

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED
SEPTEMBER 30, 2002.

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)

74-2211011
(I.R.S. Employer
Identification Number)

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

As of November 13, 2002 there were 24,265,820 shares of Benchmark Electronics, Inc. Common Stock, par value \$0.10 per share, outstanding.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BENCHMARK ELECTRONICS, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(amounts in thousands)

	September 30, <u>2002</u>	December 31, <u>2001</u>
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$237,621	\$ 59,879
Accounts receivable, net of allowance for doubtful accounts of \$9,249 and \$2,211, respectively	188,393	180,021
Income taxes receivable	4,723	1,711
Inventories, net	208,694	197,278
Prepaid expenses and other assets	19,586	12,928
Deferred tax asset	<u>8,579</u>	<u>9,080</u>
Total current assets	<u>667,596</u>	<u>460,897</u>
Property, plant and equipment	222,616	210,556
Accumulated depreciation	<u>(129,461)</u>	<u>(116,751)</u>
Net property, plant and equipment	<u>93,155</u>	<u>93,805</u>
Other assets, net	10,535	12,194
Goodwill, net	<u>126,348</u>	<u>119,209</u>
	<u><u>\$897,634</u></u>	<u><u>\$686,105</u></u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Current installments of other long-term debt	\$ 28,736	\$ 22,367
Notes payable	565	-
Accounts payable	199,157	144,150
Accrued liabilities	<u>49,390</u>	<u>26,541</u>
Total current liabilities	277,848	193,058
Convertible subordinated notes	80,200	80,200
Other long-term debt, excluding current installments	39,166	44,695
Other long-term liability	4,043	7,771
Deferred tax liability	13,503	8,699
Shareholders' equity:		
Preferred shares, \$0.10 par value; 5,000 shares authorized, none issued	-	-
Common shares, \$0.10 par value; 30,000 shares authorized; issued – 24,312 and 19,751, respectively; outstanding – 24,263 and 19,702, respectively	2,426	1,970
Additional paid-in capital	434,112	319,875
Retained earnings	67,552	44,363
Accumulated other comprehensive loss	(21,096)	(14,406)
Less treasury shares, at cost; 49 shares	<u>(120)</u>	<u>(120)</u>
Total shareholders' equity	482,874	351,682
Commitments and contingencies		
	<u><u>\$897,634</u></u>	<u><u>\$686,105</u></u>

See accompanying notes to condensed consolidated financial statements.

BENCHMARK ELECTRONICS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Income
(amounts in thousands, except per share data)
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Sales	\$428,278	\$257,969	\$1,161,841	\$1,007,307
Cost of sales	<u>395,767</u>	<u>239,071</u>	<u>1,073,653</u>	<u>934,194</u>
Gross profit	32,511	18,898	88,188	73,113
Selling, general and administrative expenses	17,268	12,581	47,566	41,406
Restructuring charges	-	481	-	5,094
Asset write-offs	-	61,720	1,608	61,720
Amortization of goodwill	<u>-</u>	<u>3,222</u>	<u>-</u>	<u>9,667</u>
Income (loss) from operations	15,243	(59,106)	39,014	(44,774)
Interest expense	(2,886)	(3,862)	(8,577)	(14,175)
Other income	<u>2,364</u>	<u>719</u>	<u>5,543</u>	<u>1,013</u>
Income (loss) before income taxes	14,721	(62,249)	35,980	(57,936)
Income tax expense (benefit)	<u>5,138</u>	<u>(5,234)</u>	<u>12,791</u>	<u>(3,940)</u>
Net income (loss)	<u>\$ 9,583</u>	<u>\$ (57,015)</u>	<u>\$ 23,189</u>	<u>\$ (53,996)</u>
Earnings (loss) per share:				
Basic	\$ 0.40	\$ (2.90)	\$ 1.03	\$ (2.75)
Diluted	<u>\$ 0.38</u>	<u>\$ (2.90)</u>	<u>\$ 0.99</u>	<u>\$ (2.75)</u>
Weighted average number of shares outstanding:				
Basic	24,246	19,645	22,565	19,616
Diluted	<u>24,924</u>	<u>19,645</u>	<u>23,378</u>	<u>19,616</u>

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	September 30,	
	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Net income (loss)	\$23,189	\$(53,996)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23,703	40,372
Asset write-offs	1,608	61,720
Deferred income taxes	5,215	(3,756)
Loss on the sale of property, plant and equipment	73	20
Federal tax benefit of stock options exercised	912	33
Accrued compensation expense	-	361
Changes in operating assets and liabilities, net of effects from acquisitions of businesses:		
Accounts receivable	19,579	98,132
Inventories	23,818	105,846
Prepaid expenses and other assets	(2,748)	7,492
Accounts payable	25,415	(137,379)
Accrued liabilities	18,708	(11,620)
Income taxes	<u>(3,005)</u>	<u>(5,919)</u>
Net cash provided by operations	<u>136,467</u>	<u>101,306</u>
Cash flows from investing activities:		
Acquisition, net of cash acquired	(36,172)	-
Capital expenditures, net	(5,501)	(16,011)
Additions to capitalized software	<u>(173)</u>	<u>(3,460)</u>
Net cash used in investing activities	<u>(41,846)</u>	<u>(19,471)</u>
Cash flows from financing activities:		
Net proceeds from public offering of common shares	110,270	-
Repayment of revolving line of credit, net	-	(65,500)
Proceeds from stock options exercised	2,898	143
Proceeds from employee stock purchase plan	613	703
Principal payments on other long-term debt	<u>(24,383)</u>	<u>(14,774)</u>
Net cash provided by (used in) financing activities	<u>89,398</u>	<u>(79,428)</u>
Effect of exchange rate changes	<u>(6,277)</u>	<u>(1,940)</u>
Net increase in cash and cash equivalents	177,742	467
Cash and cash equivalents at beginning of year	<u>59,879</u>	<u>23,541</u>
Cash and cash equivalents at September 30	<u>\$237,621</u>	<u>\$24,008</u>
Supplemental disclosures of cash flow information:		
Income taxes paid	<u>\$ 8,510</u>	<u>\$ 6,551</u>
Interest paid	<u>\$ 8,576</u>	<u>\$15,613</u>

See accompanying notes to condensed consolidated financial statements.

BENCHMARK ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(amounts in thousands, unless otherwise noted)
(unaudited)

Note 1 - Basis of Presentation

Benchmark Electronics, Inc. (the Company) is a Texas corporation which provides electronics manufacturing and design services to original equipment manufacturers (OEMs) of computers and related products for business enterprises, telecommunication equipment, video/audio/entertainment products, industrial control equipment, testing and instrumentation products, and medical devices. The Company has manufacturing operations located in the Americas, Europe and Asia.

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 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 fiscal year ended December 31, 2001.

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

Note 2 – Acquisition

On July 29, 2002, the Company completed its previously announced acquisition (the "Acquisition") of all of the issued and outstanding capital stock of ACT Manufacturing Holdings UK Limited (UK) and 68,374,718 shares, constituting at least 99.77% of the issued and outstanding capital stock of ACT Manufacturing (Thailand) Public Company Limited (Thailand) from ACT Manufacturing, Inc. ("ACT") pursuant to the terms of an Asset and Share Purchase Agreement dated as of July 2, 2002 by and between the Company and ACT (the "Purchase Agreement"). ACT had previously filed for reorganization under Chapter 11 of the United States Bankruptcy Code; the Purchase Agreement and the transactions contemplated thereby were approved by the bankruptcy court. The facilities acquired include a facility owned in Ayudhaya, Thailand and a leased facility in Leicester, England. The 240,000 square foot manufacturing facility in Ayudhaya, Thailand (near Bangkok) provides electronics manufacturing services, including printed circuit board (PCB) assembly and test, systems assembly and test, prototyping, warranty repair, materials procurement and engineering support services. The facility has experience in radio frequency (RF) and wireless product manufacturing, as well as a full suite of RF testing capabilities. The 55,000 square foot manufacturing facility in Leicester, England provides electronics manufacturing services, including PCB design, assembly and test, and systems assembly and test. In addition to the Ayudhaya and Leicester facilities, the Acquisition included leased international purchasing offices in San Jose, California, Hong Kong and The Republic of Singapore. As consideration for the Acquisition, the Company paid \$45.2 million in cash and acquisition costs of \$0.8 million. The Company is accounting for the acquisition utilizing the accounting principles promulgated by SFAS 141 and 142. Therefore, the results of operations of the UK and Thailand operations since July 29, 2002 have been included in the accompanying consolidated statements of income. The preliminary allocation of the net purchase price of the Acquisition resulted in goodwill of approximately \$11.6

million. In connection with the Acquisition, the Company amended its Amended and Restated Credit Agreement dated June 23, 2000 to permit the Acquisition.

The net purchase price of the Acquisition has been allocated based on preliminary estimates as follows:

Working capital, other than cash	\$31,742
Property, plant and equipment	18,623
Goodwill	11,567
Other assets	28
Notes payable	(6,986)
Long term debt	<u>(18,802)</u>
Purchase price, net of cash received	<u>\$36,172</u>

The following summary pro forma condensed consolidated financial information reflects the acquisition of Thailand as if it had occurred on January 1, 2002 for purposes of the statements of operations. The summary pro forma information is not necessarily representative of what the Company's results of operations would have been had the acquisition of Thailand in fact occurred on January 1, 2002 and is not intended to project the Company's results of operations for any future period or date. Because the UK operations are not individually significant to Benchmark, their financial information has not been included herein.

