

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, 2003.

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

As of November 7, 2003 there were 27,111,684 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)

	<b>September 30, 2003</b>	<b>December 31, 2002</b>
	<b>(unaudited)</b>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$328,787	\$312,576
Accounts receivable, net of allowance for doubtful accounts of \$11,280 and \$5,764, respectively	203,027	178,957
Inventories, net	208,635	195,670
Prepaid expenses and other assets	17,135	13,656
Deferred tax asset	3,976	7,473
Total current assets	<u>761,560</u>	<u>708,332</u>
Property, plant and equipment	237,500	241,443
Accumulated depreciation	<u>(155,645)</u>	<u>(147,403)</u>
Net property, plant and equipment	81,855	94,040
Goodwill, net	114,504	119,823
Other, net	<u>7,950</u>	<u>10,056</u>
	<u>\$965,869</u>	<u>\$932,251</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Current installments of other long-term debt	\$ 26,516	\$ 28,628
Accounts payable	225,922	212,938
Income taxes payable	12,028	6,407
Accrued liabilities	54,929	67,986
Total current liabilities	<u>319,395</u>	<u>315,959</u>
Convertible subordinated notes	-	80,200
Other long-term debt, excluding current installments	16	28,339
Other long-term liability	2,993	2,946
Deferred tax liability	3,791	5,777
Shareholders' equity:		
Preferred shares, \$0.10 par value; 5,000 shares authorized, none issued	-	-
Common shares, \$0.10 par value; 85,000 shares authorized; issued – 40,473 and 36,605, respectively; outstanding – 40,400 and 36,531, respectively	4,040	3,653
Additional paid-in capital	528,976	434,658
Retained earnings	122,283	80,256
Accumulated other comprehensive loss	(15,445)	(19,357)
Less treasury shares, at cost; 74 shares	<u>(180)</u>	<u>(180)</u>
Total shareholders' equity	639,674	499,030
Commitments and contingencies		
	<u>\$965,869</u>	<u>\$932,251</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)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b><u>2003</u></b>	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2002</u></b>
Sales	\$455,352	\$428,278	\$1,352,770	\$1,161,841
Cost of sales	<u>418,382</u>	<u>395,767</u>	<u>1,243,271</u>	<u>1,073,653</u>
Gross profit	36,970	32,511	109,499	88,188
Selling, general and administrative expenses	16,330	17,268	49,244	47,566
Contract settlement	-	-	(8,108)	-
Asset write-offs	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,608</u>
Income from operations	20,640	15,243	68,363	39,014
Interest expense	(1,976)	(2,886)	(6,895)	(8,577)
Other income	<u>967</u>	<u>2,364</u>	<u>1,635</u>	<u>5,543</u>
Income before income taxes	19,631	14,721	63,103	35,980
Income tax expense	<u>6,687</u>	<u>5,138</u>	<u>21,076</u>	<u>12,791</u>
Net income	<u>\$ 12,944</u>	<u>\$ 9,583</u>	<u>\$ 42,027</u>	<u>\$ 23,189</u>
Earnings per share (see note 1):				
Basic	<u>\$ 0.34</u>	<u>\$ 0.26</u>	<u>\$ 1.13</u>	<u>\$ 0.69</u>
Diluted	<u>\$ 0.32</u>	<u>\$ 0.26</u>	<u>\$ 1.08</u>	<u>\$ 0.66</u>
Weighted average number of shares outstanding (see note 1):				
Basic	<u>38,074</u>	<u>36,369</u>	<u>37,273</u>	<u>33,848</u>
Diluted	<u>41,660</u>	<u>37,386</u>	<u>41,014</u>	<u>35,067</u>

See accompanying notes to condensed consolidated financial statements.

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

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b><u>2003</u></b>	<b><u>2002</u></b>
Cash flows from operating activities:		
Net income	\$ 42,027	\$ 23,189
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,959	23,703
Asset write-offs	-	1,608
Deferred income taxes	1,219	5,215
(Gain) loss on the sale of property, plant and equipment	(110)	73
Non-cash interest expense on convertible subordinated notes	307	-
Federal tax benefit of stock options exercised	2,914	912
Changes in operating assets and liabilities:		
Accounts receivable	(19,820)	19,579
Inventories	(9,310)	23,818
Prepaid expenses and other assets	(3,580)	(2,748)
Accounts payable	12,653	25,415
Accrued liabilities	(12,067)	18,708
Income taxes	<u>5,621</u>	<u>(3,005)</u>
Net cash provided by operations	<u>41,813</u>	<u>136,467</u>
Cash flows from investing activities:		
Acquisitions	-	(36,172)
Capital expenditures, net	(8,422)	(5,501)
Additions to capitalized software	<u>(611)</u>	<u>(173)</u>
Net cash used in investing activities	<u>(9,033)</u>	<u>(41,846)</u>
Cash flows from financing activities:		
Proceeds from stock options exercised	11,071	2,898
Proceeds from employee stock purchase plan	686	613
Net proceeds from public offering of common stock	-	110,270
Principal payments on other long-term debt	<u>(30,437)</u>	<u>(24,383)</u>
Net cash provided by (used in) financing activities	<u>(18,680)</u>	<u>89,398</u>
Effect of exchange rate changes	<u>2,111</u>	<u>(6,277)</u>
Net increase in cash and cash equivalents	16,211	177,742
Cash and cash equivalents at beginning of year	<u>312,576</u>	<u>59,879</u>
Cash and cash equivalents at September 30	<u>\$328,787</u>	<u>\$237,621</u>
Supplemental disclosures of cash flow information:		
Net income taxes paid	<u>\$ 11,408</u>	<u>\$ 8,510</u>
Interest paid	<u>\$ 7,827</u>	<u>\$ 8,576</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 in the business of manufacturing electronics and provides services to original equipment manufacturers (OEMs) of computers and related products for business enterprises, medical devices, industrial control equipment, testing and instrumentation products, and telecommunication equipment. The Company has manufacturing operations located in the Americas, 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, 2002.

