

BENCHMARK ELECTRONICS INC
Form 10-Q
August 08, 2008

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

FORM 10-Q

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

For the quarterly period ended June 30, 2008.

“ 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 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 Exchange Act.

Large accelerated filer

Accelerated filer

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

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

As of August 7, 2008 there were 66,512,030 Common Shares of Benchmark Electronics, Inc., par value \$0.10 per share, outstanding.

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

(in thousands, except par value)	June 30, 2008	December 31, 2007
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 288,015	\$ 199,198
Short-term investments	1,000	182,825
Accounts receivable, net of allowance for doubtful accounts of \$1,099 and \$1,406, respectively	472,183	485,907
Inventories, net	393,020	361,952
Prepaid expenses and other assets	44,775	60,847
Deferred income taxes	14,043	14,562
Total current assets	1,213,036	1,305,291
Long-term investments	55,484	—
Property, plant and equipment, net of accumulated depreciation of \$249,133 and \$233,439 respectively	145,209	144,182
Goodwill, net	285,125	283,725
Other, net	27,337	29,650
	\$ 1,726,191	\$ 1,762,848
Liabilities and Shareholders' Equity		
Current liabilities:		
Current installments of long-term debt and capital lease obligations	\$ 333	\$ 430
Accounts payable	339,715	359,422
Income taxes payable	1,305	1,699
Accrued liabilities	53,746	59,509
Total current liabilities	395,099	421,060
Long-term debt and capital lease obligations, less current installments	12,000	12,096
Other long-term liabilities	33,018	31,762
Deferred income taxes	11,487	9,408
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 - 67,088 and 70,687, respectively; outstanding - 66,977 and 70,576, respectively	6,698	7,058
Additional paid-in capital	756,506	793,272
Retained earnings	507,482	486,848
Accumulated other comprehensive income	4,173	1,616
Less treasury shares, at cost; 111 shares	(272)	(272)
Total shareholders' equity	1,274,587	1,288,522
Commitments and contingencies		
	\$ 1,726,191	\$ 1,762,848

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 June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Sales	\$ 682,416	\$ 756,295	\$ 1,366,725	\$ 1,508,777
Cost of sales	636,389	701,800	1,275,483	1,399,794
Gross profit	46,027	54,495	91,242	108,983
Selling, general and administrative expenses	22,662	24,219	45,937	47,467
Amortization of intangibles	447	447	894	894
Restructuring charges and integration costs	—	2,205	—	5,550
Income from operations	22,918	27,624	44,411	55,072
Interest income	1,986	2,700	5,229	4,449
Interest expense	(359)	(564)	(724)	(1,375)
Other income	709	887	2,337	853
Income before income taxes	25,254	30,647	51,253	58,999
Income tax expense	2,822	4,726	6,202	8,602
Net income	\$ 22,432	\$ 25,921	\$ 45,051	\$ 50,397
Earnings per share:				
Basic	\$ 0.33	\$ 0.36	\$ 0.66	\$ 0.70
Diluted	\$ 0.33	\$ 0.35	\$ 0.66	\$ 0.69
Weighted-average number of shares outstanding:				
Basic	67,541	72,540	68,436	71,991
Diluted	67,714	73,346	68,672	73,026

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 June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net income	\$ 22,432	\$ 25,921	\$ 45,051	\$ 50,397
Other comprehensive income:				
Foreign currency translation adjustments	1,411	2,094	5,473	3,470
Unrealized gain (loss) on investments	404	—	(2,916)	—
Comprehensive income	\$ 24,247	\$ 28,015	\$ 47,608	\$ 53,867

The components of accumulated other comprehensive income are as follows:

(in thousands)	June 30, 2008	December 31, 2007
Cumulative foreign currency translation gains	\$ 7,089	\$ 1,616
Unrealized loss on investments	(2,916)	—
Accumulated other comprehensive income	\$ 4,173	\$ 1,616

See accompanying notes to condensed consolidated financial statements.

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 income	Treasury shares	Total shareholders' equity
Balances, December 31, 2007	70,576	\$ 7,058	\$ 793,272	\$ 486,848	\$ 1,616	\$ (272)	\$ 1,288,522
Stock-based compensation expense	—	—	2,048	—	—	—	2,048
Shares repurchased and retired	(3,890)	(389)	(41,833)	(24,417)	—	—	(66,639)
Stock options exercised	252	25	2,300	—	—	—	2,325
Issuance of restricted shares	39	4	(4)	—	—	—	—
Federal tax benefit of stock options exercised	—	—	723	—	—	—	723
Comprehensive income	—	—	—	45,051	2,557	—	47,608
Balances, June 30, 2008	66,977	\$ 6,698	\$ 756,506	\$ 507,482	\$ 4,173	\$ (272)	\$ 1,274,587

See accompanying notes to condensed consolidated financial statements.

