

BENCHMARK ELECTRONICS INC  
Form 10-Q  
May 10, 2016

**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 March 31, 2016**

**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)

Edgar Filing: BENCHMARK ELECTRONICS INC - Form 10-Q

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

**(979) 849 6550**

(Registrant's telephone number, including area code)

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

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

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

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

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

As of May 6, 2016, there were 49,309,715 Common Shares of Benchmark Electronics, Inc., par value \$0.10 per share, outstanding.

--



## TABLE OF CONTENTS

### PART I

	Page
<b>PART I—FINANCIAL INFORMATION</b>	
<u>Item 1.</u>	1
<u>Financial Statements (Unaudited)</u>	1
<u>Condensed Consolidated Balance Sheets</u>	1
<u>Condensed Consolidated Statements of Income</u>	2
<u>Condensed Consolidated Statements of Comprehensive Income</u>	3
<u>Condensed Consolidated Statement of Shareholders' Equity</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2.</u>	20
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>Item 3.</u>	26
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	26
<u>Item 4.</u>	27
<u>Controls and Procedures</u>	27
<b>PART II—OTHER INFORMATION</b>	
<u>Item 1.</u>	28
<u>Legal Proceedings</u>	28
<u>Item 1A.</u>	28
<u>Risk Factors</u>	28
<u>Item 2.</u>	28
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
<u>Item 6.</u>	29
<u>Exhibits</u>	29
<u>SIGNATURES</u>	30

---

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

<b>(in thousands, except par value)</b>	<b>March 31, 2016 (unaudited)</b>	<b>December 31, 2015</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 519,167	\$ 465,995
Accounts receivable, net of allowance for doubtful accounts of \$3,314 and \$3,417, respectively	414,184	479,140
Inventories	389,919	411,986
Prepaid expenses and other assets	37,058	31,351
Income taxes receivable	36	156
Total current assets	1,360,364	1,388,628
Property, plant and equipment, net of accumulated depreciation of \$387,852 and \$379,088, respectively	173,969	178,170
Goodwill, net	199,469	199,290
Deferred income taxes	14,841	14,088
Other, net	110,571	113,702
	\$ 1,859,214	\$ 1,893,878
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Current installments of long-term debt and capital lease obligations	\$ 12,306	\$ 12,284
Accounts payable	218,237	251,163
Income taxes payable	5,014	5,069
Accrued liabilities	66,113	64,578
Total current liabilities	301,670	333,094
Long-term debt and capital lease obligations, less current installments	219,998	222,909
Other long-term liabilities	17,135	15,971
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 – 49,664 and 50,178, respectively	4,966	5,018
Additional paid-in capital	619,994	624,997
Retained earnings	709,357	704,905
Accumulated other comprehensive loss	(13,906)	(13,016)
Total shareholders' equity	1,320,411	1,321,904
Commitments and contingencies		

\$ 1,859,214 \$ 1,893,878

See accompanying notes to condensed consolidated financial statements.

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

<b>(in thousands, except per share data)</b>	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2016</b>	<b>2015</b>
Sales	\$ 549,225	\$ 620,925
Cost of sales	498,915	569,146
Gross profit	50,310	51,779
Selling, general and administrative expenses	31,253	28,202
Restructuring charges and other costs	2,789	4,869
Income from operations	16,268	18,708
Interest expense	(2,334)	(435)
Interest income	264	432
Other expense, net	(223)	(1,057)
Income before income taxes	13,975	17,648
Income tax expense	2,923	3,443
Net income	\$ 11,052	\$ 14,205
Earnings per share:		
Basic	\$ 0.22	\$ 0.27
Diluted	\$ 0.22	\$ 0.27
Weighted-average number of shares outstanding:		
Basic	49,848	52,463
Diluted	50,287	53,045

See accompanying notes to condensed consolidated financial statements.