On October 22, 2003, the Board of Directors declared a three-for-two stock split effected in the form of a stock dividend payable on November 13, 2003, to shareholders of record as of November 6, 2003. Shareholders' equity has been restated to give retroactive recognition to the stock split in prior periods by reclassifying from additional paid-in capital to common stock the par value of the additional shares arising from the split. All share and per share data appearing in these condensed consolidated financial statements and notes thereto have been retroactively adjusted for the stock split.

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in accordance with generally accepted accounting principles. Actual results could differ from those estimates.

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

**Note 2 – Accounting for Stock-Based Compensation**

The Company applies the intrinsic-value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations including Financial Accounting Standards Board (FASB) Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB Opinion No. 25", issued in March 2000, to account for its stock option plans and its Employee Stock Purchase Plan. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation", established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic-value-based method of accounting described above, and

has adopted only the disclosure requirements of SFAS No. 123. The following table illustrates the effect on net income if the fair-value-based method had been applied to all outstanding and unvested awards in each period.

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2003</b>	<b>September 30, 2002</b>	<b>September 30, 2003</b>	<b>September 30, 2002</b>
Net income, as reported	\$ 12,944	\$ 9,583	\$ 42,027	\$ 23,189
Deduct total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	<u>(316)</u>	<u>(701)</u>	<u>(1,334)</u>	<u>(2,159)</u>
Net income, as adjusted	<u>\$ 12,628</u>	<u>\$ 8,882</u>	<u>\$ 40,693</u>	<u>\$ 21,030</u>
Earnings per share:				
Basic, as reported	\$0.34	\$0.26	\$1.13	\$0.69
Basic, as adjusted	\$0.33	\$0.24	\$1.09	\$0.62
Diluted, as reported	\$0.32	\$0.26	\$1.08	\$0.66
Diluted, as adjusted	\$0.31	\$0.24	\$1.05	\$0.60

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2002 and 2003, respectively: dividend yield of zero in each year; expected volatility of 55% in each year; assumed annual forfeiture rate of 21% in each year; risk-free interest rates of 4.48% and 2.92%; and expected lives of four years for both 2002 and 2003. These pro forma results may not be indicative of the future results for the full fiscal year due to potential grants vesting and other factors.

### **Note 3 – Acquisition**

On July 29, 2002, the Company completed the 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. 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 allocation of the net purchase price of the Acquisition resulted in goodwill of approximately \$0.5 million.

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 nine months ended September 30, 2002 (unaudited) was as follows:

	<u>(in thousands, except per share data)</u>
Net sales	\$1,265,968
Gross profit	96,018
Income from operations	43,204
Net income	\$ 26,680
Earnings per share:	
Basic	\$ 0.79
Diluted	\$ 0.76
Weighted average number of shares outstanding:	
Basic	33,848
Diluted	35,067

#### **Note 4 – Earnings Per Share**

Basic earnings per share is computed using the weighted average number of shares outstanding. Diluted earnings per share is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding stock equivalents during the three and nine months ended September 30, 2003 and 2002. Stock equivalents include common shares issuable upon the exercise of stock options and other equity instruments, and are computed using the treasury stock method. Earnings per share data were computed as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b><u>2003</u></b>	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2002</u></b>
Numerator for basic earnings per share - net income	\$ 12,944	\$ 9,583	\$42,027	\$23,189
Interest expense on 6% convertible debt, net of tax	<u>570</u>	<u>-</u>	<u>2,187</u>	<u>-</u>
Numerator for diluted earnings per share	<u>\$13,514</u>	<u>\$ 9,583</u>	<u>\$44,214</u>	<u>\$23,189</u>
Denominator for basic earnings per share - weighted average number of common shares outstanding during the period	38,074	36,369	37,273	33,848
Incremental common shares attributable to exercise of outstanding dilutive options	1,439	1,017	1,035	1,219
Incremental common shares attributable to conversion of 6% convertible debt	<u>2,147</u>	<u>-</u>	<u>2,706</u>	<u>-</u>
Denominator for diluted earnings per share	<u>41,660</u>	<u>37,386</u>	<u>41,014</u>	<u>35,067</u>
Basic earnings per share	<u>\$ 0.34</u>	<u>\$ 0.26</u>	<u>\$ 1.13</u>	<u>\$ 0.69</u>
Diluted earnings per share	<u>\$ 0.32</u>	<u>\$ 0.26</u>	<u>\$ 1.08</u>	<u>\$ 0.66</u>

Options to purchase 0.5 million shares of common stock for the nine months ended September 30, 2003 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 for the period. Options to purchase 1.0 million and 1.2 million shares of common stock for the three and nine months 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 for the applicable period. The calculation for the three and nine months ended September 30, 2002 did not include the 2.9925 million shares issuable upon conversion of the 6% Convertible Subordinated Notes as the effect would have been antidilutive.