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

(in thousands)	Six Months Ended June 30,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 45,051	\$ 50,397
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20,207	20,771
Deferred income taxes	2,598	3,361
Gain on the sale of property, plant and equipment	(71)	(472)
Asset impairments	—	273
Stock-based compensation expense	2,048	1,812
Federal tax benefit of disqualified dispositions	244	549
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	15,317	95,180
Inventories	(29,253)	103,845
Prepaid expenses and other assets	16,689	(6,295)
Accounts payable	(20,312)	(90,058)
Accrued liabilities	(4,562)	(22,132)
Income taxes	419	3,523
Net cash provided by operations	48,375	160,754
Cash flows from investing activities:		
Purchases of investments	(162,709)	(265,125)
Proceeds from sales and maturities of investments	286,125	208,450
Additions to property, plant and equipment	(18,549)	(10,044)
Proceeds from the sale of property, plant and equipment	219	1,195
Additions to purchased software	(56)	(793)
Net cash acquired in acquisitions	—	5,736
Net cash provided by (used in) investing activities	105,030	(60,581)
Cash flows from financing activities:		
Proceeds from stock options exercised	2,325	5,406
Federal tax benefit of disqualified dispositions	479	1,061
Principal payments on long-term debt and capital lease obligations	(233)	(88,465)
Proceeds from long-term debt	—	16,760
Share repurchases	(66,639)	—
Debt issuance cost	(234)	—
Net cash used in financing activities	(64,302)	(65,238)
Effect of exchange rate changes	(286)	2,524
Net increase in cash and cash equivalents	88,817	37,459
Cash and cash equivalents at beginning of year	199,198	123,872
Cash and cash equivalents at June 30	\$ 288,015	\$ 161,331

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 in the business of manufacturing electronics and 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, 2007.

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.

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

Note 2 – Stock-Based Compensation

The Company's stock awards plan permits the grant of a variety of types of awards, including stock options, restricted stock awards, stock appreciation rights, performance awards, and phantom stock awards, or any combination thereof, to key employees of the Company. Stock options are granted to employees with an exercise price equal to the market price of the Company's stock 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 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. 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 June 30, 2008, 5.0 million additional options or other equity awards may be granted under the Company's existing plans.

Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. The total compensation cost recognized for equity awards was \$1.3 million and \$2.0 million for the three and six month periods ended June 30, 2008, and \$1.2 million and \$1.8 million for the three and six month periods ended June 30, 2007. The compensation expense for stock-option awards includes an estimate for forfeitures and is recognized over the vesting period of the options using the straight-line method. SFAS No. 123R requires that cash flows from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for stock-based awards (excess tax benefits) be classified as cash flows from financing activities. Awards of restricted shares are valued at the closing market price of the Company's stock on the date of grant.

As of June 30, 2008, there was approximately \$6.7 million of total unrecognized compensation cost related to nonvested stock options. That cost is expected to be recognized over a weighted-average period of 2.3 years.

During the three months ended June 30, 2008, the Company issued 51 thousand options. The Company did not issue any options during the three months ended March 31, 2008. During the three and six months ended June 30, 2007, the Company issued 51 thousand and 420 thousand options, respectively. In connection with the January 8, 2007 acquisition of Pemstar Inc. (Pemstar), all outstanding Pemstar options were converted into 369 thousand options of the Company on January 8, 2007. These were the only options issued during the three months ended March 31, 2007. 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 and the options converted from Pemstar during the three and six months ended June 30, 2008 and 2007, were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Expected term of options	7.0 years	7.0 years	7.0 years	2.7 years
Expected volatility	42%	42%	42%	29%
Risk-free interest rate	3.67%	4.65%	3.67%	4.83%
Dividend yield	zero	zero	zero	zero

The expected term of the options represents the estimated period of time until exercise and is based on historical experience, giving consideration to the contractual terms, vesting schedules and expectations of future employee behavior. Separate groups of employees 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.

The weighted-average fair value per option granted during the three and six months ended June 30, 2008 was \$8.64. The total cash received as a result of stock option exercises for the six months ended June 30, 2008 and 2007 was approximately \$2.3 million and \$5.4 million, respectively, and the tax benefit realized as a result of the stock option exercises was \$0.7 million and \$1.6 million, respectively. For the six months ended June 30, 2008 and 2007, the total intrinsic value of stock options exercised was \$2.1 million and \$5.2 million, respectively.

The following table summarizes the activities relating to the Company's stock options during the six months ended June 30, 2008:

	Number of Options	Weighted- Average Exercise Price	Average Remaining Contractual Term (Years)	Weighted- Aggregate Intrinsic Value
Outstanding at December 31, 2007	5,875	\$ 19.15	6.32	
Granted	50	\$ 17.43		
Exercised	(253)	\$ 9.20		
Canceled	(127)	\$ 22.76		
Outstanding at June 30, 2008	5,545	\$ 19.50	6.07	\$ 8,203
Exercisable at June 30, 2008	3,460	\$ 17.88	4.60	\$ 8,203

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 \$16.34 as of the last business day of the period ended June 30, 2008 for options that had exercise prices that were lower than the closing price.

The following table summarizes the activities related to the Company's restricted shares during the six months ended June 30, 2008:

	Shares	Weighted- Average Grant Date Fair Value
Non-vested shares outstanding at December 31, 2007	—	—
Granted	39	\$ 17.54
Non-vested shares outstanding at June 30, 2008	39	\$ 17.54

As of June 30, 2008, there was \$0.6 million of total unrecognized compensation cost related to restricted share awards. That cost is expected to be recognized over a weighted-average period of 3.72 years. As of June 30, 2008, there were no vested restricted shares.

