BENCHMARK ELECTRONICS INC
Form 10-K
February 28, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2012

or

¨**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	**74-2211011**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

3000 Technology Drive

Angleton, Texas 77515

(979) 849-6550

(Address, including zip code, and telephone number, including area code, of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $0.10 per share	New York Stock Exchange, Inc.
Preferred Stock Purchase Rights	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ Noþ

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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter periods that the registrant was required to submit and post such files).

Yesþ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller Reporting Company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b–2 of the Act).

Yes ¨ No þ

As of June 30, 2012, the number of outstanding Common Shares was 56,581,208. As of such date, the aggregate market value of the Common Shares held by non-affiliates, based on the closing price of the Common Shares on the New York Stock Exchange on such date, was approximately $777 million.

As of February 25, 2013, there were 55,195,329 Common Shares of Benchmark Electronics, Inc., par value $0.10 per share, outstanding.

Documents Incorporated by Reference:

Portions of the Company's Proxy Statement for the 2013 Annual Meeting of Shareholders (Part III, Items 10-14).

TABLE OF CONTENTS

PART I

Item 1. *Business.*

Background

Benchmark Electronics, Inc. (Benchmark), formerly named Electronics, Inc., began operations in 1979 and was incorporated under Texas law in 1981 as a wholly owned subsidiary of Intermedics, Inc., a medical implant manufacturer based in Angleton, Texas. In 1986, Intermedics sold 90% of the outstanding common shares of the Company to Electronic Investors Corp. In 1988, Electronic Investors Corp. was merged into Benchmark, and in 1990 we completed the initial public offering of our common shares.

General

We are a worldwide provider of integrated electronic manufacturing services. We provide our services to original equipment manufacturers (OEMs) of computers and related products for business enterprises, medical devices, industrial control equipment (which includes equipment for the aerospace and defense industry), testing and instrumentation products, and telecommunication equipment. The services that we provide are commonly referred to as electronics manufacturing services (EMS). We offer our customers comprehensive and integrated design and manufacturing services from initial product design to volume production including direct order fulfillment and post-deployment services. Our manufacturing and assembly operations include printed circuit boards and subsystem assembly, box build and systems integration, the process of integrating subsystems and, often, downloading and integrating software, to produce a fully configured product. Our precision technology manufacturing capabilities complement our proven electronic manufacturing expertise by providing further vertical integration of critical mechanical components. These capabilities include precision machining, advanced metal joining, assembly and functional testing for multiple industries including medical, instrumentation, aerospace and semiconductor capital equipment. We also are able to provide specialized engineering services, including product design, printed circuit board layout, prototyping, and test development. We believe that we have developed strengths in the manufacturing process for large, complex, high-density printed circuit boards as well as the ability to manufacture high and low volume products in lower cost regions such as Brazil, China, Malaysia, Mexico, Romania and Thailand.

We believe that our global manufacturing presence increases our ability to be responsive to our customers' needs by providing accelerated time-to-market and time-to-volume production of high quality products. These capabilities enable us to build stronger strategic relationships with our customers and to become a more integral part of their operations. Our customers face challenges in planning, procuring and managing their inventories efficiently due to fluctuations in customer demand, product design changes, short product life cycles and component price fluctuations.

We employ production management systems to manage their procurement and manufacturing processes in an efficient and cost-effective manner so that, where possible, components arrive on a just-in-time, as-and-when-needed basis. We are a significant purchaser of electronic components and other raw materials, and can capitalize on the economies of scale associated with our relationships with suppliers to negotiate price discounts, obtain components and other raw materials that are in short supply, and return excess components. Our expertise in supply chain management and our relationships with suppliers across the supply chain enable us to reduce our customers' cost of goods sold and inventory exposure.

Our worldwide facilities include 1.1 million square feet in our domestic facilities in Alabama, Arizona, California, Minnesota, New Hampshire, North Dakota and Texas; and 1.9 million square feet in our international facilities in Brazil, China, Malaysia, Mexico, the Netherlands, Romania, Singapore and Thailand.

Our capabilities have continued to grow through acquisitions and through internal expansion. In January 2011, we acquired facilities and certain other assets to expand our precision technology capabilities in Penang, Malaysia. In 2009, we added certain precision machining assets and capabilities in Arizona, California and Mexico through a business acquisition, and we leased a larger facility in Brasov, Romania that expanded our manufacturing capability in Eastern Europe. In 2008, we completed the construction of a new building in Suzhou, China and increased our China manufacturing capacity. Our global operations include 21 facilities in nine countries.

We believe our primary competitive advantages are our design, manufacturing, testing and supply chain management capabilities. We offer our customers flexible manufacturing solutions throughout the life cycle of their products. These solutions provide accelerated time-to-market, time-to-volume production, and reduced production costs. As a result of working closely with our customers and responding promptly to their needs, we have become an integral part of their operations.

Our Industry

The EMS industry experienced rapid change in growth during the 1990s as an increasing number of OEMs outsourced their manufacturing requirements. In mid-2001 and again in late 2008, the industry's revenue declined as a result of significant cutbacks in its customers' production requirements, which was consistent with overall global economic downturns. OEMs have continued to turn to outsourcing in order to reduce product cost, achieve accelerated time-to-market and time-to-volume production, access advanced design and manufacturing technologies, improve inventory management and purchasing power, and reduce their capital investment in manufacturing resources. Outsourcing enables OEMs to concentrate on what they believe to be their core strengths, such as new product definition, marketing and sales. In addition, the number of industries serviced by EMS providers and these providers' market penetration in certain industries has increased in recent years. We believe further growth opportunities exist for EMS providers to penetrate the worldwide electronics markets.

Our Strategy

Our goal is to be the EMS outsourcing provider of choice to leading OEMs in the electronics industry that we perceive from time to time to offer the greatest potential for growth. To meet this goal, we have implemented the following strategies:

- *Maintain and Develop Close, Long-Term Relationships with Customers*. Our core strategy is to maintain and establish long-term relationships with leading OEMs in expanding industries by becoming an integral part of our customers' manufacturing operations. To accomplish this, we work closely with our customers throughout the design, manufacturing and distribution process, and we offer flexible and responsive services. We rely on our local management teams to respond to frequently changing customer design specifications and production requirements, which develops stronger customer relationships.

- *Focus on High-End Products in Growth Industries.* EMS providers produce products for a wide range of OEMs in different industries, such as consumer electronics, internet-focused businesses and information technology equipment. The product scope ranges from easy to assemble, low-cost high-volume products targeted for the consumer market to complicated state-of-the-art, mission critical electronic hardware targeted for military, medical and other high-end computer use. Similarly, OEMs' customers range from consumer-oriented companies that compete primarily on price and redesign their products every year to manufacturers of high-end telecommunications equipment and computer and related products for business enterprises that compete on technology and quality. We currently offer state-of-the-art products for industry leaders who require specialized engineering design and production services, as well as high volume manufacturing capabilities to our customer base. Our ability to offer both of these types of services enables us to expand our business relationships.

