively. The decrease is primarily due to the overall decline in market rates of interest.

Interest Expense

Interest expense for the nine-month periods ended September 30, 2010 and 2009 was \$1.0 million and \$1.1 million, respectively.

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Income Tax Benefit (Expense)

Income tax expense of \$(7.2) million represented an effective tax rate of 10.4% for the nine months ended September 30, 2010, compared to income tax benefit of \$3.3 million at an effective tax rate of negative 9.8% for the same period in 2009. In the third quarter of 2009, we recorded a benefit related to a previously closed facility that generated a worthless stock deduction of \$2.7 million, a tax benefit related to a revaluation loss in Mexico of \$2.4 million and tax benefits totaling \$1.9 million primarily related to intercompany pricing deductions. In the third quarter of 2010, we recorded a \$1.4 million tax benefit as a result of the expiration of the statute of limitations primarily related to an intercompany transaction between two of our subsidiaries. Excluding these tax benefits, the effective tax rate would have been 12.4% in 2010 compared to 11.0% in 2009. The increase in the effective tax rate is primarily due to a decrease in tax incentives in certain foreign locations in the first nine months of 2010. See Note 7 to the Condensed Consolidated Financial Statements in Item 1 of this report.

Net Income

We reported net income of \$62.0 million, or diluted earnings per share of \$0.98 for the first nine months of 2010, compared with net income of \$37.2 million, or diluted earnings per share of \$0.57 for the same period of 2009. The net increase of \$24.8 million from 2009 was primarily due to the factors discussed above.

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed our growth and operations through funds generated from operations, proceeds from the sale and maturity of our investments and funds borrowed under our credit facilities. Cash and cash equivalents decreased to \$346.3 million at September 30, 2010 from \$421.2 million at December 31, 2009.

Cash used in operating activities was \$4.9 million for the first nine months of 2010. The cash used in operations during 2010 consisted primarily of \$62.0 million of net income adjusted for \$30.2 million of depreciation and amortization, offset by a \$66.0 million increase in inventories, a \$10.8 million increase in accounts receivable, a \$13.9 million increase in prepaid expenses and other assets and a \$11.2 million decrease in accounts payable. Working capital was \$877.4 million at September 30, 2010 and \$859.1 million at December 31, 2009.

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. Decreases in order activity in the first half of 2009 for the major electronic component suppliers resulted in cutbacks of manufacturing capacity. When demand started to recover in the third quarter of 2009, the supply base initiated actions to expand manufacturing capacity back to current levels of demand. This resulted in the elongation of the lead time for certain components over the latter part of 2009 and into the first nine months of 2010.

Cash used in investing activities was \$18.6 million for the nine months ended September 30, 2010 primarily due to the purchases of additional property, plant and equipment totaling \$28.9 million offset by redemptions of investments totaling \$10.2 million. Purchases of additional property, plant and equipment were primarily concentrated in manufacturing production equipment in the Americas and Asia to support our ongoing business to expand certain existing manufacturing operations.

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Cash used in financing activities was \$51.2 million for the nine months ended September 30, 2010. Share repurchases totaled \$53.6 million, and we received \$1.7 million from the exercise of stock options.

Under the terms of a credit agreement (the Credit Agreement), we have a \$100 million five-year revolving credit facility for general corporate purposes with a maturity date of December 21, 2012. 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 our option, at LIBOR plus 0.75% to 1.75% or a prime rate plus 0.00% to 0.25%, based upon our debt ratio as specified in the Credit Agreement. A commitment fee of 0.15% to 0.35% per annum (based upon our debt ratio) on the unused portion of the revolving credit line is payable quarterly in arrears. As of September 30, 2010, we had no borrowings outstanding under the Credit Agreement, \$0.1 million in outstanding letters of credit and \$99.9 million was available for future borrowings.

The Credit Agreement is secured by our domestic inventory and accounts receivable, 100% of the stock of our domestic subsidiaries, and 65% of the voting capital stock of each direct foreign subsidiary and substantially all of our and our domestic subsidiaries' other tangible and intangible assets. The Credit Agreement contains customary financial covenants as to working capital, debt leverage, fixed charges, and consolidated net worth, and restricts our ability to incur additional debt, pay dividends, sell assets and to merge or consolidate with other persons. As of September 30, 2010, we were in compliance with all such covenants and restrictions.

Our Thailand subsidiary has a multi-purpose credit facility with Kasikornbank Public Company Limited (the Thai Credit Facility) that provides for approximately \$11.4 million (350 million Thai baht) in working capital availability. The Thai Credit Facility is secured by land and buildings in Thailand. Availability of funds under the Thai Credit Facility is reviewed annually and is currently accessible through October 2011. As of September 30, 2010, our Thailand subsidiary had no working capital borrowings outstanding.

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.