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 six months ended June 30, 2008 and 2007. Stock equivalents include common shares issuable upon the exercise of stock options and other equity instruments, and are computed using the treasury stock method. The following table sets forth the calculation of basic and diluted earnings per share.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Numerator for basic earnings per share – net income	\$ 22,432	\$ 25,921	\$ 45,051	\$ 50,397
Interest expense on convertible debt, net of tax	—	32	—	147
Numerator for diluted earnings per share	\$ 22,432	\$ 25,953	\$ 45,051	\$ 50,544
Denominator for basic earnings per share - weighted-average number of common shares outstanding during the period	67,541	72,540	68,436	71,991
Incremental common shares attributable to exercise of outstanding dilutive options	90	538	151	658
Incremental common shares attributable to conversion of 6.5% convertible debt	—	133	—	241
Incremental common shares attributable to exercise of warrants	83	135	85	136
Denominator for diluted earnings per share	67,714	73,346	68,672	73,026
Basic earnings per share	\$ 0.33	\$ 0.36	\$ 0.66	\$ 0.70
Diluted earnings per share	\$ 0.33	\$ 0.35	\$ 0.66	\$ 0.69

Options to purchase 3.0 million and 3.1 million common shares for the three and six months ended June 30, 2008 and 2007, 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 for the respective periods.

As of June 30, 2008, the Company has outstanding warrants to purchase common shares as follows:

	Shares	Exercise Price	Expiration Date
126		\$ 14.25	May 1, 2009
160		\$ 12.50	May 1, 2009
40		\$ 10.125	July 18, 2009

These warrants were assumed on January 8, 2007 in connection with an acquisition.

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Note 4 – Goodwill and Other Intangible Assets

Goodwill associated with each of the Company's business segments and changes in those amounts during the six-month period ended June 30, 2008 were as follows:

	Americas	Asia	Europe	Total
Goodwill, December 31, 2007	\$ 226,122	\$ 37,912	\$ 19,691	\$ 283,725
Currency translation adjustment	32	—	1,368	1,400
Goodwill, June 30, 2008	\$ 226,154	\$ 37,912	\$ 21,059	\$ 285,125

Other assets consist primarily of acquired identifiable assets and capitalized purchased software costs. Identifiable intangible assets and changes in those amounts during the six-month period ended June 30, 2008 were as follows:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships, December 31, 2007	\$ 18,052	\$ (1,864)	\$ 16,188
Amortization of intangibles	—	(894)	(894)
Currency translation adjustment	132	(16)	116
Customer relationships, June 30, 2008	\$ 18,184	\$ (2,774)	\$ 15,410

Amortization of these intangible assets for 2008 through 2017 will be approximately \$1.8 million per year.

Note 5 – Borrowing Facilities

Long-term debt and capital lease obligations outstanding as of June 30, 2008 and December 31, 2007 consists of the following:

	June 30, 2008	December 31, 2007
Long-term debt	\$ 192	\$ 192
Capital lease obligations	12,141	12,334
Total	12,333	12,526
Less current installments	333	430
Long-term debt and capital lease obligations, less current installments	\$ 12,000	\$ 12,096

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.

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 June 30, 2008, the Company had no borrowings outstanding under the Credit Agreement, \$0.3 million in outstanding letters of credit and \$99.7 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.

The Company's Thailand subsidiary has a credit agreement with Kasikornbank Public Company Limited (the Thai Credit Agreement). The Thai Credit Agreement provides that the lender will make available to the Company's Thailand subsidiary up to approximately \$16 million in revolving loans and machinery loans. The Thai Credit Agreement is secured by land, buildings and machinery in Thailand. In addition, the Thai Credit Agreement provides for approximately \$1.8 million (62 million Thai baht) in working capital availability in the form of working capital loans (10 million Thai baht) and bank guarantees (52 million Thai baht). Availability of funds under the Thai Credit Agreement is reviewed annually and is currently accessible through September 2008. As of June 30, 2008, the Company's Thailand subsidiary had no working capital borrowings outstanding.

Note 6 – Inventories

Inventory costs are summarized as follows:

	June 30, 2008	December 31, 2007
Raw materials	\$ 282,886	\$ 262,765
Work in process	82,224	68,818
Finished goods	27,910	30,369
	\$ 393,020	\$ 361,952

Note 7 – Income Taxes

Income tax expense consists of the following:

	Six Months Ended June 30,	
	2008	2007
Federal – Current	\$ 477	\$ 2,525
Foreign – Current	3,107	2,167
State – Current	20	549
Deferred	2,598	3,361
	\$ 6,202	\$ 8,602

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 foreign income taxes, state income taxes (net of federal benefit) and tax-exempt interest income.

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 2012, and are subject to certain conditions with which the Company expects to comply. The net impact of these tax incentives was to lower income tax expense for the six month periods ended June 30, 2008 and 2007 by approximately \$9.2 million (approximately \$0.13 per diluted share) and \$9.1 million (approximately \$0.12 per diluted share), respectively.

On January 1, 2007, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken in a tax return. Under FIN 48, the Company must determine whether it is "more-likely-than-not" that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets the more-likely-than-not recognition threshold, the position is measured to determine the amount of benefit to recognize in the financial statements. FIN 48 applies to all tax positions related to income taxes subject to SFAS No. 109, "Accounting for Income Taxes".