Deliver Complete High and Low Volume Manufacturing Solutions Globally. We believe OEMs are increasingly requiring a wide range of specialized engineering and manufacturing services from EMS providers in order to reduce costs and accelerate their time-to-market and time-to-volume production. Building on our integrated engineering and manufacturing capabilities, we offer services from initial product design and test to final product assembly and distribution to OEM customers. Our systems integration assembly and direct order fulfillment services allow our customers to reduce product cost and risk of product obsolescence by reducing their total work-in-process and finished goods inventory. These services are available at many of our manufacturing locations. In 2009, we added certain precision machining assets and capabilities to provide precision machining, metal joining and complex electromechanical manufacturing services in Arizona, California and Mexico. In January 2011, we acquired facilities and certain other assets to expand our precision technologies capabilities in Penang, Malaysia. This expansion added sheet metal and frames fabrication services, advanced metal joining and grinding services, along with complex mechanical assembly and machining services to our Asia service offerings. We also offer our customers high volume production in low cost regions of the world, such as Brazil, China, Malaysia, Mexico, Romania and Thailand. These full service capabilities allow us to offer customers the flexibility to move quickly from design and initial product introduction to production and distribution. We offer our customers the opportunity to combine the benefits of low cost manufacturing (for the portions of their products or systems that can benefit from the use of these geographic areas) with the benefits and capabilities of our higher complexity support of systems integration in Asia, Europe or the United States.

Leverage Advanced Technological Capabilities. In addition to traditional strengths in manufacturing large, complex high-density printed circuit boards and systems, we offer customers specialized and tailored advanced design, technology and manufacturing solutions for their primary products. We provide this engineering expertise through our design capabilities at our design centers and our advanced technology process development in each of our facilities. We believe our capabilities help our customers utilize cutting edge technologies to improve product performance and reduce costs.

Continue to Seek Cost Savings and Operational Excellence. We seek to optimize all of our facilities to provide cost-efficient services for our customers. This is done through our culture of continuous improvement, sharing best practices and implementing lean principles. We also provide operations in lower cost locations to further offer cost saving solutions to our customers. These sites include Brazil, China, Malaysia, Mexico, Romania and Thailand, and we continue to expand our presence and footprint in these lower cost locations as appropriate to meet the needs of our customers.

Continue Our Global Focus. A network of strategically positioned facilities can reduce costs, simplify and shorten an OEM’s supply chain and provide regional solutions, thus reducing the time it takes to bring product to market. We are committed to maintaining our global focus in order to support our customers with cost-effective and timely delivery of quality products and services worldwide. Our ongoing acquisition of facilities has in recent years expanded our presence globally to include Malaysia, Romania and the Netherlands. These added sites provide a global manufacturing solution to our customers through our 21 facilities in nine countries located in Brazil, China, Malaysia, Mexico, the Netherlands, Romania, Singapore, Thailand and the United States.

Pursue Strategic Acquisitions. Our capabilities have continued to grow through acquisitions and we will continue to selectively seek acquisition opportunities. Our acquisitions have enhanced our business in the following ways:

- expanded geographic presence;
- enhanced customer growth opportunities;
- developed strategic relationships;
- broadened service offerings;
- provided vertical solutions;
- diversified into new market sectors; and
- added experienced management teams.

We believe that growth by selective acquisitions is critical for achieving the scale, flexibility and breadth of customer services required to remain competitive in the EMS industry.

Services We Provide

We offer a wide range of engineering, automation, test, manufacturing and fulfillment solutions that support our customers' products from initial design through prototyping, design validation, testing, ramp-to-volume production, worldwide distribution and aftermarket support. We support all of our service offerings with supply chain management systems, superior quality program management and sophisticated information technology systems. Our comprehensive service offerings enable us to provide a complete solution for our customers' outsourcing requirements.

Engineering Solutions

Our approach is to coordinate and integrate our design, prototype and other engineering capabilities. Through this approach, we provide a broad range of engineering services and, in some cases, dedicated production lines for prototypes. These services strengthen our relationships with manufacturing customers and attract new customers requiring specialized engineering services.

- *New Product Design, Prototype, Test and Related Engineering Solutions*. We offer a full spectrum of new product design, automation, test development, prototype and related engineering solutions. Our concurrent engineering approach shortens product development cycles and gives our customers a competitive advantage in time-to-market and time-to-profit. Our multi-disciplined engineering teams provide expertise in a number of core competencies critical to serving OEMs in our target markets, including award-winning industrial design, mechanical and electrical hardware, firmware, software and systems integration and support. We create specifications, designs and quick-turn prototypes, and validate and ramp our customers' products into high volume manufacturing.

- *Custom Test and Automation Equipment Design and Build Solutions.* We provide our customers with a comprehensive range of custom automated test equipment, functional test equipment, process automation and replication solutions. We have expertise in tooling, testers, equipment control, systems planning, automation, floor control, systems integration, replication and programming. Our custom functional test equipment, process automation and replication solutions are available to our customers as part of our full service product design and manufacturing solutions package or on a stand-alone basis for products designed and manufactured elsewhere. We also provide custom test equipment and automation system solutions to OEMs. Our ability to provide these solutions allows us to capitalize on OEMs' increasing needs for custom manufacturing solutions and provides an additional opportunity for us to introduce these customers to our comprehensive engineering and manufacturing services.

Manufacturing and Fulfillment Solutions

As OEMs seek to provide greater functionality in smaller products, they increasingly require more sophisticated manufacturing technologies and processes. Our investment in advanced manufacturing equipment and process development as well as our experience in innovative packaging and interconnect technologies enable us to offer a variety of advanced manufacturing solutions. These packaging and interconnect technologies include:

- *Printed Circuit Board Assembly & Test*. We offer a wide range of printed circuit board assembly and test solutions, including printed circuit board assembly, assembly of subsystems, circuitry and functionality testing of printed assemblies, environmental and stress testing and component reliability testing.

- *Flex Circuit Assembly & Test*. We provide our customers with a wide range of flex circuit assembly and test solutions. We utilize specialized tooling strategies and advanced automation procedures to minimize circuit handling and ensure that consistent processing parameters are maintained throughout the assembly process.

6

- *Systems Assembly & Test.* We work with our customers to develop product-specific test strategies. Our test capabilities include manufacturing defect analysis, in-circuit tests to test the circuitry of the board and functional tests to confirm that the board or assembly operates in accordance with its final design and manufacturing specifications. We either custom design test equipment and software ourselves or use test equipment and software provided by our customers. We also offer our own internally designed functional test solutions for cost effective and flexible test solutions. In addition, we provide environmental stress tests of assemblies of boards or systems.

We also have expertise in advanced precision and electromechanical technologies and optical manufacturing services. In order to meet our customers' demand for systems assembly and test solutions, we offer subassembly build, final assembly, functionality testing, configuration and software installation and final packaging services.

Precision Electromechanical Assembly and Test. We offer a full spectrum of precision subsystem and system integration services. These services include assembly, configuration and testing of complex computers and related products for business enterprises, medical devices, industrial control equipment (which includes equipment for the aerospace and defense industry), testing and instrumentation products, and telecommunication equipment. We design, develop and build product specific manufacturing processes utilizing manual, mechanized or fully automated lines to meet our customers' product volume and quality requirements. All of our assembly and test processes are developed according to customer specifications and replicated within our facilities. Product life cycle testing services are provided such as Ongoing Reliability Testing where units are continuously cycled for extended testing while monitoring for early life failures.

Failure Analysis. We offer an array of analytical solutions and expertise to challenging issues that face our customers. This includes focused techniques for failure mode, failure mechanism, and root cause determination. Specialized analytical skill sets associated with electrical, mechanical, and metallurgical disciplines are used in conjunction with a vast array of equipment such as ion chromatography, x-ray florescence, and scanning electron microscopy. Our state-of-the-art lab facilities provide customers with detailed reporting and support in an unbiased, timely, and cost-effective manner. Mastering emerging technologies coupled with a complete understanding of potential failure mechanisms positions us to exceed customer expectations and maintain our technological diversity.

