

BENCHMARK ELECTRONICS INC
Form 10-Q
May 09, 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 March 31, 2008.

o 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.)

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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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of May 8, 2008 there were 67,458,154 Common Shares of Benchmark Electronics, Inc., par value \$0.10 per share, outstanding.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

BENCHMARK ELECTRONICS, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(in thousands, except par value)	March 31, 2008 (unaudited)	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 300,717	\$ 199,198
Short-term investments	1,008	182,825
Accounts receivable, net of allowance for doubtful accounts of \$1,078 and \$1,406, respectively	452,952	485,907
Inventories, net	397,150	361,952
Prepaid expenses and other assets	47,127	60,847
Deferred income taxes	14,029	14,562
Total current assets	1,212,983	1,305,291
Long-term investments	77,280	
Property, plant and equipment, net of accumulated depreciation of \$240,210 and \$233,439 respectively	143,898	144,182
Goodwill, net	285,027	283,725
Other, net	28,594	29,650
	\$ 1,747,782	\$ 1,762,848
Liabilities and Shareholders' Equity		
Current liabilities:		
Current installments of long-term debt and capital lease obligations	\$ 375	\$ 430
Accounts payable	355,794	359,422
Income taxes payable	4,186	1,699
Accrued liabilities	56,242	59,509
Total current liabilities	416,597	421,060
Long-term debt and capital lease obligations, less current installments	12,045	12,096
Other long-term liabilities	33,022	31,762
Deferred income taxes	10,060	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 68,536 and 70,687, respectively; outstanding 68,425 and 70,576, respectively	6,842	7,058
Additional paid-in capital	770,539	793,272
Retained earnings	496,591	486,848
Accumulated other comprehensive income	2,358	1,616
Less treasury shares, at cost; 111 shares	(272)	(272)
Total shareholders' equity	1,276,058	1,288,522
Commitments and contingencies		
	\$ 1,747,782	\$ 1,762,848

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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	
	2008	March 31, 2007
Sales	\$ 684,309	\$ 752,482
Cost of sales	639,094	697,994
Gross profit	45,215	54,488
Selling, general and administrative expenses	23,275	23,248
Amortization of intangibles	447	447
Restructuring charges and integration costs		3,345
Income from operations	21,493	27,448
Interest income	3,243	1,749
Interest expense	(365)	(811)
Other income (expense)	1,628	(34)
Income before income taxes	25,999	28,352
Income tax expense	3,380	3,876
Net income	\$ 22,619	\$ 24,476
Earnings per share:		
Basic	\$ 0.33	\$ 0.34
Diluted	\$ 0.33	\$ 0.34
Weighted-average number of shares outstanding:		
Basic	69,330	71,435
Diluted	69,462	72,465

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	
	2008	March 31, 2007
Net income	\$ 22,619	\$ 24,476
Other comprehensive income:		
Foreign currency translation adjustments	4,062	1,376
Unrealized loss on investments	(3,320)	
Comprehensive income	\$ 23,361	\$ 25,852

The components of accumulated other comprehensive income are as follows:

(in thousands)	March 31,	December 31,
	2008	2007
Cumulative foreign currency translation gains	\$ 5,678	\$ 1,616
Unrealized loss on investments	(3,320)	
Accumulated other comprehensive income	\$ 2,358	\$ 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			788				788
Shares repurchased and retired	(2,208)	(221)	(23,748)	(12,876)			(36,845)
Stock options exercised	18	1	187				188
Issuance of restricted shares	39	4	(4)				
Federal tax benefit of stock options exercised			44				44
Comprehensive income				22,619	742		23,361
Balances, March 31, 2008	68,425	\$ 6,842	\$ 770,539	\$ 496,591	\$ 2,358	\$ (272)	\$ 1,276,058

See accompanying notes to condensed consolidated financial statements.