As of June 30, 2008, the total amount of the reserve for uncertain tax benefits including interest and penalties is \$30.6 million. The reserve is classified as a current or long-term liability in the consolidated balance sheet based on the Company's expectation of when the items will be settled in cash. The amount of accrued potential interest and penalties on unrecognized tax benefits included in the reserve as of June 30, 2008 is \$2.2 million and \$1.6 million, respectively. During the three months ended June 30, 2008, the reserve was reduced by \$0.7 million for a tax payment including penalties and interest upon the completion of a tax audit. No other material changes affected the reserve during the quarter. During the next twelve months, it is reasonably possible that the reserve for uncertain tax benefits will decrease by an additional \$4.5 million mainly due to the expiration of the statute of limitations for worthless stock deductions on certain unrecognized tax benefits. As of June 30, 2008, the Company's business locations in China, Ireland, Luxembourg, Malaysia, Mexico, the Netherlands, Singapore, Thailand and the United States remain open to examination by the various local taxing authorities, in total or in part, for fiscal years 2001 to 2007.

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, Europe, and Asia. Information about operating segments was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net sales:				
Americas	\$ 449,355	\$ 572,778	\$ 912,256	\$ 1,133,101
Asia	242,260	229,966	479,664	455,932
Europe	68,015	99,601	141,404	198,322
Elimination of intersegment sales	(77,214)	(146,050)	(166,599)	(278,578)
	\$ 682,416	\$ 756,295	\$ 1,366,725	\$ 1,508,777
Depreciation and amortization:				
Americas	\$ 4,321	\$ 5,045	\$ 8,699	\$ 10,309
Asia	4,184	3,999	8,448	7,902
Europe	696	525	1,306	1,253
Corporate	915	573	1,754	1,307
	\$ 10,116	\$ 10,142	\$ 20,207	\$ 20,771
Income from operations:				
Americas	\$ 11,546	\$ 18,011	\$ 22,317	\$ 32,884
Asia	18,549	12,981	37,012	29,307
Europe	899	2,013	1,351	2,055
Corporate and intersegment eliminations	(8,076)	(5,381)	(16,269)	(9,174)
	\$ 22,918	\$ 27,624	\$ 44,411	\$ 55,072
Capital expenditures:				
Americas	\$ 3,767	\$ 1,211	\$ 6,695	\$ 2,439
Asia	5,926	836	10,315	6,794
Europe	317	334	1,408	542
Corporate	21	878	187	1,062
	\$ 10,031	\$ 3,259	\$ 18,605	\$ 10,837
			June 30, 2008	December 31, 2007
Total assets:				
Americas			\$ 815,125	\$ 853,562
Asia			534,818	514,078
Europe			151,632	140,948

Corporate and other	224,616	254,260
	\$ 1,726,191	\$ 1,762,848

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The following enterprise-wide information is provided in accordance with SFAS No. 131. 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 June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Geographic net sales:				
United States	\$ 499,153	\$ 583,503	\$ 1,035,563	\$ 1,150,191
Asia	61,858	40,561	109,917	87,268
Europe	109,791	121,519	202,415	251,844
Other Foreign	11,614	10,712	18,830	19,474
	\$ 682,416	\$ 756,295	\$ 1,366,725	\$ 1,508,777
			June 30, 2008	December 31, 2007
Long-lived assets:				
United States			\$ 80,100	\$ 86,602
Asia			70,497	69,062
Europe			10,554	10,147
Other			11,395	8,021
			\$ 172,546	\$ 173,832

Note 9 – Supplemental Cash Flow Information

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Income taxes paid (refunded), net	\$ 3,233	\$ (866)	\$ 2,463	\$ (52)
Interest paid	346	539	715	1,059

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.

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.

Note 11 – Impact of Recently Issued Accounting Standards

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands the requisite disclosures for fair value measurements. SFAS No. 157 is effective in fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-2, “Effective Date of FASB Statement No. 157,” which delays the effective date of SFAS 157 one year for all nonfinancial assets and nonfinancial liabilities, except those recognized or disclosed at fair value in the financial statements on a recurring basis. On January 1, 2008, the Company adopted SFAS No. 157 related to financial assets and liabilities. See Note 14. On January 1, 2009, the Company will adopt the provisions for nonfinancial assets and nonfinancial liabilities that are not required or permitted to be measured at fair value on a recurring basis, which include those measured at fair value in goodwill impairment testing, indefinite-lived intangible assets measured at fair value for impairment assessment, nonfinancial long-lived assets measured at fair value for impairment assessment, asset retirement obligations initially measured at fair value, and those initially measured at fair value in a business combination. The Company is still in the process of evaluating SFAS No. 157 with respect to its effect on nonfinancial assets and nonfinancial liabilities and has not yet determined the impact that it will have on its financial statements upon full adoption in 2009.

On January 1, 2008, the Company adopted SFAS No. 159 “The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of FASB Statement No. 115” (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. The adoption of SFAS No. 159 did not have an effect on the Company’s financial condition or results of operations as it did not elect the fair value option.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No.133” (SFAS No. 161). SFAS No. 161 requires enhanced disclosures about derivative and hedging activities. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company will be required to adopt SFAS No. 161 as of January 1, 2009. The Company does not anticipate that the adoption of SFAS No. 161 will have a material impact on its financial position, results of operations or cash flows.