Direct Order Fulfillment. We provide direct order fulfillment for certain of our OEM customers. Direct order fulfillment involves receiving customer orders, configuring products to quickly fill the orders and delivering the products either to the OEM, a distribution channel or directly to the end customer. We manage our direct order fulfillment processes using a core set of common systems and processes that receive order information from the customer and provide comprehensive supply chain management, including procurement and production planning. These systems and processes enable us to process orders for multiple system configurations and varying production quantities, including single units. Our direct order fulfillment services include build-to-order (BTO) and configure-to-order (CTO) capabilities. BTO involves building a complete system in real-time to a highly customized configuration ordered by the OEM customer. CTO involves configuring systems to an end customer's specifications at the time the product is ordered. The end customer typically places this order by choosing from a variety of possible system configurations and options. We are capable of meeting a 2 to 24 hour turnaround time for BTO and CTO. We support our direct order fulfillment services with logistics that include delivery of parts and assemblies to the final assembly site, distribution and shipment of finished systems, and processing of customer returns.

Aftermarket Non-Warranty Services. We provide our customers with a range of aftermarket non-warranty services, including repair, replacement, refurbishment, remanufacturing, exchange, systems upgrade and spare part manufacturing throughout a product's life cycle. These services are tracked and supported by specific information technology systems that can be tailored to meet our customers' individual requirements.

Value-Added Support Systems. We support our engineering, manufacturing, distribution and aftermarket support services with an efficient supply chain management system and a superior quality management program. Our value-added support services are primarily implemented and managed through web-based information technology systems that enable us to collaborate with our customers throughout all stages of the engineering, manufacturing and order fulfillment processes.

Supply Chain Management. Our inventory management and volume procurement capabilities contribute to assurance of supply, cost reductions and reduce total cycle time. Our materials strategy is focused on leveraging our procurement volume companywide while providing local execution for maximum flexibility at the division level. In addition, our systems integration facilities have developed material processes required to support system integration operations.

We utilize a full complement of electronic data interchange transactions with our suppliers to coordinate forecasts, orders, reschedules, and inventory and component lead times. Our enterprise resource planning systems provide product and production information to our supply chain management, engineering change management and floor control systems. Our information systems also control serialization, production and quality data for all of our facilities around the world utilizing state-of-the-art statistical process control techniques for continuous process improvements. To enhance our ability to rapidly respond to changes in our customers' requirements by effectively managing changes in our supply chain, we utilize web-based interfaces and real-time supply chain management software products which allow for scaling operations to meet customer needs, shifting capacity in response to product demand fluctuations, reducing materials costs and effectively distributing products to our customers or their end-customers.

Manufacturing Technologies. We offer our customers expertise in a wide variety of traditional and advanced manufacturing technologies. Our technical expertise supports standard printed circuit board assembly as well as complex products that require advanced engineering skills and equipment.

We also provide our customers with a comprehensive set of manufacturing technologies and solutions which include:

- Pin Thru Hole;
- Surface Mount Technology;
- Fine Pitch;
- Ball Grid Array;
- Part on Part;
- Flip Chip;
- Chip On Board/Wire Bonding;
- In-Circuit Test;
- Board Level Functional Test; and
- Stress Testing.

We also provide specialized solutions in support of our customers' components, products and systems which include:

- Adhesives;
- Conformal Coating;
- Ultrasonic Welding;
- Splicing and Connectorization for Optical Applications;
- Hybrid Optical/Electrical Printed Circuit Board Assembly and Testing; and
- Sub-Micron Alignment of Optical Sub-Assemblies.

Through our Component Engineering Services, we are helping our customers deal with the changing international environmental laws or regulations on content, packaging, labeling of their products or similar issues concerning the environmental impact of their products including: "RoHS" (EU Directive 2002/95/EC on Restriction of the Use of Hazardous Substances in Electrical and Electronic Equipment); "WEE" (EU Directive 2002/96/EC on Waste Electrical and Electronic Equipment); "REACH" (EC Regulation No 1907/20067 on Registration, Evaluation and Authorization of Chemicals); EU Member State's Implementation of the foregoing; and the People's Republic of China (PRC) Measures for Administration of the Pollution Control of Electronic Information Products of 2006. Manufacturing sites in the Americas, Asia and European regions are certified in both water soluble and no-clean processes and are currently producing products that are compliant with these environmental laws and regulations.

Precision Technologies. We provide precision machining, metal joining and complex electromechanical manufacturing services and utilize the following precision technologies:

- Complex Small / Medium / Large Computer Numerical Controlled Machining;
- Precision Multi-Axis Grinding of Aerospace Engine Blades, Vanes and Nozzles;
- Precision Grinding of Mass Spectrometer Components;
- Sinker Electrical Discharge Machining;
- Turnkey Precision Clean Room Module Assembly and Functional Test;
- Major Electromechanical Sub Assembly;
- Laser Welding; and
- Advanced Metal Joining.

Marketing and Customers

We market our services primarily through a direct sales force and, in select markets, independent marketing representatives. In addition, our divisional and executive management teams are an integral part of our sales and marketing teams. We generally enter into supply arrangements with our customers. These arrangements, similar to purchase orders, generally govern the conduct of business between our customer and ourselves relating to, among other things, the manufacture of products which in many cases were previously produced by the customer itself. Such arrangements generally identify the specific products to be manufactured, quality and production requirements, product pricing and materials management. There can be no assurance that at any time these arrangements will remain in effect or be renewed.

Our key customer accounts are supported by a dedicated team, including a global account manager who is directly responsible for account management. Global account managers coordinate activities across divisions to effectively satisfy customer requirements and have direct access to our executive management to quickly address customer concerns. Local customer account teams further support the global teams and are linked by a comprehensive communications and information management infrastructure. In addition, our executive management is heavily involved in customer relations and devotes significant attention to broadening existing and developing new customer relationships.

The following table sets forth the percentages of our sales by industry for 2012, 2011 and 2010.

	2012	2011	2010
Computers and related products for business enterprises	31 %	29 %	32 %
Industrial control equipment	27	29	25
Telecommunication equipment	26	23	23
Testing and instrumentation products	6	10	10
Medical devices	10	9	10

Historically, a substantial percentage of our sales have been made to a small number of customers. Sales to our ten largest customers represented 56%, 53% and 47% of our sales in 2012, 2011and 2010, respectively. In 2012, sales to International Business Machines Corporation represented 21% of our sales. The loss of a major customer, if not replaced, would adversely affect us. Our future sales are dependent on the success of our customers, some of which operate in businesses associated with rapid technological change and consequent product obsolescence. Developments adverse to our major customers or their products, or the failure of a major customer to pay for components or services, could have an adverse effect on us.

Seasonality

Seasonality in our business has historically been driven by customer and product mix, particularly the industries which our customers serve. Although we have in the past experienced higher levels of sales during the fourth quarter, this pattern has not repeated itself every year. The extent to which our business will become more seasonal in the future depends upon our future customer base and the industries that they serve, which we are unable to predict. Sales to our customers in the computers and related products for business enterprises industry have recently exhibited particular strength toward the end of the calendar year. As a result, we may experience stronger revenues in our fourth quarter as compared to our first quarter.