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

<b>(in thousands)</b>	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2016</b>	<b>2015</b>
Net income	\$ 11,052	\$ 14,205
Other comprehensive loss:		
Foreign currency translation adjustments	1,348	(3,462)
Unrealized gain (loss) on investments, net of tax	(6)	5
Interest rate swap fair value adjustment, net of tax	(2,232)	-
Other	-	(4)
Other comprehensive loss	(890)	(3,461)
Comprehensive income	\$ 10,162	\$ 10,744

See accompanying notes to condensed consolidated financial statements.



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

(in thousands)	Common Shares Outstanding	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balances, December 31, 2015	50,178	\$ 5,018	\$ 624,997	\$ 704,905	\$ (13,016)	\$ 1,321,904
Stock-based compensation expense	-	-	2,113	-	-	2,113
Shares repurchased and retired	(690)	(69)	(7,536)	(6,600)	-	(14,205)
Stock options exercised	47	4	759	-	-	763
Vesting of restricted stock units	149	15	(15)	-	-	-
Shares withheld for taxes	(20)	(2)	(438)	-	-	(440)
Excess tax benefits of stock-based compensation	-	-	114	-	-	114
Comprehensive income	-	-	-	11,052	(890)	10,162
Balances, March 31, 2016	49,664	\$ 4,966	\$ 619,994	\$ 709,357	\$ (13,906)	\$ 1,320,411

See accompanying notes to condensed consolidated financial statements.

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

<b>(in thousands)</b>	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2016</b>	<b>2015</b>
Cash flows from operating activities:		
Net income	\$ 11,052	\$ 14,205
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	10,621	10,933
Amortization	3,286	1,205
Deferred income taxes	633	1,818
Gain on the sale of property, plant and equipment	(93)	(14)
Asset impairments	121	84
Stock-based compensation expense	2,113	1,940
Excess tax benefits from stock-based compensation	(149)	(328)
Changes in operating assets and liabilities, net of effects from business acquisition:		
Accounts receivable	65,382	28,361
Inventories	22,756	(26,914)
Prepaid expenses and other assets	(5,403)	(4,432)
Accounts payable	(31,940)	(32,978)
Accrued liabilities	(2,067)	(5,074)
Income taxes	201	289
Net cash provided by (used in) operations	76,513	(10,905)
Cash flows from investing activities:		
Proceeds from sales of investments at par	-	1
Additions to property, plant and equipment	(7,700)	(16,312)
Proceeds from the sale of property, plant and equipment	130	412
Additions to purchased software	(137)	(515)
Other	62	55
Net cash used in investing activities	(7,645)	(16,359)
Cash flows from financing activities:		
Proceeds from stock options exercised	763	821
Excess tax benefits from stock-based compensation	149	328
Principal payments on long-term debt and capital lease obligations	(3,078)	(155)
Share repurchases	(14,205)	(15,778)
Net cash used in financing activities	(16,371)	(14,784)
Effect of exchange rate changes	675	(1,732)
Net increase (decrease) in cash and cash equivalents	53,172	(43,780)
Cash and cash equivalents at beginning of year	465,995	427,376
Cash and cash equivalents at end of period	\$ 519,167	\$ 383,596

Edgar Filing: BENCHMARK ELECTRONICS INC - Form 10-Q  
See accompanying notes to condensed consolidated financial statements.

**BENCHMARK ELECTRONICS, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

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

**(unaudited)**

**Note 1 – Basis of Presentation**

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

The unaudited condensed consolidated financial statements included herein have been prepared by the Company 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, 2015 (the 2015 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 (U.S. GAAP). Actual results could differ from those estimates.

**Note 2—Acquisition**

On November 12, 2015, the Company acquired all of the outstanding common stock of Secure Communication Systems, Inc. and its subsidiaries (collectively referred to as Secure Technology or Secure) (the Secure Acquisition) for a purchase price of \$230 million subject to a working capital adjustment. Secure Technology is a leading provider of customized high-performance electronics, sub-systems, and component solutions for mission critical applications. The transaction was financed with borrowings under the Company's new term loan facility.