In April 2008, the FASB issued FSP No. FAS 142-3, “Determination of the Useful Life of Intangible Assets” (FSP No. 142-3). FSP No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, “Goodwill and Other Intangible Assets” (SFAS No. 142). FSP No. 142-3 applies to all intangible assets, whether acquired in a business combination or otherwise, and shall be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. FSP No. 142-3 shall be applied prospectively to intangible assets acquired after the effective date. Early adoption of FSP No. 142-3 is prohibited. The Company is currently evaluating the impact that FSP No. 142-3 will have on its financial statements.

In May 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles” (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements presented in conformity with U.S. generally accepted accounting principles.

SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles". The implementation of this standard will not have a material impact on the Company's consolidated financial position and results of operations.

Note 12 – Restructuring Charges and Integration Costs

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 2007 related to reductions in workforce and the re-sizing of certain facilities. These charges were recorded pursuant to plans developed and approved by management. Restructuring charges associated with these realignment efforts primarily related to the closure of our Redmond, Washington facility, the transfer of the Company's printed circuit board assembly (PCBA) operations in Dublin, Ireland to Brasov, Romania and the consolidation and resizing of certain other facilities.

The following table summarizes the provisions, the respective payments and the remaining accrued balance as of June 30, 2008 for estimated restructuring charges incurred during 2007:

	Severance	Facility Lease Costs	Other Exit Costs	Total Costs
Balance as of December 31, 2007	\$ 171	\$ 1,011	\$ 541	\$ 1,723
Provision for charges incurred	—	(143)	—	(143)
Payments	(171)	(230)	(484)	(885)
Balance as of March 31, 2008	—	638	57	695
Provision for charges incurred	—	—	(57)	(57)
Payments	—	(121)	—	(121)
Balance as of June 30, 2008	\$ —	\$ 517	\$ —	\$ 517

Accruals related to restructuring activities are recorded in accrued liabilities in the accompanying consolidated balance sheets.

The Company also recorded an assumed liability for expected involuntary employee termination costs and facility closures in connection with the acquisition of Pemstar. Costs associated with restructuring activities related to a purchase business combination are accounted for in accordance with Emerging Issue Task Force Issue (EITF) No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination". Accordingly, costs associated with such plans are recorded as a liability assumed as of the consummation date of the purchase business combination and included in the cost of the acquired entity. The following table summarizes the provisions, the respective payments, activity and remaining accrued balance as of June 30, 2008 related to restructuring costs recorded pursuant to EITF No. 95-3 during 2007:

	Facility Lease Costs	Other Exit Costs	Total Costs
Balance as of December 31, 2007	\$ 808	\$ 1,617	\$ 2,425
Payments	(160)	(194)	(354)
Non-cash charges incurred	—	(452)	(452)
Foreign exchange adjustments	40	69	109
Balance as of March 31, 2008	688	1,040	1,728
Provision for charges incurred	(1)	(511)	(512)
Payments	(2)	(139)	(141)
Foreign exchange adjustments	(112)	104	(8)
Balance as of June 30, 2008	\$ 573	\$ 494	\$ 1,067

During the three months ended June 30, 2008, the Company recognized \$0.7 million of employee termination costs associated with the involuntary terminations of employees in connection with reductions in workforce of certain facilities. These charges were recorded pursuant to plans developed and approved by management. As of June 30, 2008, the remaining accrued balance was \$0.4 million, which the Company expects to pay by September 30, 2008.

Note 13 – Share Repurchase

On July 25, 2007, the Board of Directors of the Company approved the repurchase of up to \$125 million of the Company's outstanding common shares. During the six month period ending June 30, 2008, the Company repurchased a total of 3.9 million common shares for \$66.6 million at an average price of \$17.10 per share. See Note 15.

Note 14 – Investments

Effective January 1, 2008, we adopted SFAS No. 157 with respect to financial assets and liabilities only.

SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS No. 157 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. SFAS No. 157 establishes a hierarchy of inputs employed to determine fair value measurements, with three levels. 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.

As of June 30, 2008, \$1.0 million of short-term investments and \$58.4 million (par value) of long-term investments were recorded at fair value. The long-term investments consist of auction rate securities that were reclassified from short-term during the three months ended March 31, 2008, due to the overall changes that have occurred in the global credit and capital markets that have led to failed auctions. These failed auctions have impacted the liquidity of these investments and have resulted in our continuing to hold these securities beyond their typical auction reset dates.

The adoption of SFAS No. 157 impacted the calculation of fair value associated with the Company's investments. The short-term investments, consisting of a municipal bond, were valued using Level 1 inputs. The long-term investments, consisting of auction rate securities, were valued using Level 2 inputs.

During the three and six months ended June 30, 2008, the Company recorded an unrealized gain of \$0.4 million and an unrealized loss of \$2.9 million, respectively, on the long-term investments. The Company has determined that this reduction in fair value is temporary, after considering factors including that the decline in fair value occurred in the first quarter of 2008 as a result of the market dislocations that caused the auction process to fail and not because of any deterioration in the credit quality or actual performance of the underlying securities. In addition to this, the Company does have the ability and intent to hold these investments for a period of time sufficient to allow for the anticipated recovery in the market value. This unrealized loss reduced the fair value of the Company's auction rate securities as of June 30, 2008 to \$55.5 million. These securities are classified as long-term investments due to the contractual maturity of the underlying securities being over ten years, and the cumulative unrealized loss is included as a component of other comprehensive income within shareholders' equity in the Company's balance sheet.

