

BENCHMARK ELECTRONICS INC
Form 10-Q
November 06, 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 September 30, 2015

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

For the transition period from _____ to _____

Commission File Number: 1 10560

BENCHMARK ELECTRONICS, INC.

(Exact name of registrant as specified in its charter)

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

(979) 849 6550

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

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

See accompanying notes to condensed consolidated financial statements.

BENCHMARK ELECTRONICS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

(unaudited)

Note 1 – Basis of Presentation

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

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

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

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

Note 2 – Stock-Based Compensation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 3 – Earnings Per Share

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

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

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

Denominator for basic earnings per share -

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

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

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

Note 4 – Goodwill and Other Intangible Assets

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

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

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

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

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

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

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

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

Note 5 – Borrowing Facilities

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