The preliminary allocation of the Secure Acquisition's net purchase price resulted in \$153.5 million of goodwill. The Secure acquisition deepened Benchmark's engineering capabilities and enhanced its ability to serve customers in the highly regulated industrial markets, including aerospace and defense. The goodwill recognized in connection with the

acquisition represents the future economic benefit arising from assets acquired that could not be individually identified and separately recognized and is attributable to the general reputation, acquisition synergies and expected future cash flows of the acquisition as well as the nature of Secure's products and services and its competitive position in the marketplace. The final allocation of the purchase price, which the Company expects to complete as soon as practicable, but no later than one year from the acquisition date, may differ from the amounts included in these financial statements. Management does not expect additional adjustments, if any, resulting from changes to the purchase price allocation, to have a material effect on the Company's financial position or results of operations.

The following reconciliation of the purchase price for Secure reflects the preliminary purchase price allocation (in thousands):

Purchase price paid	\$ 230,504
Cash acquired	(922)
Purchase price, net of cash received	\$ 229,582
Acquisition-related costs for 2016	\$ 85
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash	\$ 922
Accounts receivable	12,839
Inventories	16,020
Other current assets	1,569
Property, plant and equipment	2,048
Other assets	97
Trade names and trademarks intangible	7,800
Technology licenses intangible	15,500
Customer relationships intangible	67,100
Goodwill	153,499
Current liabilities	(16,893)
Long-term debt	(24)
Other long-term liabilities	(800)
Deferred income taxes	(29,173)
Total identifiable net assets	\$ 230,504

The following summary pro forma condensed consolidated financial information reflects the Secure Acquisition as if it had occurred on January 1, 2015 for purposes of the statements of income. This summary pro forma information is not necessarily representative of what the Company's results of operations would have been had this acquisition in fact occurred on January 1, and is not intended to project the Company's results of operations for any future period.

Pro forma condensed consolidated financial information for the three months ended March 31, 2015 (unaudited) (in thousands):

Net sales	\$ 647,070
Net income	\$ 14,436

**Note 3 – Stock-Based Compensation**

The Company's 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. 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 March 31, 2016, 3.1 million additional common shares were available for issuance under the 2010 Plan.

All share-based payments to employees, including grants of employee stock options, are recognized in the financial statements based on their grant date fair values. The total compensation cost recognized for stock-based awards was \$2.1 million and \$1.9 million for the three months ended March 31, 2016 and 2015, respectively. The total income tax benefit recognized in the condensed consolidated income statement for stock-based awards was \$0.6 million and \$0.6 million for the three months ended March 31, 2016 and 2015, 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 March 31, 2016, the unrecognized compensation cost and remaining weighted-average amortization period related to stock-based awards were as follows:

	<b>Stock Options</b>	<b>Restricted Shares</b>	<b>Restricted Stock Units</b>	<b>Performance- based Restricted Stock Units<sup>(1)</sup></b>
<b>(in thousands)</b>				
Unrecognized compensation cost	\$ 3,616	\$ 1	\$ 11,627	\$ 5,852
Remaining weighted-average amortization period	1.8 years	0.1 years	2.9 years	2.2 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 fair value per option granted during the three months ended March 31, 2015 was \$8.76, respectively. No options were granted during the three months ended March 31, 2016. The weighted-average assumptions used to value the options granted during the three months ended March 31, 2015 were as follows (in thousands):

Options granted	289
Expected term of options	6.4 years
Expected volatility	35%
Risk-free interest rate	1.886%
Dividend yield	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 total cash received by the Company as a result of stock option exercises for the three months ended March 31, 2016 and 2015 was approximately \$0.8 million and \$0.8 million, respectively. The actual tax benefit realized as a result of stock option exercises and the vesting of other share-based awards during the three months ended March 31, 2016 and 2015 was \$1.5 million and \$1.6 million, respectively. For the three months ended March 31, 2016 and 2015, the total intrinsic value of stock options exercised was \$0.3 million and \$0.3 million, respectively.