Pro forma condensed consolidated financial information for the period ended September 30, 2002 (unaudited):

	Nine Months Ended	
	September 30,	
	<u>2002</u>	<u>2001</u>
Net sales	\$ 1,265,968	\$ 1,176,589
Gross profit	\$ 96,018	\$ 92,243
Income (loss) from operations	\$ 43,204	\$ (31,004)
Net income (loss)	\$ 26,680	\$ (39,518)
Earnings (loss) per share:		
Basic	\$ 1.18	\$ (2.01)
Diluted	\$ 1.14	\$ (2.01)
Weighted average number of shares outstanding:		
Basic	22,565	19,616
Diluted	23,378	19,616

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 options to purchase common stock. Incremental shares of 0.7 million and 0.8 million for the three and nine months ended September 30, 2002 were used in the calculation of diluted earnings per share. For the three and nine-month periods ended September 30, 2001, a total of 0.5 million and 0.7 million options were not included in the calculation of diluted earnings per share because the effect would have been antidilutive. Options to purchase 0.9 million and 0.7 million shares of common stock for the three and nine-month periods ended September 30, 2002, 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 stock. Options to purchase 0.9 million and 0.8 million shares of common stock for the three and nine-month periods ended September 30, 2001 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 stock. The effect of the if-converted method for the 6% Convertible Subordinated Notes is antidilutive and approximately 2.0 million of potential common shares have not been considered in computing diluted earnings per share for the three and nine-month periods ended September 30, 2002 and 2001.

Note 4 – Borrowing Facilities

The Company has a five-year term loan (the Term Loan) through a syndicate of commercial banks. Principal on the Term Loan is payable in quarterly installments in annual amounts of \$20 million in 2002, \$22 million in 2003 and \$21 million in 2004. The Term Loan bears interest, at the Company's option, at either the bank's Eurodollar rate plus 1.25% to 3.00% or its prime rate plus 0.00% to 1.75%, based upon the Company's debt ratio as specified in the agreement and interest is payable quarterly. The Term Loan matures on September 30, 2004. As of September 30, 2002, the Company had \$48.0 million outstanding under the Term Loan, bearing interest at rates ranging from 3.50% to 8.255%.

The Company has a \$175 million revolving line of credit facility (the Revolving Credit Facility) with a syndicate of commercial banks. The Company is entitled to borrow under the Revolving Credit Facility up to the lesser of \$175 million or the sum of 75% of its eligible accounts receivable, 45% of its eligible inventories and 50% of its eligible fixed assets. Interest on the Revolving Credit Facility is payable quarterly, at the Company's option, at either the bank's Eurodollar rate plus 1.25% to 3.00% or its prime rate plus 0.00% to 1.75%, based upon the Company's debt ratio as specified in the agreement. A commitment fee of 0.375% to 0.500% per annum on the unused portion of the Revolving Credit Facility is payable quarterly in arrears. The Revolving Credit Facility matures on September 30, 2004. As of September 30, 2002, the Company had no borrowings outstanding under the Revolving Credit Facility, \$0.4 million outstanding letters of credit and \$174.6 million was available for future borrowings.

The Term Loan and the Revolving Credit Facility (collectively the Facility) are secured by the Company's domestic inventory and accounts receivable, 100% of the stock of the Company's domestic subsidiaries, and 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 Facility contains customary financial covenants as to working capital, interest coverage, 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, without the consent of the banks. At September 30, 2002, the Company was in compliance with all such restrictions.

The Company's Thailand subsidiary has a Credit Agreement with Thai Farmers Bank Public Company Limited and Bank of Ayudhya Public Company Limited (the Thai Credit Agreement). The Thai Credit Agreement provides that the lenders will make available to the Company's Thailand subsidiary up to approximately \$53.5 million in revolving loans, term loans and machinery loans for a term of five years. At September 30, 2002, \$17.6 million was outstanding at interest rates ranging from 4.375% to 4.83%. The Thai Credit Agreement is secured by land, buildings and machinery in Thailand. In addition, the Thai Credit Agreement provides for approximately \$1.4 million (60.0 million Thai baht) in working capital availability. At September 30, 2002, \$0.7 million was outstanding. The Thai Credit Agreement contains financial covenants as to debt coverage and the ratio of debt to equity. As of September 30, 2002, the Company's Thailand subsidiary was in compliance with these covenants.

The Company has outstanding \$80.2 million principal amount of 6% Convertible Subordinated Notes due August 15, 2006 (the Notes). The indenture relating to the Notes contains affirmative and negative covenants including covenants restricting the Company's ability to merge or engage in certain other extraordinary corporate transactions unless certain conditions are satisfied. Upon the occurrence of a change of control of the Company (as defined in the indenture relating to the Notes), each holder of Notes will have the right to require the Company to repurchase all or part of the Holder's notes at 100% of the face amount thereof, plus accrued and unpaid interest.

The Notes are convertible, unless previously redeemed or repurchased, at the option of the holder at any time prior to maturity, into shares of the Company's common stock at an initial conversion price of \$40.20 per share, subject to adjustment in certain events. The Notes are convertible into a total of 1.995 million shares of the Company's common stock. Interest is payable February 15 and August 15 each year.

The Company currently has an interest rate swap transaction agreement for a notional amount of \$24.0 million under which it pays a fixed rate of interest of 6.63% plus 1.25% to 3.00% based upon its debt ratio as specified in the debt agreement, hedging against the variable interest rates charged by the term loan. The receive rate under the swap is based on LIBOR. The interest rate swap expires in the year 2003.

Note 5 - Inventories

Inventory costs are summarized as follows:

	September 30, <u>2002</u>	December 31, <u>2001</u>
Raw materials	\$ 145,052	\$ 166,129
Work in process	41,847	28,147
Finished goods	42,410	12,026
Obsolescence reserve	<u>(20,615)</u>	<u>(9,024)</u>
	<u>\$ 208,694</u>	<u>\$ 197,278</u>

Note 6 - Income Taxes

Income tax expense consists of the following:

	Nine Months Ended September 30,	
	<u>2002</u>	<u>2001</u>
Federal - Current	\$ 7,338	\$(1,744)
Foreign - Current	(297)	1,793
State - Current	535	(233)
Deferred	<u>5,215</u>	<u>(3,756)</u>
Total	<u>\$12,791</u>	<u>\$(3,940)</u>

Income tax expense differs from the amount computed by applying the U.S. federal statutory income tax rate to income before income tax due to the impact of foreign income taxes, state income taxes, net of federal benefit and the benefit from the use of a foreign sales corporation.

The Company considers earnings from certain 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).

The Company's manufacturing operations in Ireland are subject to a 10% tax rate through December 2010. Thereafter, the applicable statutory tax rate will be 12.5%. As a result of these reduced rates, income tax expense for the three and nine-month periods ended September 30, 2002 is approximately \$0.1 million (approximately \$0.01 per share diluted) and \$0.5 million (approximately \$0.02 per share diluted), respectively, lower than the amount computed by applying the statutory tax rate (16% in 2002). Income tax expense for the three and nine-month periods ended September 30, 2001 is approximately \$0.2 million (approximately \$0.01 per share diluted) and \$0.6 million (approximately \$0.03 per share diluted), respectively, lower than the amount computed by applying the statutory tax rate (20% in 2001).

Note 7 – Derivative Instruments and Certain Hedging Activities

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Certain Hedging Activities" and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment of SFAS 133." These statements establish accounting and reporting standards requiring that derivative instruments, including certain derivative instruments embedded in other contracts, be recorded on the balance sheet at fair value as either assets or liabilities. The accounting for changes in the fair value of a derivative instrument depends on the intended use and designation of the derivative at its inception. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results of the hedged item in the statements of operations, and requires the Company to formally document, designate and assess the effectiveness of the hedge transaction to receive hedge accounting. For derivatives designated as cash-flow hedges, changes in fair value, to the extent the hedge is effective, are recognized in other comprehensive income until the hedged item is recognized in earnings. Overall hedge effectiveness is measured at least quarterly. Any changes in the fair value of the derivative instrument resulting from hedge ineffectiveness, as defined by SFAS No. 133 and measured based on the cumulative changes in the fair value of the derivative instrument and the cumulative changes in the estimated future cash flows of the hedged item, are recognized immediately in earnings.

The Company has designated its swap agreement as a cash flow hedge. During the three and nine-month periods ended September 30, 2002, the Company recognized \$330 and \$1,030 in losses, included in interest expense, on the interest rate swap attributable to interest costs occurring during the first nine months of 2002. During the three and nine-month periods ended September 30, 2001, the Company recognized \$266 and \$452 in losses, included in interest expense, on the interest rate swap attributable to interest costs occurring during the first nine months of 2001. No gain or loss on ineffectiveness was required to be recognized during 2002 or 2001. As of September 30, 2002, the fair value of the interest rate swap agreement was a loss of \$1.2 million that is anticipated to be transferred into earnings over the next twelve months as interest costs on the term loan are recognized.

The Company has utilized and expects to continue to utilize derivative financial instruments with respect to a portion of its interest rate risks to achieve a more predictable cash flow by reducing its exposure to interest rate fluctuations. These transactions generally are swaps and are entered into with major financial institutions. Derivative financial instruments related to the Company's interest rate risks are intended to reduce the Company's exposure to increases in the benchmark interest rates underlying the Company's variable rate Facility.

Note 8 - Business Segments and Geographic Areas

The Company has 15 manufacturing facilities in the Americas, Europe and Asia 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, primarily constituting sales from the Americas to Europe, are generally recorded at prices that approximate arm's length transactions. Operating segments' measure of profitability is based on income from operations (prior to amortization of goodwill and unallocated corporate expenses). Certain corporate expenses, including items such as insurance and software licensing costs, are allocated to these operating segments and are included for performance evaluation. Amortization expense associated with capitalized software costs is allocated to these operating segments, but the related assets are not allocated. Amortization expense during 2001 associated with goodwill is not allocated to the results of operations in analyzing segments, but the related balances are allocated to

the segments. The accounting policies for the reportable operating segments are the same as for the Company taken as a whole.