## Note 5 – Goodwill

Goodwill associated with each of the Company's business segments and changes in those amounts during the three and nine-month periods ended September 30, 2003 were as follows:

	<u>Americas</u>	<u>Europe</u>	<u>Asia</u>	<u>Total</u>
Goodwill, June 30, 2003	\$107,832	\$ 2,186	\$ 6,725	\$116,743
Final purchase accounting adjustment	—	(2,209)	(50)	(2,259)
Currency translation adjustment	(3)	23	—	20
Goodwill, September 30, 2003	<u>\$107,829</u>	<u>\$ —</u>	<u>\$ 6,675</u>	<u>\$114,504</u>
Goodwill, December 31, 2002	\$107,854	\$ 2,126	\$ 9,843	\$119,823
Final purchase accounting adjustment	—	(2,209)	(3,168)	(5,377)
Currency translation adjustment	(25)	83	—	58
Goodwill, September 30, 2003	<u>\$ 107,829</u>	<u>\$ —</u>	<u>\$ 6,675</u>	<u>\$114,504</u>

## Note 6 – 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 \$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 is payable quarterly. The Term Loan matures on September 30, 2004. As of September 30, 2003, the Company had \$26.5 million outstanding under the Term Loan, bearing interest at rates ranging from 2.37% to 7.88%.

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, 2003, the

Company had no borrowings outstanding under the Revolving Credit Facility, \$0.4 million in 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, 2003, 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 through September 2006. On April 1, 2003, the Company's Thailand subsidiary repaid all amounts outstanding under the Thai Credit Agreement. 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, 2003, the Company's Thailand subsidiary had no working capital borrowings outstanding.

During the third quarter, the Company called its outstanding 6% Convertible Subordinated Notes due August 15, 2006 (the Notes) for redemption. All of the Notes were converted, at the holders' option, into approximately 3.0 million shares of the Company's common stock on September 5, 2003, net of related interest and deferred financing costs.

The Company currently has an interest rate swap agreement for a notional amount of \$13.3 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 on December 31, 2003.

## Note 7 - Inventories

Inventory costs are summarized as follows:

	<b>September 30, <u>2003</u></b>	<b>December 31, <u>2002</u></b>
Raw materials	\$156,321	\$148,399
Work in process	42,082	36,490
Finished goods	30,568	27,962
Obsolescence reserve	<u>(20,336)</u>	<u>(17,181)</u>
	<u>\$208,635</u>	<u>\$195,670</u>

## Note 8 - Income Taxes

Income tax expense consists of the following:

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b><u>2003</u></b>	<b><u>2002</u></b>
Federal – Current	\$ 18,137	\$ 7,338
Foreign – Current	(1,099)	(297)
State – Current	2,819	535
Deferred	<u>1,219</u>	<u>5,215</u>
Total	<u>\$ 21,076</u>	<u>\$ 12,791</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, the U.S. tax benefit on export sales and tax-exempt interest income.

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 subject to 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, 2003 is approximately \$37 and \$113, respectively, lower than the amount computed by applying the statutory tax rate (12.5% in 2003). Income tax expense for the three and nine-month periods ended September 30, 2002 is approximately \$0.1 million and \$0.5 million, respectively, lower than the amount computed by applying the statutory tax rate (16% in 2002).

## **Note 9 – Derivative Instruments and Certain Hedging Activities**

Effective January 1, 2001, the Company adopted 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 enters into interest rate swap agreements to reduce its exposure to market risks from changing interest rates. The Company has designated its swap agreement as a cash flow hedge. During the three and nine-month periods ended September 30, 2003, the Company recognized \$226 and \$760 in losses, respectively, included in interest expense, on the interest rate swap agreement attributable to the interest rate changes occurring during the first nine months of 2003. During the three and nine-month periods ended September 30, 2002, the Company recognized \$330 and \$1,030 in losses, respectively, included in interest expense, on the interest rate swap agreement attributable to the interest rate changes occurring during the first nine months of 2002. No gain or loss on ineffectiveness was required to be recognized during 2003 or 2002. As of September 30, 2003, the fair value of the interest rate swap agreement was a loss of \$0.2 million that is anticipated to be recognized in earnings during the fourth quarter of 2003.

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 applicable interest rates underlying the Company’s variable rate Facility.

## **Note 10 - Business Segments and Geographic Areas**

The Company has 16 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 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. 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, 2003 and 2002 was as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Net sales:				
Americas	\$ 441,657	\$422,765	\$ 1,313,123	\$ 1,185,235
Europe	70,382	85,129	237,974	260,303
Asia	62,614	36,437	173,977	43,631
Elimination of intersegment sales	<u>(119,301)</u>	<u>(116,053)</u>	<u>(372,304)</u>	<u>(327,328)</u>
	<u>\$ 455,352</u>	<u>\$428,278</u>	<u>\$ 1,352,770</u>	<u>\$ 1,161,841</u>
Depreciation and amortization:				
Americas	\$ 5,057	\$ 6,216	\$ 15,858	\$ 20,037
Europe	665	795	2,081	2,420
Asia	1,416	906	4,020	1,246
	<u>\$ 7,138</u>	<u>\$ 7,917</u>	<u>\$ 21,959</u>	<u>\$ 23,703</u>
Income from operations:				
Americas	\$ 24,530	\$ 22,031	\$ 83,266	\$ 54,337
Europe	(822)	(1,309)	(6,118)	2,323
Asia	3,822	786	5,649	518
Corporate and intersegment eliminations	<u>(6,890)</u>	<u>(6,265)</u>	<u>(14,434)</u>	<u>(18,164)</u>
	<u>\$ 20,640</u>	<u>\$ 15,243</u>	<u>\$ 68,363</u>	<u>\$ 39,014</u>
Capital expenditures, net:				
Americas	\$ 2,294	\$ 903	\$ 3,711	\$ 3,684
Europe	36	159	149	466
Asia	2,673	496	4,562	1,351
	<u>\$ 5,003</u>	<u>\$ 1,558</u>	<u>\$ 8,422</u>	<u>\$ 5,501</u>
	<b>September 30,</b>		<b>December 31,</b>	
	<b>2003</b>		<b>2002</b>	
Total assets:				
Americas	\$ 757,948		\$ 705,990	
Europe	79,438		99,735	
Asia	121,485		111,586	
Corporate	6,998		14,940	
	<u>\$ 965,869</u>		<u>\$ 932,251</u>	