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As of September 30, 2010, we had cash and cash equivalents totaling \$346.3 million and \$99.9 million available for borrowings under our revolving credit line. We believe that during the next twelve months, our capital expenditures will be approximately \$35 to \$45 million, principally for machinery and equipment to support our ongoing business around the globe. In addition, we expect to spend approximately \$18 million to expand our precision technology capabilities in Asia. On March 3, 2010, our Board of Directors approved the repurchase of up to \$100 million of our outstanding common shares (the 2010 Repurchase Program). As of September 30, 2010, we have \$96.7 million remaining under the 2010 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 twelve 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 revolving credit facility 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 leases that were summarized in a table of Contractual Obligations in our Annual Report on Form 10-K for the year ended December 31, 2009. There have been no material changes to our contractual obligations, outside of the ordinary course of our business, since December 31, 2009.

OFF-BALANCE SHEET ARRANGEMENTS

As of September 30, 2010, we did not have any significant off-balance sheet arrangements.

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

Our international sales are a significant portion of our net sales; we are exposed to risks associated with operating internationally, including the following:

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

We do not use derivative financial instruments for speculative purposes. As of September 30, 2010, we did not have any foreign currency hedges. In the future, significant transactions involving our international operations may cause us to consider engaging in hedging transactions to attempt to mitigate our exposure to fluctuations in foreign exchange rates. These exposures are primarily, but not limited to, vendor payments and intercompany balances in currencies other than the currency in which our foreign operations primarily generate and expend cash. Our international operations in some instances operate in a natural hedge because both operating expenses and a portion of sales are denominated in local currency. Our sales are substantially denominated in U.S. dollars. Our foreign currency cash flows are generated in certain Asian and European countries, Mexico and Brazil.

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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. As of September 30, 2010, the outstanding amount in the long-term investment portfolio included \$39.9 million (par value) of auction rate securities with an average return of approximately 0.52%.

Item 4 – Controls and Procedures

Our management has evaluated, with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, our CEO and CFO have concluded that, as of such date, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

There have been no changes in our internal control over financial reporting that occurred during the fiscal period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Our management, including our CEO and CFO, 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 our 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 override of 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.

Exhibits 31.1 and 31.2 are the Certifications of the CEO and the CFO, respectively. The Certifications are required in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (the "Section 302 Certifications"). This Item is the information concerning the Evaluation referred to in the Section 302 Certifications and this information should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

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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 in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

Item 2. Unregistered Sales Of Equity Securities And Use Of Proceeds.

(b) The following table provides information about the Company repurchases of its equity securities that are registered pursuant to Section 12 of the Exchange Act during the quarter ended September 30, 2010, at a total cost of \$21.0 million:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased (1)	(b) Average Price Paid per Share (or Unit) (2)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased
				Under the Plans or Programs (3)
July 1 to 31, 2010	315,000	\$ 16.32	315,000	\$ 112.6 million
August 1 to 31, 2010	457,000	\$ 15.58	457,000	\$ 105.4 million
September 1 to 30, 2010	576,550	\$ 15.13	576,550	\$ 96.7 million
Total	1,348,550	\$ 15.56	1,348,550	

(1) All share repurchases were made on the open market.

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

(3) On July 24, 2008, our Board of Directors approved the repurchase of up to \$100 million of our outstanding common shares (the 2008 Repurchase Program). During the three months ended September 30, 2010, we repurchased a total of 1,138,100 common shares for \$17.7 million at an average price of \$15.54 per share under the 2008 Repurchase Program. On March 3, 2010, our Board of Directors approved the additional repurchase of up to \$100 million of our outstanding common shares (the 2010 Repurchase Program). During the three months ended September 30, 2010, we repurchased a total of 210,450 common shares for \$3.3 million at an average price of \$15.65 per share under the 2010 Repurchase Program. All shares repurchased through September 30, 2010 were retired.

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Item 6. Exhibits.

- 4.1 Amendment No. 2 dated as of May 18, 2010 to the Rights Agreement, dated as of December 11, 1998, as amended by Amendment No. 1 dated as of December 10, 2008, between Benchmark Electronics, Inc. and ComputerShare Trust Company, N.A. (incorporated by reference to Exhibit 4.1 to the Company's Form 8-A/A filed May 25, 2010 (Commission file number 1-10560)).
- 4.2 Form of Option Award Agreement for use under the 2010 Omnibus Incentive Compensation Plan (the "Plan") (incorporated by reference to Exhibit 4.10 to the Company's Registration Statement on Form S-8 filed July 30, 2010).
- 4.3 Form of Restricted Share Award Agreement for use under the Plan (incorporated by reference to Exhibit 4.11 to the Company's Registration Statement on Form S-8 filed July 30, 2010).
- 4.4 Form of Restricted Stock Unit Award Agreement for use under the Plan (incorporated by reference to Exhibit 4.12 to the Company's Registration Statement on Form S-8 filed July 30, 2010).
 - 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

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on November 8, 2010.

BENCHMARK ELECTRONICS, INC.
(Registrant)

By: /s/ Cary T. Fu
Cary T. Fu
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Donald F. Adam
Donald F. Adam
Chief Financial Officer
(Principal Financial Officer)

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