Information about operating segments for the three and nine-month periods ended September 30, 2002 and 2001 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Net sales:				
Americas	\$ 422,765	231,494	1,185,235	898,182
Europe	85,129	43,295	260,303	173,951
Asia	36,437	4,974	43,631	23,423
Elimination of intersegment sales	<u>(116,053)</u>	<u>(21,794)</u>	<u>(327,328)</u>	<u>(88,249)</u>
	<u>\$ 428,278</u>	<u>257,969</u>	<u>1,161,841</u>	<u>1,007,307</u>
Depreciation and amortization:				
Americas	\$ 6,216	8,688	20,037	26,126
Europe	795	1,332	2,420	3,946
Asia	906	203	1,246	633
Corporate - goodwill	-	<u>3,222</u>	-	<u>9,667</u>
	<u>\$ 7,917</u>	<u>13,445</u>	<u>23,703</u>	<u>40,372</u>
Income (loss) from operations:				
Americas	\$ 22,031	7,938	54,337	31,131
Europe	(1,309)	193	2,323	2,056
Asia	786	109	518	2,090
Corporate and intersegment eliminations	<u>(6,265)</u>	<u>(67,346)</u>	<u>(18,164)</u>	<u>(80,051)</u>
	<u>\$ 15,243</u>	<u>(59,106)</u>	<u>39,014</u>	<u>(44,774)</u>
Capital expenditures				
Americas	\$ 903	2,024	3,684	13,429
Europe	159	224	466	1,780
Asia	496	-	<u>1,351</u>	<u>802</u>
	<u>\$ 1,558</u>	<u>2,248</u>	<u>5,501</u>	<u>16,011</u>

	September 30, <u>2002</u>	December 31, <u>2001</u>
Total assets:		
Americas	\$ 654,336	532,047
Europe	118,821	113,824
Asia	103,804	17,346
Corporate	<u>20,673</u>	<u>22,888</u>
	<u>\$ 897,634</u>	<u>686,105</u>

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 September 30,		Nine Months Ended September 30,	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Net sales derived from:				
Printed circuit boards	\$ 332,641	214,055	871,769	837,922
Systems integration and box build	<u>95,637</u>	<u>43,914</u>	<u>290,072</u>	<u>169,385</u>
	<u>\$ 428,278</u>	<u>257,969</u>	<u>1,161,841</u>	<u>1,007,307</u>
Geographic net sales:				
United States	\$ 375,986	193,479	1,006,703	763,773
Europe	39,810	36,036	129,227	141,138
Asia and other	<u>12,482</u>	<u>28,454</u>	<u>25,911</u>	<u>102,396</u>
	<u>\$ 428,278</u>	<u>257,969</u>	<u>1,161,841</u>	<u>1,007,307</u>

	September 30, <u>2002</u>	December 31, <u>2001</u>
Long-lived assets:		
United States	\$ 66,974	84,877
Europe	11,389	12,215
Asia and other	<u>25,327</u>	<u>8,907</u>
	<u>\$ 103,690</u>	<u>105,999</u>

Note 9 – Comprehensive Income (Loss)

Comprehensive income (loss), which includes net income, the change in the cumulative translation adjustment and the effect of accounting for cash flow hedging derivatives, for the three and nine-month periods ended September 30, 2002 and 2001, was \$4.5 million and \$(59.7) million and \$16.5 million and \$(64.1) million, respectively. Total comprehensive income (loss) for the three and nine-month periods ended September 30, 2002 and 2001 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Net income (loss)	\$ 9,583	(57,015)	23,189	(53,996)
Cumulative translation adjustment	(5,162)	(2,177)	(6,996)	(8,935)
Hedge accounting for derivative financial instruments, net of tax	39	(522)	306	(740)
Cumulative effect attributable to adoption of SFAS No. 133 (See note 6), net of tax	-	-	-	(402)
Comprehensive income (loss)	<u>\$ 4,460</u>	<u>(59,714)</u>	<u>16,499</u>	<u>(64,073)</u>

Included in the hedge accounting for derivative financial instruments of \$39 and \$306 are reclassification adjustments of approximately \$197 and \$615, respectively.

Note 10- Contingencies

On October 18, 1999, the Company announced that its third quarter earnings announcement would be delayed and subsequently, on October 22, the Company announced its earnings for the third quarter were below the level of the same periods during 1998 and were below expectations. Several class action lawsuits were filed in federal district court in Houston, Texas against the Company and two of its officers and directors alleging violations of the federal securities laws. These lawsuits were consolidated in February 2000. The lawsuits seek to recover unspecified damages. The Company denies the allegations in the lawsuits, however, and further denies that such allegations provide a basis for recovery of damages as the Company believes that it has made all required disclosures on a timely basis. On August 16, 2002, the federal district court in Houston, Texas entered its order granting the Company's motion to dismiss the consolidated lawsuits, and dismissing the lawsuits without prejudice.

The Company filed suit against J.M. Huber Corporation (the Seller) in the United States District Court for the Southern District of Texas for breach of contract, fraud and negligent misrepresentation on December 14, 1999 and is seeking an unspecified amount of damages in connection with the Amended and Restated Stock Purchase Agreement dated August 12, 1999 between the parties whereby the Company acquired all of the stock of AVEX from Seller. On January 5, 2000, Seller filed suit in the United States District Court for the Southern District of New York alleging that the Company failed to comply with certain obligations under the contract requiring the Company to register shares of its common stock issued to Seller as partial consideration for the acquisition. Seller's suit has been consolidated with the Company's suit in the United States District Court for the Southern District of Texas (the "Court"). On March 18, 2002, the Court entered an interlocutory judgement denying the Company's claims against Seller, but preserving Seller's counterclaims against the Company. On April 15, 2002, the Company and Seller jointly filed with the Court a stipulation to dismiss Seller's claims and counterclaims against the Company without prejudice allowing the Court to render a final judgement in the case so that the Company may file an appeal to the Fifth Circuit Court of Appeals (the "Fifth Circuit"). Under the stipulation, Seller also agreed to refrain from refileing its claims while the Company pursued any appeals with the Fifth Circuit. On May 1, 2002, the Court entered a final judgement dismissing without prejudice the claims and counterclaims of Seller. On May 29, 2002, the Company filed a notice of appeal of the Court's final judgment to the Fifth Circuit, and on August 7, 2002, the Company filed its appellate brief with the Fifth Circuit.

On April 14, 2000, the Company, along with numerous other companies, was named as a defendant in a lawsuit filed in the United States District Court for the District of Arizona by the Lemelson Medical, Education & Research Foundation (the Foundation). The lawsuit alleges that the Company has infringed certain of the Foundation's patents relating to machine vision and bar code technology utilized in machines the Company has purchased. On November 2, 2000, the Company filed an Answer, Affirmative Defenses, and a Motion to Stay based upon Declaratory Judgement Actions filed by Cognex and Symbol, manufacturers of the equipment at issue. On March 29, 2001, the Court granted the defendants' Motion to Stay and ordered that the lawsuit be stayed pending the entry of a final non-appealable judgement in the cases filed by Cognex and Symbol. The Company continues to explore any indemnity or similar rights the Company may have against manufacturers of the machines or other third parties. The Company intends to vigorously defend against such claim and pursue all rights it has against third parties. At the present time, the Company is unable to reasonably estimate the possible loss, if any, associated with these matters.

The Company is also involved in various other 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.

Note 11- Restructuring Charges and Asset Write-offs

During the nine month period ended September 30, 2002, the Company recorded asset write-offs of approximately \$1.6 million (\$1.0 million after-tax) for the write-down of long-lived assets held for sale to fair value.

During the nine month period ended September 30, 2001, the Company recorded restructuring charges of approximately \$5.1 million (\$3.6 million after-tax). These charges related to reductions in the Company's cost structure, including reductions in force and included costs resulting from payment of employee severance, consolidation of facilities and abandonment of leased equipment. These restructuring costs included severance costs of approximately \$4.2 million and losses from lease commitments of \$0.9 million.

In the third quarter of 2001, the Company recorded asset write-offs of approximately \$61.7 million (\$43.2 million after-tax) for the write-down of long-lived assets to fair value. Included in the long-lived asset impairment are charges of approximately \$28.0 million which related to property, plant and equipment associated with the consolidation and downsizing of certain manufacturing facilities and the write-off of approximately \$33.7 million of the remaining goodwill and other intangibles related to these facilities.

Note 12 – Impact of Recently Issued Accounting Standards

The Company adopted the Financial Accounting Standards Board (FASB) SFAS No. 141, "Business Combinations" effective July 1, 2001, and SFAS No. 142, "Goodwill and Other Intangible Assets" effective January 1, 2002. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated or completed after June 30, 2001, and specifies criteria for the recognition and reporting of intangible assets apart from goodwill. Under SFAS No. 142, beginning January 1, 2002, the Company no longer amortizes goodwill and intangible assets with indefinite useful lives, but instead tests those assets for impairment at least annually. SFAS No. 142 also requires that intangible assets with definite useful lives be amortized over such lives to their estimated residual values.

SFAS No. 142 required the Company to perform a transitional goodwill impairment evaluation as of the date of adoption. To accomplish this the Company identified its reporting units and determined the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of January 1, 2002. The Company determined the fair value of each reporting unit and compared it to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform the second step of the transitional impairment test. In the second step, the Company must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with SFAS No. 141, to its carrying amount, both of which would be measured as of the date of adoption. This second step is required to be completed as soon as possible, but no later than December 31, 2002. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's statement of earnings.