Note 15 – Subsequent Event

On July 21, 2008, the Company completed the repurchase of 6.8 million of its common shares under the \$125 million share repurchase program approved in July 2007. On July 24, 2008, the Board of Directors of the Company approved the additional repurchase of up to \$100 million of the Company's outstanding common shares. Share purchases may be made in the open market, in privately negotiated transactions or block transactions, at the discretion of the Company's management and as market conditions warrant. Purchases will be funded from available cash and may be commenced, suspended or discontinued at any time without prior notice. Shares repurchased under the program will be retired.

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 in the business of manufacturing electronics and 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 and direct order fulfillment. 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. We also 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.

As our customers have continued to expand their globalization strategy during the past several years, we have made the necessary changes to align our business operations with our customers' demand. These changes include, among other activities, moving production between facilities, reducing staff levels, realigning our business processes and reorganizing our management. During the three months ended June 30, 2008, the Company recognized \$0.7 million (pre-tax) of employee termination costs associated with the involuntary terminations of employees in connection with reductions in workforce of certain facilities. During the year ended December 31, 2007, we incurred \$4.7 million (pre-tax) of restructuring charges, primarily related to the closure of our Redmond, Washington facility, the transfer of the Company's printed circuit board assembly (PCBA) operations in Dublin, Ireland to Brasov, Romania and the consolidation and resizing of certain other facilities, as we continued to expand our low-cost capacity while realigning and further strengthening our global footprint to support continued business opportunities. In connection with the acquisition of Pemstar Inc. (Pemstar) on January 8, 2007, a total of \$7.0 million (pre-tax) in integration costs were incurred during the year ended December 31, 2007. These costs included redundant operating costs.

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 circuit board assemblies, systems and excess inventory when the goods are shipped, title and risk of ownership have passed, the price to the buyer is fixed and determinable and collectibility is reasonably assured. 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.

Summary of Results

Sales for the three months ended June 30, 2008 decreased 10% to \$682.4 million compared to \$756.3 million for the same period of 2007. Sales to our largest customer, Sun Microsystems, Inc., represented 17% of our sales in the second quarter 2008 compared to 25% of our sales in the second quarter of 2007. Sales to this customer decreased \$71.8 million from \$186.6 million in the second quarter of 2007 to \$114.8 million in the second quarter of 2008. This decrease is primarily attributable to a combination of reduced demand for certain maturing products and partly due to the timing of certain product transitions.

Our gross profit as a percentage of sales decreased to 6.7% in the three months ended June 30, 2008 from 7.2% in same period of 2007 due primarily to lower sales volumes which resulted in under-absorbed fixed costs such as facility and personnel expenses. We do experience fluctuations in gross profit from period to period. Comparing 2008 to 2007, the fluctuations were due primarily to changes in production levels, production mix, inventory levels, new program ramps, product crossovers and other factors. 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.

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, 2007. 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 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.

Inventory valuation 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 customer's 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 that we believe our customers are unable to fulfill their obligation to ultimately purchase such inventory from us. 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 examinations by taxing authorities. 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

In accordance with SFAS No. 144, 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.

Goodwill and intangible assets that have indefinite useful lives are tested annually for impairment, and are 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. We completed the annual impairment test during the fourth quarter of 2007 and determined that no impairment existed as of the date of the impairment test. Goodwill and intangible assets are 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 using a discounted cash flow model and comparing those fair values to the carrying values, including goodwill, of the reporting unit. As of June 30, 2008, we had net goodwill of approximately \$285.1 million. Circumstances that may lead to 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.

Stock-Based Compensation

In accordance with the provisions of SFAS No. 123 (Revised 2004) and the Security and Exchange Commission Staff Accounting Bulletin No. 107 (SAB 107), we began recognizing stock-based compensation expense in our consolidated statement of income on January 1, 2006. 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		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	93.3	92.8	93.3	92.8
Gross profit	6.7	7.2	6.7	7.2
Selling, general and administrative expenses	3.3	3.2	3.4	3.1
Amortization of intangibles	0.1	0.1	0.1	0.1
Restructuring charges	—	0.3	—	0.4
Income from operations	3.4	3.6	3.3	3.6
Other income, net	0.3	0.4	0.5	0.3
Income before income taxes	3.7	4.0	3.8	3.9
Income tax expense	0.4	0.6	0.5	0.6
Net income	3.3%	3.4%	3.3%	3.3%

Sales

Sales for the second quarter of 2008 were \$682.4 million, a 10% decrease from sales of \$756.3 million for the same quarter in 2007. Sales for the six months ended June 30, 2008 were \$1.4 billion, a 9% decrease from sales of \$1.5 billion for the same period in 2007. The following table sets forth, for the periods indicated, the percentages of our sales by industry sector.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Computers & related products for business				
enterprises	48%	54%	49%	53%
Telecommunication equipment	17	14	17	14
Industrial control equipment	16	12	15	13
Medical devices	14	13	14	13
Testing & instrumentation products	5	7	5	7
	100%	100%	100%	100%

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. Sales to our largest customer decreased \$71.8 million from \$186.6 million in the second quarter of 2007 to \$114.8 million in the second quarter of 2008. Sales to our largest customer decreased \$133.0 million from \$373.3 million in the first six months of 2007 to \$240.3 million in the first six months of 2008. This decrease is primarily attributable to a combination of reduced demand for certain maturing products and partly due to the timing of certain product transitions. 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.