## **Note 12 – Contingencies**

The Company filed a lawsuit 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. The Company 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 Electronics, Inc. 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 judgment denying the Company's claims against Seller, but preserving Seller's counterclaims against the Company. On May 1, 2002, the Court entered a final judgment 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 Court of Appeals (the Fifth Circuit). On August 20, 2003, the Fifth Circuit vacated the Court's judgment and remanded the case back to the Court for further proceedings consistent with the Fifth Circuit's written opinion. On September 2, 2003, Seller filed a Petition for Rehearing En Banc with the Fifth Circuit. On September 12, 2003, the Company filed its response to Seller's Petition for Rehearing En Banc. The Company intends to vigorously pursue its claims against Seller and defend against Seller's allegations.

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 Judgment 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 Symbol/Cognex case). The bench trial for the Symbol/Cognex case began on November 18, 2002 and concluded on January 17, 2003. The post-trial briefings of the parties in the Symbol/Cognex case were filed with the trial court on June 30, 2003. The decision of the trial court on the Symbol/Cognex case is expected to be issued some time before the end of 2003. The Company intends to vigorously defend against such claims 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 13 – Contract Settlement**

During the first quarter of 2003, the Company settled and released various claims arising out of customer manufacturing agreements. In connection with the settlement of these claims, the Company recorded a non-cash gain totaling \$8.1 million.

## **Note 14 – Impact of Recently Issued Accounting Standards**

In June 2001, the FASB issued SFAS No. 143, “Accounting for Asset Retirement Obligations.” SFAS No. 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The Company also records a corresponding asset which is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Company adopted the requirements of SFAS No. 143 as of January 1, 2003. The adoption of SFAS No. 143 did not have a material effect on the Company’s consolidated financial statements.

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 initiated after December 31, 2002. The Company adopted SFAS No. 146 on January 1, 2003. The adoption of SFAS No. 146 did not have a material impact on the Company’s financial position, results of operations or cash flows.

In November 2002, the FASB issued Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34.” This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002. The adoption of Interpretation No. 45 did not have a material effect on the Company’s financial statements.

In November 2002, the Emerging Issues Task Force (EITF) of the FASB reached a consensus on EITF No. 00-21, “Accounting for Revenue Arrangements with Multiple Element Deliverables.” EITF No. 00-21 addresses how to account for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. Revenue arrangements with multiple deliverables should be divided into separate units of accounting if the deliverables in the arrangement meet certain criteria. Arrangement consideration should be allocated among the separate units of accounting based on their relative fair values. The final consensus is applicable to agreements entered into in quarters beginning after June 15, 2003, with early adoption permitted. Additionally, companies are permitted to apply the consensus guidance to all existing arrangements as a cumulative effect of a change in accounting principle. The adoption of EITF No. 00-21 did not have a material effect on the Company’s financial statements.

In December 2002, the FASB issued SFAS No. 148, “Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No. 123”. This statement amends FASB Statement No. 123, “Accounting for Stock-Based Compensation”, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included in the notes to these condensed consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51." This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. The application of this Interpretation did not have an effect on the Company's financial statements as the Company has no interest in variable interest entities.

In April 2003, the FASB issued SFAS No. 149, "Amendments of Statement 133 on Derivative Instruments and Hedging Activities," which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133. This statement is effective for contracts entered into or modified after June 30, 2003, with certain exceptions, and for hedging relationships designated after June 30, 2003. The Company does not expect adoption of SFAS No. 149 to have a material impact on its condensed consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. Financial instruments that are within the scope of the statement, which previously were often classified as equity, must now be classified as liabilities. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise shall be effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not expect adoption of SFAS No. 150 to have a material impact on its condensed consolidated financial statements.

#### **Note 15 – Subsequent Events**

On October 23, 2003, the Company announced plans to close the Scotland facility during the fourth quarter of 2003. Costs related to closing this facility are estimated at \$1.4 million. In addition, certain tax benefits may be realized by the Company as a result of this closure.

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

References in this report to “the Company,” “Benchmark,” “we,” or “us” mean Benchmark Electronics, Inc. together with its subsidiaries. The following Management’s Discussion and Analysis of Financial Condition and Results of Operations contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. They use words such as “anticipate,” “believe,” “intend,” “plan,” “projection,” “forecast,” “strategy,” “position,” “continue,” “estimate,” “expect,” “may,” “will,” or the negative of those terms or other variations of them or comparable terminology. In particular, statements, express or implied, concerning future operating results or the ability to generate sales, income or cash flow are forward-looking statements. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions, including those discussed under the heading Risk Factors below. The future results of our operations may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results are beyond our ability to control or predict. 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, 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 16 facilities in eight 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.

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements and Notes thereto.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Management's discussion and analysis of financial condition and results of operations is based upon our 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, 2002. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to allowance for doubtful accounts, inventories, deferred taxes, impairment of long-lived assets, and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our 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. The allowance for doubtful accounts was \$11.3 million at September 30, 2003 and \$5.8 million at December 31, 2002. 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 in the future.