The Company awarded performance-based restricted stock units to employees during the three months ended March 31, 2016 and 2015. 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:

<b>(in thousands, except per share data)</b>	<b>Number of Options</b>	<b>Weighted- Average Exercise Price</b>	<b>Weighted- Average Remaining Contractual Term (Years)</b>	<b>Aggregate Intrinsic Value</b>
Outstanding as of December 31, 2015	2,580	\$20.49		
Exercised	(47)	15.97		
Forfeited or expired	(270)	23.20		
Outstanding as of March 31, 2016	2,263	\$20.27	4.91	\$ 7,738
Exercisable as of March 31, 2016	1,789	\$19.79	3.43	\$ 7,256

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 March 31, 2016 for options that had exercise prices that were below the closing price.

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

<b>(in thousands, except per share data)</b>	<b>Number of Shares</b>	<b>Weighted- Average Grant Date Fair Value</b>
Non-vested shares outstanding as of December 31, 2015	38	\$15.38
Vested	(37)	15.38
Non-vested shares outstanding as of March 31, 2016	1	\$14.78

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

<b>(in thousands, except per share data)</b>	<b>Number of Units</b>	<b>Weighted- Average Grant Date Fair Value</b>
Non-vested awards outstanding as of December 31, 2015	467	\$21.59
Granted	266	21.64
Vested	(149)	20.69
Forfeited	(8)	22.61
Non-vested awards outstanding as of March 31, 2016	576	\$21.83

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

<b>(in thousands, except per share data)</b>	<b>Number of Units</b>	<b>Weighted- Average Grant Date Fair Value</b>
Non-vested units outstanding as of December 31, 2015	306	\$19.77
Granted <sup>(1)</sup>	183	21.64
Forfeited or expired	(98)	16.91
Non-vested units outstanding as of March 31, 2016	391	\$21.36

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

#### Note 4 – 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:

<b>(in thousands, except per share data)</b>	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
Net income	\$ 11,052	\$ 14,205
Denominator for basic earnings per share - weighted-average number of common shares outstanding during the period	49,848	52,463
Incremental common shares attributable to exercise of dilutive options	292	391
Incremental common shares attributable to outstanding restricted shares and restricted stock units	147	191
Denominator for diluted earnings per share	50,287	53,045
Basic earnings per share	\$0.22	\$0.27
Diluted earnings per share	\$0.22	\$0.27

Options to purchase 1.2 million and 1.0 million common shares for the three months ended March 31, 2016 and 2015, respectively, were not included in the computation of diluted earnings per share because their effect would have been anti-dilutive.



**Note 5 – Goodwill and Other Intangible Assets**

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

<b>(in thousands)</b>	<b>Americas</b>	<b>Asia</b>	<b>Total</b>
Goodwill at December 31, 2015	\$ 161,188	\$ 38,102	\$ 199,290
Purchase accounting adjustments	179	-	179
Goodwill at March 31, 2016	\$ 161,367	\$ 38,102	\$ 199,469

The purchase accounting adjustments in 2016 related to the Secure Acquisition were based on management's estimates resulting from review of information obtained after the acquisition that related to facts and circumstances that existed at the acquisition date. See Note 2.