As of January 1, 2002, the Company had unamortized goodwill in the amount of \$119.2 million subject to the transition provisions of Statements 141 and 142. The change in the amount of

unamortized goodwill during the three and nine month periods ended September 30, 2002 is due to the additional goodwill resulting from acquisitions and the impact of foreign currency translation adjustments. The adoption of the Statement 142 resulted in the elimination of approximately \$12.2 million of goodwill amortization, annually, subsequent to December 31, 2001. Amortization expense related to goodwill was \$3.2 million and \$9.7 million for the three and nine-month periods ended September 30, 2001, respectively. The Company has completed the first step of the transitional goodwill impairment test and has determined that no impairment exists. As a result, the Company has recognized no transitional impairment loss during the nine months ended September 30, 2002 in connection with the adoption of SFAS 142. There can be no assurance that future goodwill impairment tests will not result in a charge to earnings.

The pro forma effects of the adoption of SFAS 142 on net income and earnings per share for the Company for the three and nine-month periods ended September 30, 2001 is as follows:

	<u>Three Months Ended</u> <u>September 30, 2001</u>	<u>Nine Months Ended</u> <u>September 30, 2001</u>
Net loss as reported	\$ (57,015)	(53,996)
Add back: Amortization of goodwill, net of tax	<u>2,489</u>	<u>7,431</u>
Adjusted net loss	<u>\$ (54,526)</u>	<u>(46,565)</u>
Basic loss per share, as reported	\$ (2.90)	(2.75)
Add back: Amortization of goodwill, net of tax	<u>0.13</u>	<u>0.38</u>
Pro forma	<u>\$ (2.77)</u>	<u>(2.37)</u>
Diluted loss per share, as reported	\$ (2.90)	(2.75)
Add back: Amortization of goodwill, net of tax	<u>0.13</u>	<u>0.38</u>
Pro forma	<u>\$ (2.77)</u>	<u>(2.37)</u>

As of January 1, 2002, the Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", but retains many of its fundamental provisions. SFAS No. 144 also clarifies certain measurement and classification issues from SFAS No. 121. In addition, SFAS No. 144 supercedes the accounting and reporting provisions for the disposal of a business segment as found in Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" (APB 30). However, SFAS No. 144 retains the requirement in APB 30 to separately report discontinued operations, and broadens the scope of such requirement to include more types of disposal transactions. The scope of SFAS No. 144 excludes goodwill and other intangible assets that are not to be amortized, as the accounting for such items is prescribed by SFAS No. 142. The adoption of SFAS No. 144 did not have a material effect on the Company's consolidated financial statements.

In April 2002, SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections," was issued. SFAS 145 rescinds SFAS 4 and SFAS 64 related to classification of gains and losses on debt extinguishment such that most debt extinguishment gains and losses will no longer be classified as extraordinary. SFAS 145 also amends SFAS 13 with respect to sales-leaseback transactions. The Company

adopted the provisions of SFAS 145 effective April 1, 2002, and the adoption had no impact on the Company's reported results of operations or financial position.

In June 2002, SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" was issued. This statement provides guidance on the recognition and measurement of liabilities associated with disposal activities and is effective for the Company on January 1, 2003. The Company is currently reviewing the provisions of SFAS No. 146 to determine the standard's impact upon adoption.

Note 13 – Stock Offering

On April 15, 2002, the Company completed the public offering of 4,312,500 shares of its common stock for net proceeds of approximately \$110.2 million. The Company invested the net proceeds in interest bearing short-term investments and cash equivalents.

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. Forward-looking statements are any statements that do not relate solely to historical or current facts. They are identified by words such as “anticipate,” “believe,” “intend,” “plan,” “projection,” “forecast,” “strategy,” “position,” “continue,” “estimate,” “expect,” “may,” “will,” or the negative of those terms or other variations of them or by 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 the heading Risk Factors below. The future results of our operations may differ materially from those expressed in the forward-looking statements included in this report. Many of the factors that will determine these results are beyond our ability to control or predict. You should not put undue reliance 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 unaudited financial statements of the Company included elsewhere in this report.

General

We are in the business of manufacturing electronics and provide our services to original equipment manufacturers of computers and related products for business enterprises, medical devices, video/audio/entertainment products, industrial control equipment, testing and instrumentation products, and telecommunication equipment. The services that we provide are commonly referred to as electronics manufacturing services. We offer our customers comprehensive and integrated design and manufacturing services, from initial product design to volume production and direct order fulfillment. We 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 Latin America and Southeast Asia. As our customers expand internationally, they increasingly require their electronics manufacturing services partners to have strategic regional locations and global procurement capabilities. We believe that our global manufacturing presence of 15 facilities in seven countries 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.

Substantially all of our manufacturing services are provided on a turnkey basis, whereby we purchase customer-specified components from our suppliers, assemble the components on finished printed circuit boards, perform post-production testing and provide our customers with production process and testing documentation. We offer our customers flexible, “just-in-time” delivery programs allowing product shipments to be closely coordinated with our customers’ inventory requirements. Additionally, we complete the assembly of our customers’ products at our facilities by integrating printed circuit board assemblies into other elements of our customers’ products. We also provide manufacturing services on a consignment basis, whereby we utilize components supplied by the customer to provide assembly and post-production testing services.

We do not typically obtain long-term purchase orders or commitments from our customers. Instead we work closely with our customers to develop forecasts for future orders, which are not binding. Customers may cancel their orders, change production quantities from forecast volumes or delay production for a number of reasons beyond our control. Cancellations, reductions or delays by a significant customer or by a group of customers would have an adverse effect on us. As many of our costs and operating expenses are relatively fixed, a reduction in customer demand can disproportionately adversely affect our gross margins and operating income.

Recent Acquisitions

On July 29, 2002, we completed the previously announced acquisition (the "Acquisition") of all of the issued and outstanding capital stock of ACT Manufacturing Holdings UK Limited (UK) and 68,374,718 shares, constituting at least 99.77% of the issued and outstanding capital stock of ACT Manufacturing (Thailand) Public Company Limited (Thailand) from ACT Manufacturing, Inc. ("ACT") pursuant to the terms of an Asset and Share Purchase Agreement dated as of July 2, 2002 by and between Benchmark and ACT (the "Purchase Agreement"). ACT had previously filed for reorganization under Chapter 11 of the United States Bankruptcy Code; the Purchase Agreement and the transactions contemplated thereby were approved by the bankruptcy court. The facilities acquired include a facility owned in Ayudhaya, Thailand and a leased facility in Leicester, England. The 240,000 square foot manufacturing facility in Ayudhaya, Thailand (near Bangkok) provides electronics manufacturing services, including printed circuit board (PCB) assembly and test, systems assembly and test, prototyping, warranty repair, materials procurement and engineering support services. The facility has experience in radio frequency (RF) and wireless product manufacturing, as well as a full suite of RF testing capabilities. The 55,000 square foot manufacturing facility in Leicester, England provides electronics manufacturing services, including PCB design, assembly and test, and systems assembly and test. In addition to the Ayudhaya and Leicester facilities, the Acquisition included leased international purchasing offices in San Jose, California, Hong Kong and The Republic of Singapore. As consideration for the Acquisition, we paid \$45.2 million in cash and acquisition costs of \$0.8 million. We are accounting for the acquisition utilizing the accounting principles promulgated by SFAS 141 and 142. Therefore, the results of operations of the UK and Thailand operations since July 29, 2002 have been included in the accompanying consolidated statements of income. The preliminary allocation of the net purchase price of the Acquisition resulted in goodwill of approximately \$11.6 million.

The inclusion of the operations of the acquired facilities in Thailand and the UK in Benchmark's accounts are responsible for a substantial portion of the variations in the results of our operations (including components thereof) from period to period. The effects of the Acquisition on our financial condition and our reported results of operations should be considered when reading the financial information contained herein.

The Acquisition constitutes a significant expansion of our operations. Accordingly, the potential effect of the Acquisition on our future financial condition, liquidity and results of operations should be considered when reading the historical financial information and related discussions set forth in the following section. See Note 2 of Notes to Condensed Consolidated Financial Statements.

RESULTS OF OPERATIONS

The following table presents the percentage relationship that certain items in the Company's 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.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	<u>92.4</u>	<u>92.7</u>	<u>92.4</u>	<u>92.7</u>
Gross profit	7.6	7.3	7.6	7.3
Selling, general and administrative expense	4.0	4.9	4.1	4.1
Asset write-offs	0.0	23.9	0.1	6.1
Restructuring charges	0.0	0.2	0.0	0.5
Amortization of goodwill	<u>0.0</u>	<u>1.2</u>	<u>0.0</u>	<u>1.0</u>
Income from operations	3.6	(22.9)	3.4	(4.4)
Interest expense	(0.7)	(1.5)	(0.7)	(1.4)
Other income (expense)	<u>0.5</u>	<u>0.3</u>	<u>0.4</u>	<u>0.0</u>
Income (loss) before income taxes	3.4	(24.1)	3.1	(5.8)
Income tax expense (benefit)	<u>1.2</u>	<u>(2.0)</u>	<u>1.1</u>	<u>(0.4)</u>
Net income (loss)	<u>2.2%</u>	<u>(22.1)%</u>	<u>2.0%</u>	<u>(5.4)%</u>

Sales

Sales for the third quarter of 2002 were approximately \$428.3 million, a 66.0% increase from sales of approximately \$258.0 million for the same quarter in 2001. Of this net increase, there is a 23.6% increase resulting from the facilities acquired on July 29 2002, a 12.2% decrease resulting from the consolidation and downsizing of certain manufacturing facilities during 2001, a 30.4% increase attributable to the operation of the systems integration facilities and an approximately 58.2% net increase in sales volumes. Sales for the first nine months of 2002 were approximately \$1,161.8 million, a 15.3% increase from sales of approximately \$1,007.3 million for the same period of 2001. Of this net increase, there is a 25.9% increase resulting from the facilities acquired on July 29 2002, a 41.6% decrease resulting from the consolidation and downsizing of certain manufacturing facilities during 2001, a 78.1% increase attributable to the operation of the systems integration facilities, and an approximately 37.6% net increase in sales volumes.