### **Inventory obsolescence reserve**

We purchase inventory based on forecasted demand and record inventory at the lower of cost or market. We write down our inventories for estimated obsolescence as necessary in an amount equal to the difference between the cost of inventory and estimated market value based on assumptions of future demands and market conditions. We evaluate our inventory valuation on a quarterly basis based on current and forecasted usage and the latest forecasts of product demand and production requirements from our customers. Customers frequently make changes to their forecasts, requiring

that we make changes to our inventory purchases, commitments, and production scheduling and may require us to cancel open purchase commitments with our vendors. This process may lead to on-hand inventory quantities and on-order purchase commitments that are in excess of our customer's revised needs, or parts that become obsolete before use in production. We record inventory reserves on excess and obsolete inventory. These reserves are established on inventory which we have determined that our customers are not responsible for or on inventory that we believe our customers are unable to fulfill their obligation to ultimately purchase such inventory from us. The allowance for excess and obsolete inventory was \$20.3 million at September 30, 2003 and \$17.2 million at December 31, 2002. If actual market conditions are less favorable than those we projected, additional inventory allowances 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**

In accordance with SFAS No. 144, long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge would be recognized by the amount that the carrying amount of the asset exceeds the fair value of the asset.

Goodwill and intangible assets not subject to amortization are tested annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss would be recognized to the extent that the carrying amount exceeds the asset's fair value. As of September 30, 2003 and December 31, 2002, we had net goodwill of approximately \$114.5 million and \$119.8 million, respectively.

## **RECENT ACQUISITIONS**

On July 29, 2002, we completed the 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 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 printed circuit board 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 accounted 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 condensed consolidated statements of income. The allocation of the net purchase price of the Acquisition resulted in goodwill of approximately \$0.5 million.

The inclusion of the operations of the acquired facilities in Thailand and the UK in Benchmark's financial results are responsible for a substantial portion of the variations in the results of our operations (including components thereof) when comparing 2003 to 2002. 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 constituted 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.

## RESULTS OF OPERATIONS

The following table presents the percentage relationship that certain items in our Condensed Consolidated Statements of Income bear to sales for the periods indicated. The financial information and the discussion below should be read in conjunction with the Condensed Consolidated Financial Statements and Notes thereto.

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	<u>91.9</u>	<u>92.4</u>	<u>91.9</u>	<u>92.4</u>
Gross profit	8.1	7.6	8.1	7.6
Selling, general and administrative expense	3.6	4.0	3.6	4.1
Contract settlement	0.0	0.0	(0.6)	0.0
Asset write-off	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.1</u>
Income from operations	4.5	3.6	5.1	3.4
Interest expense	(0.4)	(0.7)	(0.5)	(0.7)
Other income	<u>0.2</u>	<u>0.5</u>	<u>0.1</u>	<u>0.4</u>
Income before income taxes	4.3	3.4	4.7	3.1
Income tax expense	<u>1.5</u>	<u>1.2</u>	<u>1.6</u>	<u>1.1</u>
Net income	<u>2.8%</u>	<u>2.2%</u>	<u>3.1%</u>	<u>2.0%</u>

## **Sales**

Sales for the third quarter of 2003 were \$455.4 million, a 6.3% increase from sales of \$428.3 million for the same quarter in 2002. The increase of \$27.1 million includes \$21.2 million applicable to the facilities acquired on July 29, 2002 and \$8.1 million attributable to the operation of our systems integration facilities. These increases were partially offset by a decrease of \$1.0 million resulting from the consolidation and downsizing of certain manufacturing facilities and an overall decrease in sales volumes of \$1.2 million. Sales for the nine months ended September 30, 2003 were \$1,352.8 million, a 16.4% increase from sales of \$1,161.8 million for the same period in 2002. The increase of \$190.9 million includes \$136.0 million applicable to the facilities acquired on July 29, 2002, and \$65.7 million resulting from overall increases in sales volumes. These increases were partially offset by a decrease in sales of \$6.2 million attributable to the operation of our systems integration facilities and \$4.6 million resulting from the consolidation and downsizing of certain manufacturing facilities.

We have 16 manufacturing facilities in the Americas, Europe and Asia to serve our customers. We are operated and managed geographically. Our facilities in the Americas provided 78.6% and 80.8% of net sales, respectively, during the third quarters of 2003 and 2002, and 78.2% and 84.4% of net sales, respectively, during the first nine months of 2003 and 2002. Our Americas region includes facilities in Angleton, Texas, Beaverton, Oregon, Campinas, Brazil, Guadalajara, Mexico, Hudson, New Hampshire, Huntsville, Alabama, Loveland, Colorado, Manassas, Virginia and Winona, Minnesota. There are two facilities in Huntsville, Alabama - a systems integration facility and a printed circuit board assembly facility. We opened the Loveland, Colorado systems integration facility in May 2003. Our facilities in Europe provided 8.0% and 10.8% of net sales, respectively, during the third quarters of 2003 and 2002, and 9.3% and 12.0% of net sales, respectively, during the first nine months of 2003 and 2002. Our Europe region includes facilities in Dublin, Ireland, East Kilbride, Scotland and Leicester, England. During the fourth quarter of 2003, we will be closing our East Kilbride facility. During the second quarter of 2003 we closed the Cork, Ireland facility. The Cork facility is currently held for sale. Our facilities in Asia provided 13.4% and 8.4% of net sales, respectively, during the third quarters of 2003 and 2002, and 12.6% and 3.6% of net sales, respectively, during the first nine months of 2003 and 2002. Our Asia region includes facilities in the Republic of Singapore, Ayudhaya, Thailand and Suzhou, China. The Singapore facility is a systems integration operation.

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, 2003, our two largest customers each represented in excess of 10% of our sales and together represented 58.2% of our sales, with one customer exceeding 40%. 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 two 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.