Suppliers

We maintain a network of suppliers of components and other materials used in our operations. We procure components when a purchase order or forecast is received from a customer and occasionally utilize components or other materials for which a supplier is the single source of supply. If any of these single source suppliers were to be unable to provide these materials, a shortage of these components could temporarily interrupt our operations and lower our profits until such time as an alternate component could be identified and qualified for use. Although we experience component shortages and longer lead times for various components from time to time, we have generally been able to reduce the impact of the component shortages by working with customers to reschedule deliveries, by working with suppliers to provide the needed components using just-in-time inventory programs, or by purchasing components at somewhat higher prices from distributors rather than directly from manufacturers. In addition, by developing long-term relationships with suppliers, we have been better able to minimize the effects of component shortages compared to manufacturers without such relationships. The goal of these procedures is to reduce our inventory risk.

Backlog

We had sales backlog of approximately $1.5 billion at December 31, 2012, as compared to the 2011 year-end backlog of $1.6 billion. Backlog consists of purchase orders received, including, in some instances, forecast requirements released for production under customer contracts. Although we expect to fill substantially all of our year-end backlog during 2013, we currently do not have long-term agreements with all of our customers and customer orders can be canceled, changed or delayed. The timely replacement of canceled, changed or delayed orders with orders from new customers cannot be assured, nor can there be any assurance that any of our current customers will continue to utilize our services. Because of these factors, our backlog is not a meaningful indicator of future financial results.

Competition

The electronics manufacturing services we provide are available from many independent sources as well as from the in-house manufacturing capabilities of current and potential customers. Our competitors include Celestica Inc., Flextronics International Ltd., Hon Hai Precision Industry Co., Ltd., Jabil Circuit, Inc., Plexus Corp and Sanmina-SCI Corporation, who may be more established in the industry and have substantially greater financial, manufacturing or marketing resources than we do. We believe that the principal competitive factors in our targeted markets are engineering capabilities, product quality, flexibility, cost and timeliness in responding to design and schedule changes, reliability in meeting product delivery schedules, pricing, technological sophistication and geographic location.

In addition, in recent years, original design manufacturers (ODMs) that provide design and manufacturing services to OEMs have significantly increased their share of outsourced manufacturing services provided to OEMs in markets such as notebook and desktop computers, personal computer motherboards, and consumer electronic products. Competition from ODMs may increase if our business in these markets grows or if ODMs expand further into or beyond these markets.

Sustainability

Benchmark is committed to being a responsible corporate citizen. We use the term "sustainability" to describe our long-term approach to address social, economic and environmental responsibilities that achieve our business objectives and contribute to a more sustained world. Our sustainability priorities include: upholding the principle of human rights and observing fair labor practices within our organization and our supply chain; protecting the environment by conserving energy and natural resources and preventing pollution through appropriate management technology and practices; ensuring ethical organizational governance; and applying fair, transparent and accountable operating practices. All Benchmark manufacturing facilities are either currently certified or undergoing certification to ISO 14001. We have endorsed the Electronics Industry Citizenship Coalition Code of Conduct, and flowed specific requirements to our supply chain through our Purchase Order Terms and Conditions, Supplier Assurance Manual, and Supplier Code of Conduct. We have also completed a B-level Global Reporting Initiative (GRI) Report as a baseline for our sustainability efforts.

Governmental Regulation

Our operations, and the operations of businesses that we acquire, are subject to certain foreign, federal, state and local regulatory requirements relating to security clearance, environmental, waste management, and health and safety matters. We believe we operate in substantial compliance with all applicable requirements. However, material costs and liabilities may arise from these requirements or from new, modified or more stringent requirements, which could affect our earnings and competitive position. In addition, our past, current and future operations, and those of businesses we 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.

We periodically generate and temporarily handle limited amounts of materials that are considered hazardous waste under applicable law. We contract for the off-site disposal of these materials and have implemented a waste management program to address related regulatory issues.

Employees

As of December 31, 2012, we employed 9,949 people, of whom 7,160 were engaged in manufacturing and operations, 1,486 in materials control and procurement, 510 in design and development, 271 in marketing and sales, and 522 in administration. None of our domestic employees are represented by a labor union. In certain international locations, our employees are represented by labor unions and by works councils. Some European countries also often have mandatory legal provisions regarding terms of employment, severance compensation and other conditions of employment that are more restrictive than U.S. laws. We have never experienced a strike or similar work stoppage and we believe that our employee relations are satisfactory.

Segments and International Operations

We have manufacturing facilities in the Americas, Asia and Europe regions to serve our customers. Benchmark is operated and managed geographically and management evaluates performance and allocates resources on a geographic basis. We currently operate outside the United States in Brazil, China, Malaysia, Mexico, the Netherlands, Romania, Singapore and Thailand. During 2012, 2011 and 2010, 50%, 51% and 48%, respectively, of our sales were from our international operations. Our foreign sales and operations are subject to risk of doing business abroad, including fluctuations in the value of currency, export duties, import controls and trade barriers, including stoppages, longer payment cycles, burdens of complying with a wide variety of foreign laws and, in certain parts of the world, political instability. Additionally, some of our operations are in developing countries. Certain events, including natural disasters, can impact the infrastructure of a developing country more severely than they would impact the infrastructure of a developed country. A developing country can also take longer to recover from such events, which could lead to delays in our ability to resume full operations. There can be no assurances that these factors will not have an adverse impact on our results of operations in the future. See Item 1A for factors pertaining to our international sales and fluctuations in the exchange rates of foreign currency and for further discussion of potential adverse effects in operating results associated with the risks of doing business abroad. See Note 8 and Note 12 of Notes to Consolidated Financial Statements in Item 8 of this report for segment and geographical information.

Available Information

Our internet address is http://www.bench.com. We make available free of charge through our internet website our filings with the Securities and Exchange Commission (SEC), including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after electronically filing such material with, or furnishing it to, the SEC. All reports we file with the SEC are also available free of charge via EDGAR through the SEC's website at http://www.sec.gov or to read and copy at the SEC Public Reference Room located at 100 F Street NE, Washington, DC 20549. Information can be obtained on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

Item 1A. ***Risk Factors.***

Adverse market conditions in the electronics industry could reduce our future sales and earnings per share.

Uncertainty over an erosion of global consumer confidence amidst concerns over declining asset values, inflation, volatility in energy costs, geopolitical issues, the availability and cost of credit, rising unemployment, and the stability and solvency of financial institutions, financial markets, businesses, and sovereign nations slowed global economic growth and have resulted in recessions in many countries, including in the United States, Europe and certain countries in Asia over the past several years. Even though we have seen signs of an overall economic recovery, such recovery may be weak and/or short-lived and recessionary conditions may return. If any of these potential negative economic conditions occur, they may result in lower spending by businesses in the future, which in turn may affect demand for our customers' products and thus adversely affect our sales. Consequently, our past operating results, earnings and cash flows may not be indicative of our future operating results, earnings and cash flows.

In addition to our customers or potential customers reducing or delaying orders, a number of other negative effects on our business could materialize, including the insolvency of key suppliers, which could result in production delays, shorter payment terms from suppliers due to reduced availability of credit default insurance in the market, the inability of customers to obtain credit, and the insolvency of one or more customers. Any of these effects could impact our ability to effectively manage inventory levels and collect receivables, increase our need for cash, and decrease our net revenue and profitability.

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. There can be no assurance that our reserves will be adequate. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional receivable and inventory reserves may be required and restructuring charges may be incurred.