Other assets consist primarily of acquired identifiable intangible assets and capitalized purchased software costs. Acquired identifiable intangible assets as of March 31, 2016 and December 31, 2015 were as follows:

<b>(in thousands)</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Customer relationships	\$ 100,137	\$ (21,885)	\$ 78,252
Purchased software costs	29,911	(27,699)	2,212
Technology licenses	26,800	(11,253)	15,547
Trade names and trademarks	7,800	-	7,800
Other	868	(219)	649
Other intangible assets, March 31, 2016	\$ 165,516	\$ (61,056)	\$ 104,460

<b>(in thousands)</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Customer relationships	\$ 100,092	\$ (19,822)	\$ 80,270
Purchased software costs	29,754	(27,394)	2,360
Technology licenses	26,800	(10,477)	16,323
Trade names and trademarks	7,800	-	7,800
Other	868	(213)	655
Other intangible assets, December 31, 2015	\$ 165,314	\$ (57,906)	\$ 107,408

Customer relationships are being amortized on a straight-line basis over a period of 10 to 14 years. Capitalized purchased software costs are being amortized on a straight-line basis over the estimated useful life of the related software, which ranges from 2 to 10 years. Technology licenses are amortized over their estimated useful lives in proportion to the economic benefits consumed. Amortization of intangible assets with definite lives for the three months ended March 31, 2016 and 2015 was \$3.1 million and \$1.2 million, respectively. The increase in the amortization of intangible assets reflects the impact of the Secure Acquisition. See Note 2.



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

<b>Year ending December 31,</b>	<b>Amount</b>
2016 (remaining nine months)	\$ 9,965
2017	10,670
2018	9,813
2019	9,693
2020	9,170

### **Note 6 – Borrowing Facilities**

On November 12, 2015, the Company entered into a \$430 million Credit Agreement (the Credit Agreement) by and among Benchmark, JPMorgan Chase Bank, N.A. as administrative agent and collateral agent (the Administrative Agent), and the financial institutions acting as lenders from time to time. This Credit Agreement provides for a five-year \$200 million revolving credit facility and a five-year \$230 million term loan facility (the Term Loan), both with a maturity date of November 12, 2020. The proceeds of the \$230 million term loan facility were used to finance the purchase price of the acquisition of Secure Technology. The revolving credit facility is available for general corporate purposes, may be drawn in foreign currencies up to an amount equivalent to \$20 million, and may be used for letters of credit up to \$20 million. The Credit Agreement includes an accordion feature, pursuant to which total commitments under the facility may be increased by an additional \$150 million, subject to satisfaction of certain conditions.

The Term Loan is payable in minimum quarterly principal installments, which began on March 31, 2016, of \$2.9 million in 2016 and 2017, \$4.3 million in 2018, \$5.8 million in 2019, and \$8.6 million in 2020, with the balance payable on the maturity date.

Interest on outstanding borrowings under the Credit Agreement accrues, at our option, at (a) the adjusted London interbank offered rate as administered by the ICE Benchmark Administration (LIBO) plus 1.25% to 2.25%, or (b) the alternative base rate plus 0.25% to 1.25%, and is payable quarterly in arrears. The alternative base rate is equal to the highest of (i) the Administrative Agent's prime rate, (ii) the federal funds rate plus 0.50% and (iii) the adjusted LIBO rate plus 1.00%. The margin on the interest rates fluctuates based upon the ratio of Benchmark's debt to its consolidated EBITDA (the Total Leverage Ratio). As of March 31, 2016, \$170.3 million of the outstanding debt under the Credit Agreement was effectively at a fixed interest rate as a result of a \$170.3 million notional interest rate swap contract discussed in Note 14. A commitment fee of 0.30% to 0.40% per annum (based on the Total Leverage Ratio) on the unused portion of the revolving credit line is payable quarterly in arrears.

The Credit Agreement is generally secured by a pledge of (a) all the capital stock of Benchmark's domestic subsidiaries and 65% of the capital stock of Benchmark's directly owned foreign subsidiaries, (b) any indebtedness owed to Benchmark and its subsidiaries and (c) all or substantially all other personal property of Benchmark and its



domestic subsidiaries (including, accounts receivable, inventory and fixed assets of Benchmark and its domestic subsidiaries), in each case, subject to customary exceptions and limitations. The Credit Agreement contains financial covenants as to debt leverage and interest coverage, and certain customary affirmative and negative covenants, including restrictions on our ability to incur additional debt and liens, pay dividends, repurchase shares, sell assets and merge or consolidate with other persons. Amounts due under the Credit Agreement may be accelerated upon specified events of default, including a failure to pay amounts due, breach of a covenant, material inaccuracy of a representation, or occurrence of bankruptcy or insolvency, subject, in some cases, to cure periods. As of March 31, 2016 and December 31, 2015, the Company was in compliance with all of these covenants and restrictions.