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, 2003. 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, 2003 and 2002, 25.8% and 19.8%, respectively, of our sales were from our international operations. The increase in the percentage of international sales for 2003 as

compared to 2002 primarily reflects the additional sales resulting from the operation of 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, 2003 increased \$11.6 million compared to the same period of 2002. This net increase includes a \$14.8 million increase attributable to the operation of our systems integration facilities offset by a \$3.2 million net decrease in overall sales volume. Sales in the Americas for the nine months ended September 30, 2003 increased \$76.6 million compared to the same period of 2002. This net increase includes a \$20.7 million increase attributable to the operation of our systems integration facilities and a \$57.0 million net increase in overall sales volume. These increases for the nine-month period were partially offset by a \$1.1 million decrease resulting from the consolidation and downsizing of certain manufacturing facilities.

### **Europe**

Sales in Europe decreased \$10.0 million for the third quarter of 2003 compared to the same period of 2002. This net decrease includes a \$11.1 million decrease in sales volumes from systems integration customers, and a \$1.0 million decrease resulting from the closing of the Cork, Ireland facility. These decreases were partially offset by a \$2.1 million net increase in overall sales volume. Sales in Europe decreased \$13.9 million for the nine months ended September 30, 2003 compared to the same period of 2002. This net decrease includes a \$35.0 million decrease in sales volumes from systems integration customers and a \$3.6 million decrease resulting from the closing of the Cork, Ireland facility. These decreases were partially offset by a \$15.5 million increase in European sales resulting from the Leicester, England facility acquired in July 2002 and a \$9.2 million net increase in overall sales volume.

### **Asia**

Sales in Asia increased by \$25.4 million for the third quarter of 2003 compared to the same period of 2002. This net increase includes a \$21.4 million increase due to sales by the Thailand facility acquired in July 2002 and new programs that have been added to the Thailand facility since the acquisition and a \$4.4 million increase in sales volumes from systems integration customers. These increases were partially offset by a \$0.4 million net decrease in overall sales volume. Sales in Asia increased by \$128.2 million for the nine-months ended September 30, 2003 compared to the same period of 2002. This net increase includes a \$120.5 million increase due to sales by the Thailand facility acquired in July 2002 and new programs that have been added to the Thailand facility since the acquisition and a \$8.2 million increase in sales volumes from systems integration customers. These increases were partially offset by a \$0.5 million net decrease in overall sales volume.

### **Gross Profit**

Gross profit increased 13.7% to \$37.0 million for the third quarter of 2003 from \$32.5 million in the same quarter of 2002. Gross profit as a percentage of sales for the three months ended September 30, 2002 and 2003, respectively, increased from 7.6% to 8.1%. Gross profit increased 24.2% to \$109.5 million in the first nine months of 2003 from \$88.2 million in the same period of 2002. Gross profit as a percentage of sales for the nine months ended September 30, 2002 and 2003, respectively, increased from 7.6% to 8.1%. 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.

The third quarter 2003 and 2002 gross profit includes charges taken related to reserves for excess and obsolete inventory. During the third quarter of 2003 and 2002, \$0.3 million and \$4.9 million, respectively, of additional inventory reserves were recorded, and \$1.2 million and \$0.8 million, respectively, of inventory was written-off. These charges and write-offs were related to inventory written down to the 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 \$16.3 million and \$17.3 million in the third quarter of 2003 and 2002, respectively. The decrease in selling, general and administrative expenses resulted from savings generated by facility consolidation and downsizing. Selling, general and administrative expenses as a percentage of sales decreased from 4.0% for the third quarter of 2002 to 3.6% for the third quarter of 2003. The decrease in selling, general and administrative expenses as a percentage of sales is primarily associated with the increase in sales and also reflects the impact of the facility consolidation and downsizing. Selling, general and administrative expenses were \$49.2 million and \$47.6 million in the first nine months of 2003 and 2002, respectively. The increase in selling, general and administrative expenses was partially due to those expenses related to the acquired facilities that were included for the full nine months in 2003 and only from July in 2002. Other increases were related to 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 4.1% for the first nine months of 2002 to 3.6% for the first nine months of 2003. 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.

### **Contract Settlement**

During the first quarter of 2003, we settled and released various claims arising out of customer manufacturing agreements. In connection with the settlement of these claims, we recorded a non-cash gain totaling \$8.1 million.

### **Interest Expense**

Interest expense for the three and nine-month periods ended September 30, 2003 and 2002 was \$2.0 million and \$6.9 million, respectively, compared to \$2.9 million and \$8.6 million, respectively. The decrease is primarily due to reductions in interest rates and repayments of outstanding debt, and to a lesser extent the conversion of the 6% Convertible Subordinated Notes to common stock in September 2003.

### **Income Tax Expense**

Income tax expense of approximately \$21.1 million represented an effective tax rate of 33.4% for the nine months ended September 30, 2003, compared with an effective tax rate of 35.6% for the same period in 2002. The decrease in the effective tax rate is primarily due to the higher estimated income before income taxes for 2003 in lower tax jurisdictions as compared to 2002. During the fourth quarter of 2003, we will be closing our Scotland facility. Benchmark may realize certain tax benefits as a result of this closure that would further reduce the effective tax rate.

### **Net Income**

We reported net income for the three and nine-month periods ended September 30, 2003 of approximately \$12.9 million and \$42.0 million, or diluted earnings of \$0.32 and \$1.08 per share, compared with \$9.6 million and \$23.2 million, or diluted earnings of \$0.26 per share and \$0.66 per share, for the same periods of 2002. The increases of \$3.3 million and \$18.8 million during the three and nine-month periods ended September 30, 2003 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 \$41.8 million and \$136.5 million for the nine months ended September 30, 2003 and 2002, respectively. The cash provided by operations during the first nine months of 2003 was primarily the result of increases in accounts payable offset by increases in accounts receivable, inventories and decreases in accrued liabilities. Our accounts receivable at September 30, 2003 increased \$19.8 million and inventories increased \$9.3 million as compared to their levels at December 31, 2002. We expect continued 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, 2003 and 2002, our gross profit was adversely affected by additional reserves of \$6.6 million and \$8.0 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 quantities to us based on availability rather than our demand.