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 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 and industry-wide shortages of electronic components, particularly of memory and logic devices, have occurred. For example, the 2011 earthquake and tsunami in Japan disrupted the global supply chain for certain components manufactured in Japan that were incorporated in the products we manufactured, and the flooding in Thailand in 2011 had a similar impact. Any such component shortages may result in delayed shipments, which could have an adverse effect on our profit margins. Also, 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 may bear the risk of component price increases that occur between periodic re-pricings of product during the term of a customer contract. Accordingly, certain component price increases could adversely affect our gross profit margins.

We are dependent on the success of our customers. When our customers experience a downturn in their business, we may be similarly affected.

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

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

Often, these industries are subject to rapid technological change, vigorous competition, short product life cycles and consequent product obsolescence. When our customers are adversely affected by these factors, we may be similarly affected.

The loss of a major customer would adversely affect us.

Historically, a substantial percentage of our sales have been made to a small number of customers. The loss of a major customer, if not replaced, would adversely affect us. Sales to our ten largest customers represented 56%, 53% and

47% of our sales in 2012, 2011 and 2010, respectively. In 2012, sales to International Business Machines Corporation represented 21% of our sales. Our future sales are dependent on the success of our customers, some of which operate in businesses associated with rapid technological change and consequent product obsolescence. 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 to our largest customers and any material delay, cancellation or reduction of orders from these customers or other significant customers would have a material adverse effect on our results of operations. In addition, we generate significant accounts receivables 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.

Most of our customers do not commit to long-term production schedules, which makes it difficult for us to schedule production and achieve maximum efficiency of our manufacturing capacity.

The volume and timing of sales to our customers may vary due to:

- variation in demand for our customers' products;
- our customers' attempts to manage their inventory;
- design changes;
- changes in our customers' manufacturing strategy; and
- acquisitions of or consolidations among customers.

Due in part to these factors, most of our customers do not commit to firm production schedules for more than one quarter in advance. Our inability to forecast the level of customer orders with certainty makes it difficult to schedule production and maximize utilization of manufacturing capacity. In the past, we have been required to increase staffing and other expenses in order to meet the anticipated demand of our customers. Anticipated orders from many of our customers have, in the past, failed to materialize or delivery schedules have been deferred as a result of changes in our customers' business needs, thereby adversely affecting our results of operations. On other occasions, our customers have required rapid increases in production, which have placed an excessive burden on our resources. Such customer order fluctuations and deferrals have had a material adverse effect on us in the past, and we may experience such effects in the future. A business downturn resulting from any of these external factors could have a material adverse effect on our operating income. See Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this report.

Our customers may cancel their orders, change production quantities, delay production or change their sourcing strategy.

EMS providers must provide increasingly rapid product turnaround for their customers. We generally do not obtain firm, long-term purchase commitments from our customers and we continue to experience reduced lead-times in customer orders. Customers may cancel their orders, change production quantities, delay production or change their sourcing strategy for a number of reasons. The degree of success or failure of our customers' products in the market affects our business. Cancellations, reductions, delays or changes in the sourcing strategy by a significant customer or by a group of customers could negatively impact our operating income.

In addition, we make significant decisions, including determining the levels of business that we will seek and accept, production schedules, component procurement commitments, personnel needs, capital expenditures and other resource requirements, based on our estimate of customer requirements. The short-term nature of our customers' commitments and the possibility of rapid changes in demand for their products may impede our ability to accurately estimate the future requirements of those customers.

On occasion, customers may require rapid increases in production, which can stress our resources and reduce operating margins. In addition, because many of our costs and operating expenses are relatively fixed, a reduction in customer demand can harm our gross profits and operating results. See Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this report.

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. See Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this report.

Our international operations may be subject to certain risks.

We currently operate outside the United States in Brazil, China, Malaysia, Mexico, the Netherlands, Romania, Singapore and Thailand. During 2012, 2011 and 2010, 50%, 51% and 48%, 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;
- coordinating communications and logistics across geographic distances and multiple time zones;
- less flexible employee relationships which can be difficult and expensive to terminate;
- political and economic instability (including acts of terrorism and outbreaks of war), which could impact our ability to ship and/or receive product;
- changes in government policies, regulatory requirements and laws, which could impact our business;
- 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;
- risk of governmental expropriation of our property;
- burdens of complying with a wide variety of foreign laws and labor practices, including minimum wage regulations;
- 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.

In addition, several of the countries where we operate have emerging or developing economies, which may be subject to greater currency volatility, negative growth, high inflation, limited availability of foreign exchange and other risks. Additionally, some of our operations are in developing countries. Certain events, including natural disasters, can impact the infrastructure of a developing country more severely than they would impact the infrastructure of a developed country. A developing country can also take longer to recover from such events, which could lead to delays in our ability to resume full operations. These factors may harm our results of operations, and any measures that we may implement to reduce the effect of volatile currencies and other risks of our international operations may not be effective. In our experience, entry into new international markets requires considerable management time as well as start-up expenses for market development, hiring and establishing office facilities before any significant revenues are generated. As a result, initial operations in a new market may operate at low margins or may be unprofitable.

Our operations in certain foreign locations receive favorable income tax treatment in the form of tax holidays or other incentives. In the event that such tax holidays or other incentives are not extended or are repealed, or in the event that we no longer qualify for such programs, our taxes may increase, which would reduce our net income.

Additionally, certain foreign jurisdictions restrict the amount of cash that can be transferred to the U.S or impose taxes and penalties on such transfers of cash. To the extent we have excess cash in foreign locations that could be used in, or is needed by, our operations in the United States, we may incur significant penalties and/or taxes to repatriate these funds.

Another significant legal risk resulting from our international operations is compliance with the U.S. Foreign Corrupt Practices Act (FCPA). In many foreign countries, particularly in those with developing economies, it may be a local custom that businesses operating in such countries engage in business practices that are prohibited by the FCPA, other U.S. laws and regulations, or similar laws of host countries and related anti-bribery conventions. Although we have implemented policies and procedures designed to cause compliance with the FCPA and similar laws, there can be no assurance that all of our employees, and agents, as well as those companies to which we outsource certain of our business operations, will not take actions in violation of our policies. Any such violation, even if prohibited by our policies, could have a material adverse effect on our business.

We operate in a highly competitive industry; if we are not able to compete effectively in the EMS industry, our business could be adversely affected.

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., Hon Hai Precision Industry Co., Ltd., Jabil Circuit, Inc., Plexus Corp and Sanmina-SCI Corporation. In addition, we may in the future encounter competition from other large electronic manufacturers that are selling, or may begin to sell, electronics manufacturing services.

We also face competition from the manufacturing operations of our current and future customers, who are continually evaluating the merits of manufacturing products internally against the advantages of outsourcing to EMS providers. In addition, in recent years, ODMs that provide design and manufacturing services to OEMs, have significantly increased their share of outsourced manufacturing services provided to OEMs in several markets, such as notebook and desktop computers, personal computer motherboards, and consumer electronic products. Competition from ODMs may increase if our business in these markets grows or if ODMs expand further into or beyond these markets.

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 more offshore facilities located where labor and other costs are lower.

We experience intense competition, which can intensify further as more companies enter the markets in which we operate, as existing competitors expand capacity and as the industry consolidates. The availability of excess manufacturing capacity at many of our competitors creates intense pricing and competitive pressure on the EMS industry as a whole and Benchmark in particular. 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.

The integration of acquired operations may pose difficulties for us.

Our capabilities have continued to grow through acquisitions and 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 any acquisition 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 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;
- pricing and other competitive pressures;
- 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 political and economic conditions; and
- local factors and events that may affect our production volume, such as local holidays or natural disasters.