We have 15 manufacturing facilities in the Americas, Europe and Asia to serve our customers. We are operated and managed geographically. Our facilities in the Americas provided 80.8% and 85.0% of net sales, respectively, during the third quarters of 2002 and 2001, and 84.4% and 85.5% of net sales, respectively, during the first nine months of 2002 and 2001. Our Americas region includes facilities in Angleton, Texas, Beaverton, Oregon, Campinas, Brazil, Guadalajara, Mexico, Hudson, New Hampshire, Huntsville, Alabama, Manassas, Virginia and Winona, Minnesota. There are two facilities in Huntsville, Alabama - a systems integration facility opened during 2000 and the PCB facility acquired in 1999. During 2001, we consolidated the Pulaski, Tennessee manufacturing facility into the Huntsville, Alabama facility. The Pulaski facility is currently being held for sale. Our facilities in Europe provided 10.8% and 13.2% of net sales, respectively during the third quarters of 2002 and 2001, and 12.0% and 12.2% of net sales, respectively, during the first nine months of 2002 and 2001. Our Europe region includes facilities in Cork, Ireland, Dublin, Ireland, East Kilbride, Scotland and Leicester, England. Our facilities in Asia provided 8.4% and 1.8% of net sales, respectively during the third quarters of 2002 and 2001, and 3.6% and 2.2% of net sales, respectively, during the first nine months of 2002 and 2001. Our Asia region includes facilities in the Republic of Singapore and Ayudhaya, Thailand. The Singapore facility includes both a systems integration and PCB operation. These operations were in separate facilities during 2001.

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. During the nine months ended September 30, 2002, our three largest customers together represented 69.8% of our sales, with one customer exceeding 50% of our sales. 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. As we ramp new programs and the new programs mature, we expect the percentage of sales of our three largest customers to decline. 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. Recently our customers have experienced a decline in demand for their products, which has had an adverse effect on our results of operations.

As a result of our international sales and facilities, our operations are subject to the risks of doing business abroad. These dynamics have not had a material adverse effect on our results of operations through September 30, 2002. However, we cannot assure you that there will not be an adverse impact in the future. See RISK FACTORS 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 nine months ended September 30, 2002 and 2001, 19.8% and 22.4%, respectively, of our sales were from our international operations. The decrease in the percentage of international sales for 2002 as compared to 2001 primarily reflects the downsizing of the Cork, Ireland facility offset by additional sales resulting from the operation of the systems integration facilities in Dublin, Ireland and Singapore and the facilities in the United Kingdom and Thailand that were acquired on July 29, 2002.

Americas

Sales in the Americas for the quarter ended September 30, 2002 increased \$126.9 million compared to the same period of 2001. Of this net increase, there is a 36.9% increase attributable to the operation of the systems integration facilities, a 14.3% decrease resulting from the consolidation and downsizing of certain manufacturing facilities during 2001 and an approximately 77.4% net increase in sales volume. Sales in the Americas for the nine-month period ended September 30, 2002 increased \$119.1 million compared to the same period of 2001.

Of this net increase, there is a 82.9% increase attributable to the operation of the systems integration facilities, a 45.9% decrease resulting from the consolidation and downsizing of certain manufacturing facilities during 2001 and an approximately 63.0% net increase in sales volume. During 2001, we consolidated the Pulaski, Tennessee manufacturing facility into the Huntsville, Alabama facility. The Pulaski facility is currently being held for sale.

Europe

Sales in Europe increased \$12.3 million for the third quarter of 2002 compared to the same period of 2001. Of this net increase, there is a 67.3% increase in European sales resulting from the Leicester, England facility acquired in July 2002, a 39.5% increase in sales volumes from systems integration customers, a 20.2% decrease resulting from the downsizing of the Cork, Ireland facility during 2001 and a 13.4% increase due to the net decrease in sales volume resulting from the continued slowdown in the technology marketplace. Sales in Europe for the nine-month period ended September 30, 2002 increased \$15.8 million compared to the same period of 2001. Of this net increase, there is a 52.4% increase in European sales resulting from the Leicester, England facility acquired in July 2002, a 136.8% increase in sales volumes from systems integration customers, a 60.6% decrease resulting from the downsizing of the Cork, Ireland facility during 2001 and an approximately 28.6% decrease due to the net decrease in sales volume resulting from the continued slowdown in the technology marketplace.

Asia

Sales in Asia increased by \$31.1 million for the three-month period ended September 30, 2002 compared to 2001. Of this net increase, there is an approximately 102.2% increase in Asia sales resulting from the Thailand facility acquired in July 2002, a 0.5% increase in sales volumes from systems integration customers and an approximately 2.7% decrease due to the net decrease in sales volume resulting from the continued slowdown in the technology marketplace. Sales in Asia increased by \$19.6 million for the nine-month period ended September 30, 2002 compared to 2001. Of this net increase, there is an approximately 162.3% increase resulting from the Thailand facility acquired in July 2002, a 1.6% increase in sales volumes from systems integration customers and an approximately 63.9% decrease due to the net decrease in sales volume resulting from the continued slowdown in the technology marketplace.

Gross Profit

Gross profit increased 72.0% to \$32.5 million for the third quarter of 2002 from \$18.9 million in the same quarter of 2001. Gross profit as a percentage of sales for the three months ended September 30, 2001 and 2002, respectively, increased from 7.3% to 7.6%. Gross profit increased 20.6% to approximately \$88.2 million in the first nine months of 2002 from approximately \$73.1 million in the same period in 2001. Gross profit as a percentage of sales for the nine months ended September 30, 2002 and 2001, respectively, was 7.6% and 7.3%. The increase in gross profit was a result of the combined effect of fluctuations in capacity utilization, higher sales volumes, changes in product mix, favorable component market conditions, cost reductions, and efforts to integrate recent acquisitions. The combined effect of these factors, which are continually changing and are interrelated, make it impracticable to determine with precision the separate effect of each factor. We expect that a number of high volume programs serving customers in price sensitive markets will remain subject to competitive restraints on the margin that may be realized from these programs and that these restraints will exert downward pressure on our margins in the near future. For the foreseeable future, our gross margin is expected to depend primarily on the length and severity of the general slowdown in the technology marketplaces, facility utilization, product mix, start-up of new programs, pricing within the electronics industry, and the integration of acquisitions. The gross margins at each facility and for Benchmark as a whole are expected to continue to fluctuate. Increases in start-up costs associated with new programs and pricing within the electronics industry also could adversely impact our gross margin.

The third quarter 2002 and 2001 gross profit reflects charges related to reserves for excess and obsolete inventory. During the third quarter of 2002 and 2001, \$4.9 million and \$1.4 million of additional inventory reserves were recorded, respectively. These charges related to inventory written down to lower of cost (principally first-in, first-out method) or market, raw materials held specific to customers who were no longer in business, and changes in customer demand for inventory that resulted in excess quantities on hand. Inventory is procured by us based on specific customer orders. Correspondingly, customer modifications to orders for inventory previously procured by us (e.g. cancellations as well as inventory that is highly customized and therefore not available for use by other customers) resulted in excess and obsolete inventory for the related customers that could not be recovered through put back to vendors or the specific customer concerned.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$17.3 million and \$12.6 million in the third quarter of 2002 and 2001, respectively. The increase in selling, general and administrative expenses was the result of merger and acquisition activities, start-up activities for our greenfield operation in Suzhou, China and other volume related expenses. Selling, general and administrative expenses as a percentage of sales decreased from 4.9% for the third quarter of 2001 to 4.0% for the third quarter of 2002. The decrease in selling, general and administrative expenses as a percentage of sales reflects the increase in sales and the impact of facility consolidation and downsizing. Selling, general and administrative expenses were \$47.6 million in the first nine months of 2002, an increase of 14.9% from \$41.4 million for the same period in 2001. Selling, general and administrative expenses as a percentage of sales was 4.1% for first nine months of 2001 and 2002. The increase in selling, general and administrative expenses was the result of merger and acquisition activities, start-up activities for China and other volume related expenses.

Restructuring Charges and Asset Write-offs

During the nine-month period ended September 30, 2002, we recorded asset write-offs of \$1.6 million (\$1.0 million after-tax) for the write-down of long-lived assets held for sale to fair value. Our Pulaski, Tennessee facility is currently held for sale. Our Mansfield, Massachusetts facility was closed during 2001 and we have notified the lessor of our intention to abandon the facility.

During the three and nine-month periods ended September 30, 2001, we recorded restructuring charges of \$0.5 million (\$0.4 million after-tax) and \$5.1 million (\$4.6 million after-tax) related to reductions in our cost structure, including reductions in force and included costs resulting from payment of employee severance, consolidation of facilities and abandonment of leased equipment necessitated by the general slowdown in the technology marketplaces, which affected not only existing customer programs but also the pace of the new program rampings.

In the third quarter of 2001, we recorded asset write-offs of approximately \$61.7 million (\$43.2 million after-tax) for the write-down of long-lived assets to fair value. Included in the long-lived asset impairment are charges of approximately \$28.0 million which related to property, plant and equipment associated with the consolidation and downsizing of certain manufacturing facilities and the write-off of approximately \$33.7 million of the remaining goodwill and other intangibles related to these facilities.

Amortization of Goodwill

Effective January 1, 2002, we adopted accounting principles that change the way we account for amortization of goodwill. In accordance with SFAS No. 142, we no longer amortized goodwill effective January 1, 2002. The amortization of goodwill for the three and nine-month periods ended September 30, 2001 was \$3.2 million and \$9.7 million. We are also required to test goodwill for impairment at least annually. As of September 30, 2002, no impairment of goodwill was required.