Cash used in investing activities was \$9.0 million and \$41.8 million for the nine months ended September 30, 2003 and 2002, respectively. Net capital expenditures of \$8.4 million for the nine months ended September 30, 2003 were primarily for additions to our manufacturing production equipment. On July 29, 2002, we acquired the Thailand and UK operations for \$36.2 million, net of cash acquired.

Cash (used in) provided by financing activities was \$(18.7) million and \$89.4 million for the nine months ended September 30, 2003 and 2002, respectively. During the first nine months of 2003, we made principal payments on other long-term debt totaling \$30.4 million and received \$11.8 million from the exercise of stock options and the purchase of common stock under our employee stock purchase plan. On April 15, 2002, we completed the public offering of 6,468,750 shares of our common stock for net proceeds of approximately \$110.3 million.

Principal on our term loan is payable in quarterly installments of \$5.5 million during 2003 with the final three installments of \$7.0 million 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, 2003, we had no borrowings outstanding under the revolving credit facility, \$0.4 million in 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, 2003, we were in compliance with all such restrictions.

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 through September 2006. On April 1, 2003, our Thailand subsidiary repaid all amounts outstanding under the Thai Credit Agreement. 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, 2003, our Thailand subsidiary had no working capital borrowings outstanding.

During the third quarter, we called our outstanding 6% Convertible Subordinated Notes due August 15, 2006 (the Notes) for redemption. All of the Notes were converted, at the holders' option, into approximately three million shares of our common stock on September 5, 2003, net of related interest and deferred financing costs.

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.

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.

## **RISK FACTORS**

### **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.

### **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. If the economic conditions and demand for our customers' products deteriorate, we may experience a material adverse impact on our business, operating results and financial condition.

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 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, 2003, our two largest customers each represented in excess of 10% of our sales and together represented 58.2% of our sales, with one customer exceeding 40%. 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 to our two 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.

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, if not replaced, 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 become unable or unwilling to purchase such inventory, our business may be materially harmed. During the first nine months of 2003 and 2002, our gross profit was adversely affected by the write-down of \$6.6 million and \$8.0 million, respectively, 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;
- medical devices;
- industrial control equipment;
- testing and instrumentation products; and
- telecommunication equipment.

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.

**Long-term purchase commitments 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 customers' 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 a greater number of offshore facilities located where labor and other costs are lower.

We 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 and marketing 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, China, Ireland, Mexico, Singapore, Thailand and the United Kingdom. During the nine months ended September 30, 2003 and 2002, 25.8% and 19.8%, 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;
- local business 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 six 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.

**We could incur a significant amount of debt in the future.**

Although at September 30, 2003, our debt to total capitalization ratio was 4%, we have the ability to borrow approximately \$229.5 million under our Revolving Credit Facility and the Thai Credit Agreement. In addition, we could incur additional indebtedness in the future in the form of bank loans, notes or convertible securities. An increase in 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.

**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 \$13.3 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 at December 31, 2003.

**We are involved in legal proceedings related to the Avex acquisition and a patent infringement lawsuit. An unfavorable decision in any of these proceedings could have a material adverse effect on us.**

Benchmark filed a lawsuit 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. We are seeking an unspecified amount of damages in connection with the Amended and Restated Stock Purchase Agreement dated August 12, 1999 between the parties, whereby we acquired all of the stock of AVEX Electronics, Inc. from Seller. 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 us to register shares of our 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 judgment denying our claims against Seller, but preserving Seller's counterclaims against Benchmark. On May 1, 2002, the Court entered a final judgment dismissing without prejudice the claims and counterclaims of Seller. On May 29, 2002, we filed a notice of appeal of the Court's final judgment to the Fifth Circuit Court of Appeals (the Fifth Circuit). On August 20, 2003, the Fifth Circuit vacated the Court's judgment and remanded the case back to the Court for further proceedings consistent with the Fifth Circuit's written opinion. On September 2, 2003, Seller filed a Petition for Rehearing En Banc with the Fifth Circuit. On September 12, 2003, we filed our response to Seller's Petition for Rehearing En Banc. We intend to vigorously pursue our claims against Seller and defend against Seller's allegations.

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 we have 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, we filed an Answer, Affirmative Defenses, and a Motion to Stay based upon Declaratory Judgment 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 Symbol/Cognex case). The bench trial for the Symbol/Cognex case began on November 18, 2002 and concluded on January 17, 2003. The post-trial briefings of the parties in the Symbol/Cognex case were filed with the trial court on June 30, 2003. The decision of the trial court on the Symbol/Cognex case is expected to be issued some time before the end of 2003. We intend to vigorously defend against such claims and pursue all rights we have against third parties. At the present time, we are unable to reasonably estimate the possible loss, if any, associated with these matters.

**Recently enacted changes in the securities laws and regulations are likely to increase our costs.**

The Sarbanes-Oxley Act of 2002 that became law in July 2002 has required changes in some of our corporate governance, securities disclosure and compliance practices. In response to the requirements of that Act, the Securities and Exchange Commission and the New York Stock Exchange have promulgated new rules on a variety of subjects. Compliance with these new rules has increased our legal and financial and accounting costs, and we expect these increased costs to continue indefinitely. We also expect these developments to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be forced to accept

reduced coverage or incur substantially higher costs to obtain coverage. Likewise, these developments may make it more difficult for us to attract and retain qualified members of our board of directors or qualified executive officers.