Additionally, as is the case with many high technology companies, a significant portion of our shipments typically occur in the last few weeks of a given quarter. Accordingly, sales shifts from quarter to quarter may not be readily apparent until the end of a given quarter, and may have a significant effect on reported results.

Our investments in auction rate securities are subject to risks which may cause losses and affect the liquidity of these investments.

As of December 31, 2012, we held $12.2 million (par value) of auction rate securities, classified as long-term investments, whose underlying assets were in guaranteed student loans backed by a U. S. Government agency and municipal issue bonds. Auction rate securities are adjustable rate debt instruments whose interest rates were intended to reset every 7 to 35 days through an auction process. Overall changes in the global credit and capital markets led to failed auctions for these securities beginning in early 2008. These failed auctions, in addition to overall global economic conditions, impacted the liquidity of these investments and resulted in our continuing to hold these securities beyond their typical auction reset dates. The market for these types of securities remains illiquid as of December 31, 2012. As a result, our ability to liquidate and fully recover the carrying value of our adjustable rate securities in the near term may be limited or not exist. If the issuers of these adjustable rate securities are unable to successfully close future auctions or their credit quality deteriorates, we may in the future be required to record an impairment charge on these investments. We may be required to wait until market stability is restored for these instruments or until the final maturity of the underlying notes (up to 40 years) to realize our investments' recorded value. As of December 31, 2012, we had $1.9 million of unrealized losses on these securities that is recorded in other comprehensive loss. We estimated the fair value of each security using Level 3 inputs with the assistance of an independent valuation firm. We have not to date incurred any payment defaults on any auction rate securities we hold.

Start-up costs and inefficiencies related to new or transferred programs can adversely affect our operating results and such costs may not be recoverable if such new programs or transferred programs are cancelled.

Start-up costs, the management of labor and equipment resources in connection with the establishment of new programs and new customer relationships, and the need to estimate required resources in advance can adversely affect our gross margins and operating results. These factors are particularly evident in the early stages of the life cycle of new products and new programs or program transfers and in the opening of new facilities. These factors also affect our ability to efficiently use labor and equipment. We are currently managing a number of new programs. If any of these new programs or new customer relationships were terminated, our operating results could be harmed, particularly in the short term. We may not be able to recoup these start-up costs or replace anticipated new program revenues.

We may be affected by consolidation in the electronics industry, which could create increased pricing and competitive pressures on our business.

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 EMS industry as a whole and our business 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. We may need to increase our efficiencies to compete and may incur additional restructuring charges.

We are subject to the risk of increased taxes.

We base our tax position upon the anticipated nature and conduct of our business and upon our understanding of the tax laws of the various countries in which we have assets or conduct activities. Our tax position, however, is subject to review and possible challenge by taxing authorities and to possible changes in law. We cannot determine in advance the extent to which some jurisdictions may assess additional tax or interest and penalties on such additional taxes.

Several countries in which we are located allow for tax holidays or provide other tax incentives to attract and retain business. We have obtained holidays or other incentives where available. Our taxes could increase if certain tax holidays or incentives are retracted, or if they are not renewed upon expiration, or tax rates applicable to us in such jurisdictions are otherwise increased. In addition, further acquisitions may cause our effective tax rate to increase. Given the scope of our international operations and our international tax arrangements, proposed changes to the manner in which U.S. based multinational companies are taxed in the U.S. could have a material impact on our financial results and competitiveness.

We are exposed to intangible asset risk; our goodwill may become further impaired.

We have recorded intangible assets, including goodwill, in connection with business acquisitions. We are required to assess goodwill and intangible assets for impairment at least on an annual basis and whenever events or circumstances indicate that the carrying value may not be recoverable from estimated future cash flows. Our annual goodwill impairment analysis in the fourth quarter of 2008 indicated there was an impairment of goodwill in two of our reporting segments, the Americas and Europe, primarily due to a decline in our market capitalization and market turmoil. Accordingly, we recorded a non-cash impairment charge in the fourth quarter of 2008 totaling $247.5 million. A further significant and sustained decline in our market capitalization could result in material charges in future periods that could be adverse to our operating results and financial position. As of December 31, 2012, we had $37.9 million in goodwill and $11.2 million of identifiable intangible assets. See Note 1(i) to the consolidated financial statements in Item 8 of this report.

There are inherent uncertainties involved in estimates, judgments and assumptions used in the preparation of financial statements in accordance with US GAAP. Any changes in estimates, judgments and assumptions could have a material adverse effect on our financial position and results of operations.

The consolidated financial statements included in the periodic reports we file with the SEC are prepared in accordance with accounting principles generally accepted in the United States (US GAAP). The preparation of financial statements in accordance with US GAAP involves making estimates, judgments and assumptions that affect reported amounts of assets (including intangible assets), liabilities and related reserves, revenues, expenses and income. Estimates, judgments and assumptions are inherently subject to change in the future, and any such changes could result in corresponding changes to the amounts of assets, liabilities, revenues, expenses and income. Any such changes could have a material adverse effect on our financial position and results of operations.

We are involved in various legal proceedings.

In the past, we have been notified of claims relating to various matters including intellectual property rights, contractual matters or other issues arising in the ordinary course of business. In the event of such a claim, we may be required to spend a significant amount of money to defend or otherwise address the claim. Any litigation, even where a claim is without merit, could result in substantial costs and diversion of resources. Accordingly, the resolution or adjudication of such disputes, even those encountered in the ordinary course of business, could have a material adverse effect on our business, consolidated financial conditions and results of operations.

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

We depend significantly on our executive officers and other key personnel. The unexpected loss of the services of any one of these executive officers or other key personnel would have an adverse effect on us.

If we are unable to maintain our technological and manufacturing process expertise, our business could be adversely affected.

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. Our failure to maintain our technological and manufacturing process expertise could have a material adverse effect on our business.

Our stock price is volatile.

Our common shares have experienced significant price volatility, and such volatility may continue in the future. The price of our common shares 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 shares for reasons unrelated to our performance.

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

Our shareholder rights plan, as amended, provisions of our amended and restated articles of incorporation, as amended, and the Texas Business Corporation Act may delay, inhibit or prevent someone from gaining control of our company 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.

Compliance or the failure to comply with governmental regulations could cause us significant expense.

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

Our worldwide operations are subject to local laws and regulations. Over the last several years, we have become subject to the RoHS directive and the Waste Electrical and Electronic Equipment Directive. These directives restrict the distribution of products containing certain substances, including lead, within applicable geographies and require a manufacturer or importer to recycle products containing those substances.

These directives affect the worldwide electronics and electronics components industries as a whole. If we or our customers fail to comply with such laws and regulations, we could incur liabilities and fines and our operations could be suspended.

In addition, as climate change issues become more prevalent, the U.S. and foreign governments are beginning to respond to these issues. This increasing governmental focus on climate change may result in new environmental regulations that may negatively affect us, our suppliers and our customers. This could cause us to incur additional direct costs or obligations in complying with any new environmental regulations, as well as increased indirect costs resulting from our customers, suppliers or both incurring additional compliance costs that get passed on to us. These costs may adversely impact our operations and financial condition.

Our business may be adversely impacted by geopolitical events.

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

Our business may be adversely impacted by natural disasters.

Some of our facilities, including our corporate headquarters, are located in areas which may be impacted by hurricanes, earthquakes, water shortages, tsunamis, floods, typhoons, fires, extreme weather conditions and other natural or manmade disasters. Our insurance coverage with respect to natural disasters is limited and is subject to deductibles and coverage limits. Such coverage may not be adequate, or may not continue to be available at commercially reasonable rates and terms.