Interest Expense

Interest expense for the three and nine-month periods ended September 30, 2002 and 2001 was \$2.9 million and \$8.6 million, respectively, compared to \$3.9 million and \$14.2 million, respectively. The decrease is due to reductions in interest rates and repayments of outstanding debt.

Income Tax Expense

Income tax expense of approximately \$12.8 million represented an effective tax rate of 35.6% for the nine-month period ended September 30, 2002, compared with an effective tax rate of 6.8% for the nine-month period ended September 30, 2001. The increase in the effective tax rate is primarily due to the higher estimated income before income taxes for 2002 in the United States as compared to 2001.

Net Income

We reported net income for the three and nine-month periods ended September 30, 2002 of approximately \$9.6 million and \$23.2 million, or diluted earnings of \$0.38 and \$0.99, compared with net loss of approximately \$(57.0) million and \$(54.0) million, or diluted loss of \$(2.90) and \$(2.75) per share, for the same periods of 2001. The increases of \$66.6 million and \$77.2 million during the three and nine months ended September 30, 2002 were due to the factors discussed above.

LIQUIDITY AND CAPITAL RESOURCES

We have financed our growth and operations through funds generated from operations, proceeds from the sale of our securities and funds borrowed under our credit facilities.

Cash provided by operating activities was \$136.5 million and \$101.3 million for the nine months ended September 30, 2002 and 2001, respectively. The cash provided by operations during the first nine months of 2002 was primarily the result of increases in accounts payable and accrued liabilities and decreases in accounts receivable and inventories, net of effects from acquisitions. Our accounts receivable and inventories at September 30, 2002 decreased, net of effects from acquisitions, \$19.6 million and \$23.8 million, respectively, as compared to their levels at December 31, 2001, reflecting our increased backlog and effective working capital management during the first nine months of 2002. We expect increases in accounts receivable and inventories in the near term to support the anticipated growth in sales. 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. During the nine months ended September 30, 2002 and 2001, our gross profit was adversely effected by additional reserves of \$8.0 million and \$3.8 million, respectively, for excess and obsolete inventory that could not be put back to vendors or customers. 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.

Cash used in investing activities was \$41.8 million and \$19.5 million for the nine months ended September 30, 2002 and 2001, respectively. On July 29, 2002, we acquired the Thailand and

UK operations for \$36.2 million, net of cash acquired. Net capital expenditures of \$5.5 million for the nine months ended September 30, 2002 were primarily concentrated in manufacturing production equipment. We expect capital expenditures to remain below historical levels for the foreseeable future as a result of the general slowdown in the technology marketplaces.

Cash provided by (used in) financing activities was \$89.4 million and \$(79.4) million for the nine months ended September 30, 2002 and 2001, respectively. On April 15, 2002, we completed the public offering of 4,312,500 shares of our common stock for net proceeds of approximately \$110.2 million. We currently expect to use the proceeds from the sale of our common stock for working capital and other general corporate purposes, including to finance our growth, for capital expenditures made in the ordinary course of business and for acquisitions of businesses, products and technologies that complement or expand our business. During the first nine months of 2002, we made principal payments on other long-term debt totaling \$24.4 million and received \$3.5 million from the exercise of stock options and the employee stock purchase plan. During the first nine months of 2001, we decreased borrowings under our revolving line of credit by \$65.5 million (net) and made principal payments on other long-term debt totaling \$14.8 million.

Principal on the term loan is payable in quarterly installments of \$5.0 million and \$5.5 million during 2002 and 2003, respectively. The final three installments of \$7.0 million are due on the last day of March, June and September 2004.

We have a \$175 million revolving line of credit facility with a syndicate of commercial banks. We are entitled to borrow under the revolving credit facility up to the lesser of \$175 million or the sum of 75% of our eligible accounts receivable, 45% of our eligible inventories and 50% of our eligible fixed assets. Interest on the revolving credit facility and the term loan is payable quarterly, at our option, at either the bank's Eurodollar rate plus 1.25% to 3.00% or its prime rate plus 0.00% to 1.75%, based upon our debt ratio as specified in the agreement. A commitment fee of 0.375% to 0.500% per annum on the unused portion of the revolving credit facility is payable quarterly in arrears. The revolving credit facility matures on September 30, 2004. As of September 30, 2002, we had no borrowings outstanding under the revolving credit facility, \$0.4 million outstanding letters of credit and \$174.6 million was available for future borrowings.

The term loan and the revolving credit facility are 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 term loan and revolving credit facility contain customary financial covenants as to working capital, interest coverage, 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, without the consent of the banks. At September 30, 2002, we were in compliance with all such restrictions. In connection with the acquisition of the Thailand and UK facilities that closed on July 29, 2002, the term loan and revolving credit facility were amended to permit the acquisition of these subsidiaries.

Our Thailand subsidiary has a Credit Agreement with Thai Farmers Bank Public Company Limited and Bank of Ayudhya Public Company Limited (the Thai Credit Agreement). The Thai Credit Agreement provides that the lenders will make available to our Thailand subsidiary up to approximately \$53.5 million in revolving loans, term loans and machinery loans for a term of five years. At September 30, 2002, \$17.6 million was outstanding at interest rates ranging from 4.375% to 4.83%. The Thai Credit Agreement is secured by land, buildings and machinery in Thailand. In addition, the Thai Credit Agreement provides for approximately \$1.4 million (60.0 million Thai baht) in working capital availability. At September 30, 2002, \$0.7

million was outstanding. The Thai Credit Agreement contains financial covenants as to debt coverage and the ratio of debt to equity. As of September 30, 2002, our Thailand subsidiary was in compliance with these covenants.

We have outstanding \$80.2 million principal amount of 6% Convertible Subordinated Notes due August 15, 2006. The indenture relating to the notes contains affirmative and negative covenants, including covenants restricting our ability to merge or engage in certain other extraordinary corporate transactions unless certain conditions are satisfied. Upon the occurrence of a change of control (as defined in the indenture relating to the notes) of our company, each holder of notes will have the right to require us to repurchase all or part of the holder's notes at 100% of the face amount thereof, plus accrued and unpaid interest. The notes are convertible into shares of our common stock at an initial conversion price of \$40.20 per share at the option of the holder at any time prior to maturity, unless previously redeemed or repurchased.

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.

Our acquisitions in 1999 significantly increased our leverage ratio and decreased our interest coverage ratio. At September 30, 2002 our debt to total capitalization ratio was 24%. The level of indebtedness, among other things, could make it difficult for us to obtain any necessary financing in the future for other acquisitions, working capital, capital expenditures, debt service requirements and other expenses; limit our flexibility in planning for, or reacting to changes in, our business; and make us more vulnerable in the event of an economic downturn in our business.

Management believes that our existing cash balances, funds generated from operations and available funds under our revolving credit facility will be sufficient to permit us to meet our liquidity requirements.

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, 2001. The preparation of these financial statements requires us to make estimates and judgements 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 judgements 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 judgements and estimates used in the preparation of our condensed 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 reserve 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. The allowance for doubtful accounts was \$9.2 million at September 30, 2002, including acquired reserves of \$3.8 million, and \$2.2 million at December 31, 2001.

Inventory obsolescence reserve

We record inventory reserves for estimated obsolescence equal to the difference between the cost of inventory and estimated market value based on assumptions on future demands and market conditions. We evaluate on a quarterly basis the status of our inventory to ensure the amount recorded in our financial statements reflects the lower of our cost or the value we expect to receive when we sell the inventory. The allowance for excess and obsolete inventory was \$20.6 million at September 30, 2002, including acquired reserves of \$5.4 million, and \$9.0 million at December 31, 2001. If actual market conditions are less favorable than those we projected, additional inventory reserves may be required.

Deferred taxes

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 the future in excess of our net recorded amount, an adjustment to the deferred tax asset 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 asset in the future, an adjustment to the deferred tax asset would reduce income in the period such determination was made.

Impairment of Long-Lived Assets

We adopted FASB SFAS No. 142, "Goodwill and Other Intangible Assets" effective January 1, 2002. Under SFAS No. 142, beginning January 1, 2002, we no longer amortize goodwill and intangible assets with indefinite useful lives, but instead test those assets for impairment at least annually. To accomplish this we identified our reporting units and determined the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of January 1, 2002. We determined the fair value of each reporting unit and compared it to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and we must perform the second step of the transitional impairment test. In the second step, we must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with SFAS No. 141, to its carrying amount, both of which would be measured as of the date of adoption. This second step is required to be completed as soon

as possible, but no later than December 31, 2002. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in our statement of earnings.

We have completed the first step of the transitional goodwill impairment test and have determined that no impairment exists. As a result, we have recognized no transitional impairment loss during the nine months ended September 30, 2002 in connection with the adoption of SFAS 142. There can be no assurance that future goodwill impairment tests will not result in a charge to earnings.

We assess the impairment of our long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important which could trigger an impairment review include significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of our use of the acquired assets or the strategy for the overall business, significant negative industry or economic trends, and our market capitalization relative to net book value. When it is determined that the carrying value of long-lived assets not be recoverable based upon the existence of one or more of the above indicators of impairment, the measurement of any impairment is determined and the carrying value is reduced as appropriate.

RISK FACTORS

We are exposed to general economic conditions, which could have a material adverse impact on our business, operating results and financial condition.

Our business is cyclical and has experienced economic and industry downturns. For example, we started to see sales decline in the technology sector worldwide at the end of the first quarter of 2001 and it continued throughout 2001. If the economic conditions and demand for our customers' products deteriorate or do not improve, we may experience a material adverse impact on our business, operating results and financial condition.