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 June 30, 2008. 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 six months of 2008 and 2007, 48% and 40%, respectively, of our sales were from our international operations.

Gross Profit

Gross profit decreased 16% to \$46.0 million for the three months ended June 30, 2008 from \$54.5 million in the same period of 2007 and decreased 16% to \$91.2 million for the six months ended June 30, 2008 from \$109.0 million in the same period of 2007 due primarily to lower sales volumes. Gross profit as a percentage of sales decreased to 6.7% during the second quarter of 2008 from 7.2% in 2007 and decreased to 6.7% during the first six months of 2008 from 7.2% in 2007 primarily due to lower sales volumes which resulted in under-absorbed fixed costs such as facility and personnel expenses. We do experience fluctuations in gross profit from period to period. Comparing 2008 to 2007, the fluctuations were due primarily to changes in production levels, production mix, inventory levels, new program ramps, product crossovers and other factors. 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.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased 6% to \$22.7 million in the second quarter of 2008 from \$24.2 million in the second quarter of 2007 and decreased 3% to \$45.9 million in the first six months of 2008 from \$47.5 million in the first six months of 2007. The decrease in selling, general and administrative expenses is primarily due to reduced overhead resulting from cost controls and lower variable compensation and employee related expenses. Selling, general and administrative expenses, as a percentage of sales, were 3.3% and 3.2%, respectively, for the second quarter of 2008 and 2007, and 3.4% and 3.1%, respectively, for the first six months of 2008 and 2007. The increase in selling, general and administrative expenses as a percentage of sales is primarily associated with the impact of lower sales volumes in 2008.

Restructuring Charges and Integration Costs

We recognized \$2.2 million and \$5.6 million in restructuring charges and integration costs during the second quarter and during the first six months of 2007, respectively, related to reductions in workforce and the re-sizing and closure of certain facilities and the integration of the facilities acquired from Pemstar. In connection with these activities, we recorded restructuring charges for employee termination costs and other restructuring and integration related costs.

The recognition of the restructuring charges requires that we make certain judgments and estimates regarding the nature, timing and amount of costs associated with the planned exit activity. To the extent our actual results in exiting these facilities differ from our estimates and assumptions, we may be required to revise the estimates of future liabilities, requiring the recognition of additional restructuring charges or the reduction of liabilities already recognized. At the end of each reporting period, we evaluate the remaining accrued balances to ensure that no excess accruals are retained and the utilization of the provisions are for their intended purpose in accordance with developed exit plans. See Note 12 to the Condensed Consolidated Financial Statements in Item 1 of this report.

Interest Income

Interest income for the six-month periods ended June 30, 2008 and 2007 was \$5.2 million and \$4.4 million, respectively. The increase is due to the increase in available cash invested in interest-bearing accounts and investments.

Interest Expense

Interest expense for the six-month periods ended June 30, 2008 and 2007 was \$0.7 million and \$1.4 million, respectively. The decrease is due to the repayment of the debt assumed in the acquisition of Pemstar in 2007. See Note 5 to the Condensed Consolidated Financial Statements in Item 1 of this report.

Income Tax Expense

Income tax expense of \$6.2 million represented an effective tax rate of 12.1% for the six months ended June 30, 2008, compared with \$8.6 million at an effective tax rate of 14.6% for the same period in 2007. The decrease in the effective tax rate is primarily due to an increase in the percentage of pre-tax income earned in foreign locations in the first six months of 2008 as compared to the first six months of 2007. See Note 7 to the Condensed Consolidated Financial Statements in Item 1 of this report.

Net Income

We reported net income of approximately \$45.1 million, or diluted earnings per share of \$0.66 for the first six months of 2008, compared with net income of approximately \$50.4 million, or diluted earnings per share of \$0.69 for the same period of 2007. The net decrease of \$5.3 million from 2007 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 increased to \$288.0 million at June 30, 2008 from \$199.2 million at December 31, 2007.

Cash provided by operating activities was \$48.4 million in 2008. The cash provided by operations during 2008 consisted primarily of \$45.1 million of net income adjusted for \$20.2 million of depreciation and amortization, a \$15.3 million decrease in accounts receivable, and a \$16.7 million decrease in prepaid expenses and other assets, offset by a \$29.3 million increase in inventories and a \$20.3 million decrease in accounts payable. Working capital was \$817.9 million at June 30, 2008 and \$884.2 million at December 31, 2007. As of June 30, 2008, the \$55.5 million of long-term investments consist of auction rate securities that were reclassified to long-term during the three months ended March 31, 2008, due to the overall changes that have occurred in the global credit and capital markets that have led to failed auctions. These failed auctions have impacted the liquidity of these investments and have resulted in our continuing to hold these securities beyond their typical auction reset dates. The decrease in working capital during 2008 is primarily a result of this reclassification from short-term to long-term investments, in addition to other items.