In addition, some of our facilities possess certifications necessary to work on specialized products that our other locations lack. If work is disrupted at one of these facilities, it may be impractical, or we may be unable, to transfer such specialized work to another facility without significant costs and delays. Thus, any disruption in operations at a facility possessing specialized certifications could adversely affect our ability to provide products and services to our customers, and thus negatively affect our relationships and financial results.

We may be exposed to interest rate fluctuations.

We will have exposure to interest rate risk under our variable rate revolving credit facilities to the extent we incur indebtedness under such facilities. These facilities' interest rates are based on the spread over the bank's prime rate or LIBOR. We are also exposed to interest rate risk on our invested cash balances.

Changes in financial accounting standards or policies have affected, and in the future may affect, our reported financial condition or results of operations. Additionally, changes in securities laws and regulations have increased, and are likely to continue to increase, our operating costs.

We prepare our financial statements in conformity with US GAAP. These principles are subject to interpretation by the Financial Accounting Standards Board (FASB), the American Institute of Certified Public Accountants (AICPA), the SEC and various bodies formed to interpret and create appropriate accounting policies. A change in those policies can have a significant effect on our reported results and may affect our reporting of transactions which are completed before a change is announced. Changes to those rules or the questioning of how we interpret or implement those rules may have a material adverse effect on our reported financial results or on the way we conduct business. For example, although not yet currently required, we could be required to adopt International Financial Reporting Standards (IFRS), which is different from US GAAP.

In addition, in connection with our Section 404 certification process, we may identify from time to time deficiencies in our internal controls. Any material weakness or deficiency in our internal controls over financial reporting could materially and negatively impact our reported financial results and the market price of our stock could significantly decline. Additionally, adverse publicity related to the disclosure of a material weakness or deficiency in internal controls over financial reporting could have a negative impact on our reputation, business and stock price.

Finally, corporate governance, public disclosure and compliance practices continue to evolve based upon continuing legislative action, agency rulemaking and stockholder advisory group policies. As a result, the number of rules and regulations applicable to us may increase, which would also increase our legal and financial compliance costs and the amount of time management must devote to compliance activities. For example, the Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of certain minerals originating from the Democratic Republic of Congo (DRC) and adjoining countries that are believed to be benefitting armed groups. As a result, the SEC has recently adopted new due diligence, disclosure and reporting requirements for companies which manufacture products that include components containing such minerals, regardless of whether the minerals are mined in the DRC or adjoining countries. These requirements may decrease the acceptable sources of supply of such minerals, increase their cost and disrupt our supply chain if we need to obtain components from different suppliers. Since we manufacture products containing such minerals for our customers, we will be required to comply with the new SEC rules, with our first required report due in May 2014. As the method of complying with the new regulation is unclear, the compliance process may be time-consuming and costly. Failure to comply with this new regulation could result in additional costs (including but not limited to, fines or penalties) as well as affect our reputation. Increasing regulatory burdens could also make it more difficult for us to attract and retain members of our board of directors, particularly to serve on our audit committee, and executive officers in light of an increase in actual or perceived workload and liability for serving in such positions.

Energy price increases may negatively impact our results of operations.

Certain of the components that we use in our manufacturing activities are petroleum-based. In addition, we, along with our suppliers and customers, rely on various energy sources (including oil) in our transportation activities. While significant uncertainty currently exists about the future levels of energy prices, a significant increase is possible. Increased energy prices could cause an increase to our raw material costs and transportation costs. In addition, increased transportation costs of certain of our suppliers and customers could be passed along to us. We may not be able to increase our product prices enough to offset these increased costs. In addition, any increase in our product prices may reduce our future customer orders and profitability.

Introducing programs requiring implementation of new competencies, including new process technology within our mechanical operations, could affect our operations and financial results.

The introduction of programs requiring implementation of new competencies, including new process technology within our mechanical operations, presents challenges in addition to opportunities. Deployment of such programs may require us to invest significant resources and capital in facilities, equipment and/or personnel. We may not meet our customers' expectations or otherwise execute properly or in a cost-efficient manner, which could damage our customer relationships and result in remedial costs or the loss of our invested capital and anticipated revenues and profits. In addition, there are risks of market acceptance and product performance that could result in less demand than anticipated and our having excess capacity. The failure to ensure that our agreed terms appropriately reflect the anticipated costs, risks, and rewards of such an opportunity could adversely affect our profitability. If we do not meet one or more of these challenges, our operations and financial results could be adversely affected.

If our manufacturing processes and services do not comply with applicable statutory and regulatory requirements, or if we manufacture products containing design or manufacturing defects, demand for our services may decline and we may be subject to liability claims.

We manufacture and design products to our customers' specifications, and, in some cases, our manufacturing processes and facilities may need to comply with applicable statutory and regulatory requirements. For example, medical devices that we manufacture or design, as well as the facilities and manufacturing processes that we use to produce them, are regulated by the U.S. Food and Drug Administration and non-U.S. counterparts of this agency. Similarly, items we manufacture for customers in the defense and aerospace industries, as well as the processes we use to produce them, are regulated by the Department of Defense and the Federal Aviation Authority. In addition, our customers' products and the manufacturing processes that we use to produce them often are highly complex. As a result, products that we manufacture may at times contain manufacturing or design defects, and our manufacturing processes may be subject to errors or not be in compliance with applicable statutory and regulatory requirements. Defects in the products we manufacture or design, whether caused by a design, manufacturing or component failure or error, or deficiencies in our manufacturing processes, may result in delayed shipments to customers or reduced or cancelled customer orders. If these defects or deficiencies are significant, our business reputation may also be damaged. The failure of the products that we manufacture or our manufacturing processes and facilities to comply with applicable statutory and regulatory requirements may subject us to legal fines or penalties and, in some cases, require us to shut down or incur considerable expense to correct a manufacturing process or facility. In addition, these defects may result in liability claims against us or expose us to liability to pay for the recall of a product. The magnitude of such claims may increase as we expand our medical and aerospace and defense manufacturing services, as defects in medical devices and aerospace and defense systems could seriously harm or kill users of these products and others. Even if our customers are responsible for the defects, they may not, or may not have resources to, assume responsibility for any costs or liabilities arising from these defects, which could expose us to additional liability claims.

Customer relationships with emerging companies may present more risks than with established companies.

Customer relationships with emerging companies present special risks because such companies do not have an extensive product history. As a result, there is less demonstration of market acceptance of their products, making it harder for us to anticipate needs and requirements than with established customers. In addition, due to the current economic environment, additional funding for such companies may be more difficult to obtain and these customer relationships may not continue or materialize to the extent we planned or we previously experienced. This tightening of financing for start-up customers, together with many start-up customers' lack of prior operations and unproven product markets increase our credit risk, especially in trade accounts receivable and inventories. Although we perform ongoing credit evaluations of our customers and adjust our allowance for doubtful accounts receivable for all customers, including start-up customers, based on the information available, these allowances may not be adequate. This risk may exist for any new emerging company customers in the future.

We are subject to breach of our security systems.