Additionally, as the technology industry conditions continue to erode, some of our customers' credit quality continues to deteriorate. In cases where the evidence suggests a customer may not be able to satisfy its obligation to us, we set up reserves 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 receivable and inventory write-offs may be required.

The loss of a major customer would adversely affect us.

A substantial percentage of our sales have been to a small number of customers, and the loss of a major customer, if not replaced, would adversely affect us. During the nine months ended September 30, 2002, our three largest customers together represented 69.8% of our sales, with one customer exceeding 50%. 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.

We expect to continue to depend on the sales from our largest customers and any material delay, cancellation or reduction of orders from these or other significant customers would have a material adverse effect on our results of operations. In addition, we generate significant accounts

receivable in connection with providing manufacturing services to our customers. If one or more of our customers were to become insolvent or otherwise unable to pay for the manufacturing services provided by us, our operating results and financial condition would be adversely affected.

We may encounter significant delays or defaults in payments owed to us by customers for products we have manufactured or components that are unique to particular customers.

We structure our agreements with customers to mitigate our risks related to obsolete or unsold inventory. However, enforcement of these contracts may result in material expense and delay in payment for inventory. If any of our significant customers becomes unable or unwilling to purchase such inventory, our business may be materially harmed. During the first nine months of 2002, our gross profit was adversely affected by the write-down of \$8.0 million in excess and obsolete inventory that could not be put back to vendors or customers.

We are dependent on the success of our customers.

We are dependent on the continued growth, viability and financial stability of our customers. Our customers are original equipment manufacturers of:

- computers and related products for business enterprises;
- telecommunication equipment;
- industrial control equipment;
- medical devices;
- video/audio/entertainment products; and
- testing and instrumentation products.

These industries are, to a varying extent, subject to rapid technological change, vigorous competition and short product life cycles. When our customers are adversely affected by these factors, we may be similarly affected. Recently, our customers have experienced a decline in demand for their products, which has had an adverse effect on our results of operations.

Long-term contracts are unusual in our business and cancellations, reductions or delays in customer orders would affect our profitability.

We do not typically obtain firm long-term purchase orders or commitments from our customers. Instead, we work closely with our customers to develop forecasts for future orders, which are not binding. Customers may cancel their orders, change production quantities from forecast volumes or delay production for a number of reasons beyond our control. Cancellations, reductions or delays by a significant customer or by a group of customers would have an adverse effect on us. As many of our costs and operating expenses are relatively fixed, a reduction in customer demand can disproportionately affect our gross margins and operating income. Our customer's products have life cycles of varying duration. In the ordinary course of business, production starts, increases, declines and stops in accordance with a product's life cycle. Should we fail to replace products reaching the end of their life cycles with new programs, or if there should be a substantial time difference between the loss of a product and the receipt of revenue from replacement production, our revenues could be adversely affected.

We operate in a highly competitive industry.

We compete against many providers of electronics manufacturing services. Certain of our competitors have substantially greater resources and more geographically diversified international operations than we do. Our competitors include large independent manufacturers such as Celestica, Inc., Flextronics International Ltd., Jabil Circuit, Inc, Sanmina-SCI Corporation and Solectron Corporation. We also face competition from the manufacturing operations of our current and future customers.

During periods of recession in the electronics industry, our competitive advantages in the areas of quick turnaround manufacturing and responsive customer service may be of reduced importance to electronics OEMs, who may become more price sensitive. We may also be at a competitive disadvantage with respect to price when compared to manufacturers with lower cost structures, particularly those with offshore facilities located where labor and other costs are lower.

We will experience intense competition, which is expected to intensify further as more companies enter markets in which we operate, as existing competitors expand capacity and as the industry consolidates. To compete effectively, we must continue to provide technologically advanced manufacturing services, maintain strict quality standards, respond flexibly and rapidly to customers' design and schedule changes and deliver products globally on a reliable basis at competitive prices. Our inability to do so could have an adverse effect on us.

We may be affected by consolidation in the electronics industry.

As a result of the current economic climate, consolidation in the electronics industry may increase. Consolidation in the electronics industry could result in an increase in excess manufacturing capacity as companies seek to close plants or take other steps to increase efficiencies and realize synergies of mergers. The availability of excess manufacturing capacity could create increased pricing and competitive pressures for the electronics manufacturing services industry as a whole and Benchmark in particular. In addition, consolidation could also result in an increasing number of very large electronics companies offering products in multiple sectors of the electronics industry. The growth of these large companies, with significant purchasing power and market power, could also result in increased pricing and competitive pressures for us. Accordingly, industry consolidation could harm our business.

Our international operations may be subject to certain risks.

We currently operate outside the United States in Brazil, England, Ireland, Mexico, Singapore, Thailand and the United Kingdom. During the nine months ended September 30, 2002 and 2001, 19.8% and 22.4%, respectively, of our sales were from our international operations. These international operations may be subject to a number of risks, including:

- difficulties in staffing and managing foreign operations;
- political and economic instability;
- unexpected changes in regulatory requirements and laws;
- longer customer payment cycles and difficulty collecting accounts receivable;
- export duties, import controls and trade barriers (including quotas);
- governmental restrictions on the transfer of funds;
- burdens of complying with a wide variety of foreign laws and labor practices;
- fluctuations in currency exchange rates, which could affect component costs, local payroll, utility and other expenses; and

- inability to utilize net operating losses incurred by our foreign operations to reduce our U.S. income taxes.

We cannot assure you that our international operations will contribute positively to our business, financial conditions or results of operations.

Shortages or price increases of components specified by our customers would delay shipments and adversely affect our profitability.

Substantially all of our sales are derived from electronics manufacturing services in which we purchase components specified by our customers. In the past, supply shortages have substantially curtailed production of all assemblies using a particular component. In addition, industry-wide shortages of electronic components, particularly of memory and logic devices, have occurred. If shortages of these components occur or if components received are defective, we may be forced to delay shipments, which could have an adverse effect on our profit margins. Because of the continued increase in demand for surface mount components, we anticipate component shortages and longer lead times for certain components to occur from time to time. Also, we typically bear the risk of component price increases that occur between periodic repricings during the term of a customer contract. Accordingly, certain component price increases could adversely affect our gross profit margins.

Our success will continue to depend to a significant extent on our executives.

We depend significantly on certain key executives, including, but not limited to, Donald E. Nigbor, Cary T. Fu, Gayla J. Delly, and Steven A. Barton. The unexpected loss of the services of any one of these executive officers would have an adverse effect on us.

We must successfully integrate the operations of acquired companies to maintain profitability.

We have completed seven acquisitions since July 1996. We may pursue additional acquisitions over time. These acquisitions involve risks, including:

- integration and management of the operations;
- retention of key personnel;
- integration of purchasing operations and information systems;
- retention of the customer base of acquired businesses;
- management of an increasingly larger and more geographically disparate business; and
- diversion of management's attention from other ongoing business concerns.

Our profitability will suffer if we are unable to successfully integrate and manage any future acquisitions that we might pursue, or if we do not achieve sufficient revenue to offset the increased expenses associated with these acquisitions.

We must maintain our technological and manufacturing process expertise.

The market for our manufacturing services is characterized by rapidly changing technology and continuing process development. We are continually evaluating the advantages and feasibility of new manufacturing processes. We believe that our future success will depend upon our ability to develop and provide manufacturing services which meet our customers' changing needs. This requires that we maintain technological leadership and successfully anticipate or respond to technological changes in manufacturing processes on a cost-effective and timely basis. We cannot assure you that our process development efforts will be successful.

Environmental laws may expose us to financial liability and restrictions on operations.

We are subject to a variety of federal, state, local and foreign environmental laws and regulations relating to environmental, waste management, and health and safety concerns, including the handling, storage, discharge and disposal of hazardous materials used in or derived from our manufacturing processes. If we or companies we acquire have failed or fail in the future to comply with such laws and regulations, then we could incur liabilities and fines and our operations could be suspended. Such laws and regulations could also restrict our ability to modify or expand our facilities, could require us to acquire costly equipment, or could impose other significant expenditures. In addition, our operations may give rise to claims of property contamination or human exposure to hazardous chemicals or conditions.

Our acquisitions have significantly increased our leverage.

Our acquisitions in 1999 have significantly increased our leverage ratio and decreased our interest coverage ratio. At September 30, 2002 our debt to total capitalization ratio was 24%. The level of our indebtedness, among other things, could:

- make it difficult for us to obtain any necessary financing in the future for other acquisitions, working capital, capital expenditures, debt service requirements or other purposes;
- limit our flexibility in planning for, or reacting to changes in, our business; and
- make us more vulnerable in the event of a downturn in our business.

There can be no assurance that we will be able to meet our debt service obligations.

Provisions in our charter documents and state law may make it harder for others to obtain control of Benchmark even though some shareholders might consider such a development to be favorable.

Our shareholder rights plan, provisions of our amended and restated articles of incorporation and the Texas Business Corporation Act may delay, inhibit or prevent someone from gaining control of Benchmark through a tender offer, business combination, proxy contest or some other method. These provisions include:

- a "poison pill" shareholder rights plan;
- a statutory restriction on the ability of shareholders to take action by less than unanimous written consent; and
- a statutory restriction on business combinations with some types of interested shareholders.

We may experience fluctuations in quarterly results.

Our quarterly results may vary significantly depending on various factors, many of which are beyond our control. These factors include:

- the volume of customer orders relative to our capacity;
- customer introduction and market acceptance of new products;
- changes in demand for customer products;
- the timing of our expenditures in anticipation of future orders;
- our effectiveness in managing manufacturing processes;
- changes in cost and availability of labor and components;
- changes in our product mix;
- changes in economic conditions; and
- local factors and events that may affect our production volume, such as local holidays.