As of March 31, 2016, the Company had \$227.1 million in borrowings outstanding under the Term Loan facility and \$1.6 million in letters of credit outstanding under the revolving credit facility. The Company has \$198.4 million available for future borrowings under the revolving credit facility.

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

The aggregate maturities of long-term debt and capital lease obligations for each of the five years subsequent to March 31, 2016 are as follows: 2016, \$9.2 million; 2017, \$12.4 million; 2018, \$18.3 million; 2019, \$24.2 million; and 2020, \$168.1 million.

#### Note 7 – Inventories

Inventory costs are summarized as follows:

<b>(in thousands)</b>	<b>March 31, 2016</b>	<b>December 31, 2015</b>
Raw materials	\$ 264,982	\$ 276,470
Work in process	89,352	86,475
Finished goods	35,585	49,041
	<b>\$ 389,919</b>	<b>\$ 411,986</b>

#### Note 8 – Income Taxes

Income tax expense consists of the following:

<b>(in thousands)</b>	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
Federal – current	\$ 815	\$ 127
Foreign – current	1,375	1,421
State – current	100	77
Deferred	633	1,818
	<b>\$ 2,923</b>	<b>\$ 3,443</b>

Income tax expense differs from the amount computed by applying the U.S. federal statutory income tax rate to income before income tax primarily due to the mix of taxable income by taxing jurisdiction, the impact of tax incentives and tax holidays in foreign locations, and state income taxes (net of federal benefit).

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

The Company has been granted certain tax incentives, including tax holidays, for its subsidiaries in Malaysia and Thailand that will expire at various dates, unless extended or otherwise renegotiated, through 2025 in Malaysia and 2028 in Thailand, and are subject to certain conditions with which the Company expects to comply. The net impact of these tax incentives was to lower income tax expense for the three months ended March 31, 2016 and 2015 by approximately \$0.9 million (approximately 0.02 per diluted share) and \$1.7 million (approximately \$0.03 per diluted share), respectively, as follows:

(in thousands)	Three Months Ended March 31,	
	2016	2015
China	\$ -	\$ 353
Malaysia	367	419
Thailand	560	962
	\$ 927	\$ 1,734

The Company's Chinese subsidiary had a tax incentive that expired in December 2015 and expects to submit an application for a new tax incentive in China during the second half of 2016.

As of March 31, 2016, the total amount of the reserve for uncertain tax benefits including interest and penalties was \$16.6 million. The reserve is classified as a current or long-term liability in the condensed consolidated balance sheets based on the Company's expectation of when the items will be settled. The amount of accrued potential interest and penalties, respectively, on unrecognized tax benefits included in the reserve as of March 31, 2016, was \$1.7 million and \$1.6 million. No material changes affected the reserve during the three months ended March 31, 2016.

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 2015.

The Company is subject to examination by tax authorities for varying periods in various U.S. and foreign tax jurisdictions. Currently, the Company does not have any ongoing Internal Revenue Service income tax audits. During the course of such examinations, disputes may occur as to matters of fact or law. Also, in most tax jurisdictions, the passage of time without examination will result in the expiration of applicable statutes of limitations thereby precluding examination of the tax period(s) for which such statute of limitation has expired. The Company believes that it has adequately provided for its tax liabilities.

**Note 9 – Segment and Geographic Information**

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

<b>(in thousands)</b>	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2016</b>	<b>2015</b>
Net sales:		