BENCHMARK ELECTRONICS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(unaudited)

(in thousands)	Three Months Ended	
	2008	March 31, 2007
Cash flows from operating activities:		
Net income	\$ 22,619	\$ 24,476
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,091	10,629
Deferred income taxes	1,185	1,296
Gain on the sale of property, plant and equipment	(89)	(128)
Asset impairments		273
Stock-based compensation expense	788	628
Federal tax benefit of disqualified dispositions	11	8
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	34,232	83,218
Inventories	(33,776)	24,177
Prepaid expenses and other assets	14,171	(3,584)
Accounts payable	(4,036)	(43,001)
Accrued liabilities	(1,980)	(5,106)
Income taxes	2,877	1,657
Net cash provided by operations	46,093	94,543
Cash flows from investing activities:		
Purchases of investments	(162,708)	(156,875)
Proceeds from sales and maturities of investments	263,925	151,675
Additions to property, plant and equipment	(8,531)	(7,525)
Proceeds from the sale of property, plant and equipment	164	165
Additions to purchased software	(43)	(53)
Net cash acquired in acquisitions		9,548
Net cash provided by (used in) investing activities	92,807	(3,065)
Cash flows from financing activities:		
Proceeds from stock options exercised	188	811
Federal tax benefit of disqualified dispositions	33	245
Principal payments on long-term debt and capital lease obligations	(107)	(83,033)
Proceeds from long-term debt		16,760
Share repurchases	(36,845)	
Debt issuance cost	(234)	
Net cash used in financing activities	(36,965)	(65,217)
Effect of exchange rate changes	(416)	1,437
Net increase in cash and cash equivalents	101,519	27,698
Cash and cash equivalents at beginning of year	199,198	123,872
Cash and cash equivalents at March 31	\$ 300,717	\$ 151,570

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 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 March 31, 2008, 4.9 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 \$0.8 million and \$0.6 million for the three month periods ended March 31, 2008 and 2007, respectively. 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 March 31, 2008, there was approximately \$7.5 million of total unrecognized compensation cost related to nonvested stock options. That cost is expected to be recognized over a weighted-average period of 2.6 years.

The Company did not issue any options during the three months ended March 31, 2008. In connection with the January 8, 2007 acquisition of Pemstar Inc. (Pemstar), all outstanding Pemstar options were converted into 0.4 million 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 converted from Pemstar during the three months ended March 31, 2007 were as follows:

	Three Months Ended March 31, 2007
Expected term of options	2.1 years
Expected volatility	27%
Risk-free interest rate	4.86%
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 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 months ended March 31, 2007 was \$9.24. The total cash received as a result of stock option exercises for the three months ended March 31, 2008 and 2007 was approximately \$0.2 million and \$0.8 million, respectively, and the tax benefit realized as a result of the stock option exercises was \$0.1 million and \$0.3 million, respectively. For the three months ended March 31, 2008 and 2007, the total intrinsic value of stock options exercised was \$0.1 million and \$0.9 million, respectively.

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

	Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2007	5,875	\$ 19.15	6.32	
Granted				
Exercised	(18)	\$ 10.40		
Canceled	(62)	\$ 21.35		
Outstanding at March 31, 2008	5,795	\$ 19.15	6.08	\$ 13,640
Exercisable at March 31, 2008	3,661	\$ 17.38	4.53	\$ 13,070

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 \$17.95 as of the last business day of the period ended March 31, 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:

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

As of March 31, 2008, there was \$0.7 million of total unrecognized compensation cost related to restricted share awards. That cost is expected to be recognized over a weighted-average period of 3.96 years.

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 months ended March 31, 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	
	March 31,	
	2008	2007
Numerator for basic earnings per share - net income	\$ 22,619	\$ 24,476
Interest expense on convertible debt, net of tax		115
Numerator for diluted earnings per share	\$ 22,619	\$ 24,591
Denominator for basic earnings per share - weighted-average number of common shares outstanding during the period	69,330	71,435
Incremental common shares attributable to exercise of outstanding dilutive options	45	541
Incremental common shares attributable to conversion of 6.5% convertible debt		351
Incremental common shares attributable to exercise of warrants	87	138
Denominator for diluted earnings per share	69,462	72,465
Basic earnings per share	\$ 0.33	\$ 0.34
Diluted earnings per share	\$ 0.33	\$ 0.34

Options to purchase 3.0 million and 3.2 million common shares for the three months ended March 31, 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.

At March 31, 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