Additionally, as is the case with many high technology companies, a significant portion of our shipments typically occurs in the last few weeks of a quarter. As a result, our sales may shift from one quarter to the next, having a significant effect on reported results.

Our stock price is volatile.

Our common stock has experienced significant price volatility, and such volatility may continue in the future. The price of our common stock could fluctuate widely in response to a range of factors, including variations in our reported financial results and changing conditions in the economy in general or in our industry in particular. In addition, stock markets generally experience significant price and volume volatility from time to time which may affect the market price of our common stock for reasons unrelated to our performance.

We are exposed to interest rate fluctuations.

We have exposure to interest rate risk under our variable rate revolving credit and term loan facilities. These facilities are based on the spread over the bank's Eurodollar rate or its prime rate. We currently have an interest rate swap transaction agreement for a notional amount of \$24.0 million under which we pay a fixed rate of interest of 6.63%, plus 1.25% to 3.00% based upon our debt ratio as specified in the debt agreement, hedging against the variable interest rates charged by the term loan. The receive rate under the swap is based on LIBOR. The interest rate swap expires in the year 2003.

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

We have exposure to interest rate risk under our variable rate revolving credit and term loan facilities. The interest rates payable under these facilities are based on a spread, which varies based upon our debt ratio, over the bank's Eurodollar rate or its prime rate, which vary with market rates. Inflation and changing prices have not significantly affected our operating results or the markets in which we perform services.

We currently have an interest rate swap transaction agreement for a notional amount of \$24.0 million under which we pay a fixed rate of interest of 6.63%, plus 1.25% to 3.00% based upon our debt ratio as specified in the debt agreement, hedging against the variable interest rates charged by the term loan. The interest rate swap expires in the year 2003. The receive rate under the swap is based on LIBOR.

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. Our policy is to maintain a hedged position for certain significant transaction exposures. These exposures are primarily, but not limited to, vendor payments and inter-company balances in currencies other than the functional currency of the operating entity. 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. Certain significant transactions involving our international operations may now require us to engage in hedging transactions to attempt to mitigate our exposure to fluctuations in foreign exchange rates. Our primary foreign currency cash flows are in certain European countries, Brazil, and Singapore. Effective Jan. 1, 2001, we adopted the provisions of the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Certain Hedging Activities" and SFAS No. 138, "Accounting for Derivative Instruments and Certain Hedging Activities, an Amendment of SFAS 133".

Item 4 – Controls and Procedures

(a) Evaluation of disclosure controls and procedures

Our principal executive officer and principal financial officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of a date within 90 days of the filing date of this Quarterly Report on Form 10-Q. Based on such evaluation, they have concluded that as of such date, our disclosure controls and procedures are effective.

(b) Changes in internal controls

There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of evaluation by our principal executive officer and principal financial officer. There were no corrective actions with regard to significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION

Item 1 – Legal Proceedings

On October 18, 1999, we announced that our third quarter 1999 earnings announcement would be delayed and subsequently, on October 22, we announced our earnings for the third quarter 1999 were below the level of the same periods during 1998 and were below expectations. Several class action lawsuits were filed in federal district court in Houston, Texas against Benchmark and two of its officers and directors alleging violations of the federal securities laws. These lawsuits were consolidated in February 2000. The lawsuits seek to recover unspecified damages. We deny the allegations in the lawsuits, however, and further deny that such allegations provide a basis for recovery of damages as we believe that we have made all required disclosures on a timely basis. On August 16, 2002, the federal district court in Houston, Texas entered its order granting Benchmark's motion to dismiss the consolidated lawsuits, and dismissing the lawsuits without prejudice.

Benchmark filed suit against J. M. Huber Corporation (Seller) in the United States District Court for the Southern District of Texas for breach of contract, fraud and negligent misrepresentation on December 14, 1999 and is seeking an unspecified amount of damages in connection with the contract between Benchmark and Seller pursuant to which Benchmark acquired all of the stock of AVEX and Kilbride Holdings B.V. On January 5, 2000, Seller filed suit in the United States District Court for the Southern District of New York alleging that Benchmark failed to comply with certain obligations under the contract requiring Benchmark to register shares of its common stock issued to Seller as partial consideration for the acquisition. Seller's suit has been consolidated with Benchmark's suit in the United States District Court for the Southern District of Texas (the "Court"). On March 18, 2002, the Court entered an interlocutory judgement denying our claims against Seller, but preserving Seller's counterclaims against Benchmark. On April 15, 2002, Benchmark and Seller jointly filed with the Court a stipulation to dismiss Seller's claims and counterclaims against Benchmark without prejudice allowing the Court to render a final judgement in the case so that Benchmark may file an appeal to the Fifth Circuit Court of Appeals (the "Fifth Circuit"). Under the stipulation, Seller also agreed to refrain from refileing its claims while Benchmark pursued any appeals with the Fifth Circuit. On May 1, 2002, the Court entered a final judgement dismissing without prejudice the claims and counterclaims of Seller. On May 29, 2002, Benchmark filed a notice of appeal of the Court's final judgment to the Fifth Circuit, and on August 7, 2002, Benchmark filed its appellate brief with the Fifth Circuit. On October 10, 2002, Huber filed its appellee brief with the Fifth Circuit, and on October 25, 2002, Benchmark filed a reply brief to Huber's appellee brief. Oral arguments before the Fifth Circuit have not yet been scheduled.

On April 14, 2000, Benchmark, along with numerous other companies, was named as a defendant in a lawsuit filed in the United States District Court for the District of Arizona by the Lemelson Medical, Education & Research Foundation (the Foundation). The lawsuit alleges that Benchmark has infringed certain of the Foundation's patents relating to machine vision and bar code technology utilized in machines Benchmark has purchased. On November 2, 2000, Benchmark filed an Answer, Affirmative Defenses, and a Motion to Stay based upon Declaratory Judgement Actions filed by Cognex and Symbol, manufacturers of the equipment at issue. On March 29, 2001, the Court granted the defendants' Motion to Stay and ordered that the lawsuit be stayed pending the entry of a final non-appealable judgement in the cases filed by Cognex and Symbol. We continue to explore any indemnity or similar rights Benchmark may have against manufacturers of the machines or other third parties. Management intends to vigorously defend against such claim and pursue all rights it has against third parties.

Benchmark is also involved in various other 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 Benchmark's consolidated financial position or results of operations.

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

(a) - (c) At the Special Meeting of Shareholders held on August 13, 2002, the amendment to increase the number of authorized shares of common stock, par value \$.10 per share from 30 million to 85 million was approved.

With respect to the amendment to increase the number of authorized shares of common stock, par value \$.10 per share from 30 million to 85 million, the voting was as follows:

<u>For</u>	<u>Against</u>	<u>Abstain</u>	<u>Non-Vote</u>
16,440,252	3,599,203	17,690	-0-

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits.

10.1 ACT Manufacturing (Thailand) Public Company Limited Credit Facilities Agreement

99.1 Certification by Chief Executive Officer

99.2 Certification by Chief Financial Officer

(b) During the quarterly period ended September 30, 2002, the Company filed the following Current Reports on Form 8-K:

Current Report on Form 8-K dated July 2, 2002, disclosing the signing of the Stock Purchase Agreement relating to the acquisition of stock of ACT Manufacturing (Thailand) Public Company Limited ("ACT Thailand") and ACT Manufacturing UK Ltd. ("ACT UK") under Item 5 and the related press release under Item 7.

Current Report on Form 8-K dated July 18, 2002, disclosing the Company's earnings press release for the quarter ended June 30, 2002 and the Company's greenfield operations in Suzhou, China under Item 5 and the related press release under Item 7.

Current Report on Form 8-K dated July 29, 2002, disclosing the Company's acquisition of the stock of ACT Thailand and ACT UK under Items 2 and 7.

Current Report on Form 8-K dated August 13, 2002, disclosing the sworn statements of the Company's chief executive officer and chief financial officer under Items 9 and 7.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on November 14, 2002.

BENCHMARK ELECTRONICS, INC.
(Registrant)

By: /s/ Donald E. Nigbor
Donald E. Nigbor
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Gayla J. Delly
Gayla J. Delly
Chief Financial Officer
(Principal Financial Officer)

CERTIFICATIONS

I, Donald E. Nigbor, Chairman and Chief Executive Officer of Benchmark Electronics, Inc. (the "Registrant") certify that:

1. I have reviewed this quarterly report on Form 10-Q of Benchmark Electronics, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and
6. The Registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By: /s/ Donald E. Nigbor
Donald E. Nigbor
Chief Executive Officer
November 14, 2002

I, Gayla J. Delly, Chief Financial Officer of Benchmark Electronics, Inc. (the “Registrant”) certify that:

1. I have reviewed this quarterly report on Form 10-Q of Benchmark Electronics, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. evaluated the effectiveness of the registrant’s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the “Evaluation Date”); and
 - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation, to the Registrant’s auditors and the audit committee of Registrant’s board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant’s ability to record, process, summarize and report financial data and have identified for the Registrant’s auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal controls; and
6. The Registrant’s other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By: /s/ Gayla J. Delly
Gayla J. Delly
Chief Financial Officer
November 14, 2002

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
10.1	ACT Manufacturing (Thailand) Public Company Limited Credit Facilities Agreement
99.1	Certification of Chief Executive Officer
99.2	Certification of Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Benchmark Electronics, Inc. (the “Company”) on Form 10-Q for the period ending September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Donald E. Nigbor, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Donald E. Nigbor
Chief Executive Officer
November 14, 2002

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Benchmark Electronics, Inc. (the “Company”) on Form 10-Q for the period ending September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Gayla J. Delly, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Gayla J. Delly
Chief Financial Officer
November 14, 2002