**If our independent auditors are unable to provide us with the attestation of the adequacy of our internal control over financial reporting as of December 31, 2004 and future year-ends as required by Section 404 of the Sarbanes-Oxley Act of 2002, investors could lose confidence in the reliability of our financial statements, which could result in a decrease in the value of your shares.**

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, the Securities and Exchange Commission adopted rules requiring public companies to include a report of management on the company's internal control over financial reporting in their annual reports on Form 10-K that contains an assessment by management of the effectiveness of the company's internal control over financial reporting. In addition, the public accounting firm auditing the company's financial statements must attest to and report on management's assessment of the effectiveness of the company's internal control over financial reporting. While we intend to conduct a rigorous review of our internal control over financial reporting in order to assure compliance with the Section 404 requirements, if our independent auditors interpret the Section 404 requirements and the related rules and regulations differently from us or if our independent auditors are not satisfied with our internal control over financial reporting or with the level at which it is documented, operated or reviewed, they may decline to attest to management's assessment or issue a qualified report. This could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements, which could cause the market price of our shares to decline.

**Changes to financial accounting standards may affect our reported results of operations and could result in a decrease in the value of your shares.**

There has been an ongoing public debate as to whether employee stock option and employee stock purchase plan shares should be treated as a compensation expense and, if so, how to properly value such charges. If we are required to record an expense for our stock-based compensation plans using the fair value method, we would incur significant compensation charges. Although we are currently not required to record any compensation expense using the fair value method in connection with option grants that have an exercise price at or above fair market value of our common stock and for shares issued under our employee stock purchase plan, if future laws and regulations require us to treat all stock-based compensation as a compensation expense using the fair value method our results of operations could be adversely affected.

**Our business may be impacted by geopolitical events.**

As a global business, we operate and have customers located in many countries. Geopolitical events such as terrorist acts may effect the overall economic environment and negatively impact the demand for our customers' products. As a result, customer orders may be lower and our financial results may be adversely affected.

### **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 \$13.3 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 on December 31, 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 and Brazil.

### **Item 4 – Controls and Procedures**

Our management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in our internal control over financial reporting that occurred during the fiscal period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **Item 1 – Legal Proceedings**

Benchmark filed a lawsuit 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. We are seeking an unspecified amount of damages in connection with the Amended and Restated Stock Purchase Agreement dated August 12, 1999 between the parties whereby we acquired all of the stock of AVEX Electronics, Inc. from Seller. 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 us to register shares of our 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 judgment denying our claims against Seller, but preserving Seller's counterclaims against Benchmark. On May 1, 2002, the Court entered a final judgment dismissing without prejudice the claims and counterclaims of Seller. On May 29, 2002, we filed a notice of appeal of the Court's final judgment to the Fifth Circuit Court of Appeals (the Fifth Circuit). On August 20, 2003, the Fifth Circuit vacated the Court's judgment and remanded the case back to the Court for further proceedings consistent with the Fifth Circuit's written opinion. On September 2, 2003, Seller filed a Petition for Rehearing En Banc with the Fifth Circuit. On September 12, 2003, we filed our response to Seller's Petition for Rehearing En Banc. We intend to vigorously pursue our claims against Seller and defend against Seller's allegations.

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 we have 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, we filed an Answer, Affirmative Defenses, and a Motion to Stay based upon Declaratory Judgment 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 Symbol/Cognex case). The bench trial for the Symbol/Cognex case began on November 18, 2002 and concluded on January 17, 2003. The post-trial briefings of the parties in the Symbol/Cognex case were filed with the trial court on June 30, 2003. The decision of the trial court on the Symbol/Cognex case is expected to be issued some time before the end of 2003. We intend to vigorously defend against such claims and pursue all rights we have against third parties. At the present time, we are unable to reasonably estimate the possible loss, if any, associated with these matters.

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**

None.

## Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits.

- 31.1 Rule 13a-14(a) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a) Certification of Chief Financial Officer
- 32.1 Section 1350 Certification of Chief Executive Officer
- 32.2 Section 1350 Certification of Chief Financial Officer

(b) Reports on Form 8-K.

The Company filed the following Current Reports on Form 8-K during the quarter ended September 30, 2003:

Current Report on Form 8-K dated July 2, 2003 furnishing information relating to the Company's guidance for the second quarter 2003 results.

Current Report on Form 8-K dated July 24, 2003 furnishing information relating to the Company's second quarter 2003 results.

Current Report on Form 8-K dated September 30, 2003 furnishing information relating to the Company's guidance for the third quarter 2003 results.

### 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 13, 2003.

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)

## EXHIBIT INDEX

**Exhibit  
Number**

**Description of Exhibit**

31.1	Rule 13a-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer
32.2	Section 1350 Certification of Chief Financial Officer

**Exhibit 31.1**

Certification Of Chief Executive Officer  
Pursuant To Section 13(A) Or 15(D) Of The Securities Exchange Act Of 1934  
As Adopted Pursuant To Section 302 Of The Sarbanes-Oxley Act Of 2002

I, Donald E. Nigbor, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Benchmark Electronics, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Donald E. Nigbor \_\_\_\_\_  
Donald E. Nigbor  
Chief Executive Officer  
November 13, 2003

Certification Of Chief Financial Officer  
Pursuant To Section 13(A) Or 15(D) Of The Securities Exchange Act Of 1934  
As Adopted Pursuant To Section 302 Of The Sarbanes-Oxley Act Of 2002

I, Gayla J. Delly, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Benchmark Electronics, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Gayla J. Delly \_\_\_\_\_  
Gayla J. Delly  
Chief Financial Officer  
November 13, 2003

**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, 2003 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.

/s/ Donald E. Nigbor

Donald E. Nigbor  
Chief Executive Officer  
November 13, 2003

**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, 2003 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.

/s/ Gayla J. Delly  
Gayla J. Delly  
Chief Financial Officer  
November 13, 2003