We are continuing the practice of purchasing components only after customer orders 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. We did not experience shortages of electronic components and other material supplies during the reporting period. 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.

Cash provided by investing activities was \$105.0 million for the six months ended June 30, 2008 primarily due to the sales of investments offset by additional purchases of property, plant and equipment and investments. Capital expenditures of \$18.5 million were primarily concentrated in manufacturing production equipment in Asia to support our ongoing business and to expand certain existing manufacturing operations.

Cash used in financing activities was \$64.3 million for the six months ended June 30, 2008. On July 25, 2007, our Board of Directors approved the repurchase of up to \$125 million of our outstanding common shares. During the six months ended June 30, 2008, share repurchases totaled \$66.6 million. During 2008, we received \$2.3 million from the exercise of stock options and \$0.5 million in federal tax benefits of stock options exercised. Principal payments of long-term debt and capital lease obligations were \$0.2 million in 2008.

Under the terms of a Credit Agreement (the Credit Agreement), we have a \$100.0 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. 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 June 30, 2008, we had no borrowings outstanding under the Credit Agreement, \$0.3 million letters of credit outstanding and \$99.7 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.

Our Thailand subsidiary has a credit agreement with Kasikornbank Public Company (the Thai Credit Agreement). The Thai Credit Agreement provides that the lender will make available to our Thailand subsidiary up to approximately \$16 million in revolving loans and machinery loans. The Thai Credit Agreement is secured by land, buildings and machinery in Thailand. In addition, the Thai Credit Agreement provides for approximately \$1.8 million (62 million Thai baht) in working capital availability in the form of working capital loans (10 million Thai baht) and bank guarantees (52 million Thai baht). Availability of funds under the Thai Credit Agreement is reviewed annually and is currently accessible through September 2008. As of June 30, 2008, 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.

As of June 30, 2008, we had cash and cash equivalents totaling \$288.0 million, short-term investments totaling \$1.0 million and \$99.7 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 \$40 million, principally for machinery and equipment to support our ongoing business around the globe, in addition to our planned expansion in Asia, primarily a new building in China. On July 21, 2008, the Company completed the repurchase of 6.8 million shares under the \$125 million share repurchase program approved in July 2007. On July 24, 2008, our Board of Directors approved the additional repurchase of up to \$100 million of our outstanding common shares. We are under no commitment or obligation to repurchase any particular amount of common shares and share purchases may be suspended at any time at management's discretion. Management believes that our existing cash and short-term investment 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, 2007. There have been no material changes to our contractual obligations, outside of the ordinary course of our business, since December 31, 2007.

OFF-BALANCE SHEET ARRANGEMENTS

As of June 30, 2008, 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 June 30, 2008, 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 inter-company 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.

We are also exposed to market risk for changes in interest rates, a portion of which relates to our investment portfolio. We do not use derivative financial instruments in our investment portfolio. 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 June 30, 2008, the outstanding amount in the short-term and long-term investment portfolio included \$55.5 million of auction rate securities and \$1.0 of municipal bonds with an average return of approximately 2.9%.

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.

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, 2007.

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 June 30, 2008, at a total cost of \$36.8 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)
April 1 to 30, 2008	855,400	\$ 17.77	855,400	20.0 \$ million
May 1 to 31, 2008	406,700	\$ 17.73	406,700	12.7 \$ million
June 1 to 30, 2008	420,000	\$ 17.46	420,000	5.4 \$ million
Total	1,682,100	\$ 17.68	1,682,100	

(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 25, 2007, the Board of Directors of the Company approved the repurchase of up to \$125 million of the Company's outstanding common shares. During the period from April 1 to June 30, 2008, the Company repurchased a total of 1,682,100 common shares for \$29.8 million at an average price of \$17.68 per share. During the period from July 25, 2007 through June 30, 2008, we repurchased a total of 6,491,731 common shares for \$119.6 million at an average price of \$18.39 per share. All share purchases were made in the open market and the shares repurchased through June 30, 2008 were retired.

Item 4. Submission of Matters to a Vote of Security Holders.

(a) - (c) At the Annual Meeting of Shareholders held on May 7, 2008, the Company's nominees for directors to serve until the 2008 Annual Meeting of Shareholders were elected and the appointment of KPMG LLP as the independent auditors for the Company for the fiscal year ended December 31, 2008 was ratified.

With respect to the election of directors, the voting was as follows:

Nominee	For	Withheld
Donald E. Nigbor	59,555,159	6,202,024
Cary T. Fu	62,527,905	3,229,278
Steven A. Barton	56,476,875	9,280,308
Michael R. Dawson	65,282,732	474,451
Peter G. Dorflinger	63,384,223	2,372,960
Douglas G. Duncan	65,283,277	473,906
Laura W. Lang	65,226,154	531,029
Berne D. L. Strom	65,235,731	521,452

With respect to the ratification of the appointment of KPMG LLP as the independent registered public accounting firm of the Company, the voting was as follows:

For	Against	Abstain	Non-Vote
65,359,232	356,261	41,690	—

Item 6. Exhibits.

- 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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on August 8, 2008.

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)

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
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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