We have implemented security systems with the intent of maintaining the physical security of our facilities and protecting our customers' and our suppliers' confidential information. Despite such efforts, we are subject to breach of security systems, which may result in unauthorized access to our facilities and/or the information we are trying to protect. If unauthorized parties gain physical access to one of our facilities or electronic access to our information systems or such information is misdirected, lost or stolen during transmission or transport, any theft or misuse of such information could result in, among other things, unfavorable publicity, governmental inquiry and oversight, difficulty in marketing our services, allegations by our customers that we have not performed our contractual obligations, litigation by affected parties and possible financial obligations for damages related to the theft or misuse of such information, any of which could have a material adverse effect on our profitability and cash flow.

The risk of uninsured losses will be borne by Benchmark.

As a result of the massive flooding in the Fall of 2011, we have been unable to renew or otherwise obtain cost-effective flood insurance to adequately cover assets at our facilities in Thailand. We continue to investigate all flood risk-mitigation alternatives in Thailand. We maintain insurance on all our properties and operations—including our assets in Thailand—for risks and in amounts customary in the industry. While such insurance includes general liability, property & casualty, and directors & officers liability coverage, not all losses are insured, and we retain certain risks of loss through deductibles, limits and self-retentions. In the event we were to experience a significant uninsured loss in Thailand or elsewhere, it could have a material adverse effect on our business, financial condition and results of operations.

Item 1B. ***Unresolved Staff Comments.***

None.

Item 2. ***Properties.***

Our customers market numerous products throughout the world and therefore need to access manufacturing services on a global basis. To enhance our EMS offerings, we seek to locate our facilities either near our customers and our customers' end markets in major centers for the electronics industry or, where appropriate, in lower cost locations. Many of our plants located near customers and their end markets are focused primarily on final system assembly and test, while plants located in lower cost areas are engaged primarily in less complex component and subsystem manufacturing and assembly.

The following chart summarizes our principal manufacturing facilities owned or leased by Benchmark and its subsidiaries:

Location	Sq. Ft.	Ownership
Almelo, the Netherlands	132,000	Leased
Angleton, Texas	110,000	Owned
Ayudhaya, Thailand	281,000	Owned
Ayudhaya, Thailand	224,000	Owned
Brasov, Romania	131,000	Leased
Campinas, Brazil	49,000	Leased
Concord, California	77,000	Leased
Dunseith, North Dakota	45,000	Owned
Dunseith, North Dakota	51,000	Leased
Freemont, California	52,000	Leased
Guadalajara, Mexico	214,000	Leased
Guaymas, Mexico	52,000	Leased
Huntsville, Alabama	180,000	Owned
Korat, Thailand	190,000	Owned
Nashua, New Hampshire	154,000	Leased
Penang, Malaysia	103,000	Owned
Penang, Malaysia	190,000	Owned
Rochester, Minnesota	250,000	Leased
Suzhou, China	326,000	Owned
Singapore	42,000	Leased
Tempe, Arizona	48,000	Leased
Winona, Minnesota	181,000	Owned
Total	3,082,000	

We lease other facilities with a total of 13,000 sq. ft. that house individuals that provide engineering and procurement services. We also own facilities with a total of 366,000 sq. ft. that are currently not in operation.

24

Item 3. ***Legal Proceedings.***

We are involved in various legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position or results of operations.

Item 4. ***Mine Safety Disclosures.***

Not applicable.

PART II

Item 5. ***Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities.***

Our common shares are listed on the New York Stock Exchange under the symbol "BHE." The following table shows the high and low sales prices for our common shares as reported on the New York Stock Exchange for the quarters (or portions thereof) indicated.

	High	Low
2013		
First quarter (through February 25, 2013)	$18.44	$16.46
2012		
Fourth quarter	$16.65	$12.54
Third quarter	$16.95	$12.95
Second quarter	$17.09	$12.77
First quarter	$18.87	$13.65
2011		
Fourth quarter	$15.54	$12.01
Third quarter	$17.04	$12.03
Second quarter	$19.21	$15.21
First quarter	$20.24	$17.18

The last reported sale price of our common shares on February 25, 2013, as reported by the New York Stock Exchange, was $17.44. There were approximately 835 record holders of our common shares as of February 25, 2013.

We have not paid any cash dividends on our common shares in the past. In addition, our credit facility includes restrictions on the amount of dividends we may pay to shareholders. We currently expect to retain future earnings for use in the operation and expansion of our business and do not anticipate paying cash dividends in the foreseeable future.

Issuer Purchases of Equity Securities

The following table provides information about the Company’s repurchase of its equity securities that are registered pursuant to Section 12 of the Exchange Act during the quarter ending December 31, 2012, at a total cost of $15.7 million:

Period	(a) Total Number of Shares (or Units) Purchased[1]	(b) Average Price Paid per Share (or Unit)[2]	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs[3]
October 1 to 31, 2012	613,800	$ 15.31	613,800	$94.3 million
November 1 to 30, 2012	375,000	$ 15.06	375,000	$88.7 million
December 1 to 31, 2012	40,000	$ 16.39	40,000	$88.0 million
Total	1,028,800	$ 15.26	1,028,800	

(1) All share repurchases were made on the open market.

(2) Average price paid per share is calculated on a settlement basis and excludes commission.

(3) On June 13, 2012, the Board of Directors of the Company approved the repurchase of up to $100 million of the Company’s outstanding common shares. Share purchases may be made in the open market, in privately negotiated transactions or block transactions, at the discretion of the Company’s management and as market conditions warrant. Purchases will be funded from available cash and may be commenced, suspended or discontinued at any time without prior notice. Shares repurchased under the program will be retired.

During the year ended December 31, 2012, the Company repurchased a total of 3.2 million common shares for $47.1 million at an average price of $14.59 per share. All share purchases were made in the open market and the shares repurchased through December 31, 2012 were retired.

26

Performance Graph

The following Performance Graph compares the cumulative total shareholder return on our common shares for the five-year period commencing December 31, 2007 and ending December 31, 2012, with the cumulative total return of the Standard & Poor's 500 Stock Index (which does not include Benchmark), and the Peer Group Index, which is composed of Celestica Inc., Flextronics International, Ltd., Jabil Circuit, Inc., Plexus Corp and Sanmina-SCI Corp. Dividend reinvestment has been assumed.

	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Benchmark Electronics, Inc.	$100.00	$72.00	$106.70	$102.40	$76.00	$93.70
Peer Group	$100.00	$33.60	$85.40	$93.20	$77.10	$80.80
S&P 500	$100.00	$61.50	$75.90	$85.60	$85.60	$97.10

NOTES: Assumes $100 invested on December 31, 2007 in Benchmark Electronics, Inc. Common Shares, in the S&P 500, and in the Peer Group Index. Reflects month-end dividend reinvestment, and annual reweighting of the Peer Group Index portfolios.

Item 6. ***Selected Financial Data.***

(in thousands, except per share data)	Year Ended December 31, 2012	2011	2010	2009	2008
Selected Statements of Income (Loss) Data					
Sales	$2,468,150	$2,253,030	$2,402,143	$2,089,253	$2,590,167
Cost of sales	2,291,412	2,114,195	2,214,728	1,943,188	2,414,231
Gross profit	176,738	138,835	187,415	146,065	175,936
Selling, general and administrative expenses	89,951	89,665	92,245	85,500	92,154
Restructuring charges(1)	2,200	4,515	6,724	8,264	2,780
Thailand flood related charges, net of insurance(2)	9,028	3,362	—	—	—
Goodwill impairment(3)	—	—	—	—	247,482
Income (loss) from operations	75,559	41,293	88,446	52,301	(166,480)
Interest expense	(1,580)	(1,327)	(1,362)	(1,399)	(1,455)
Interest income	1,306	1,768	1,621	2,210	8,675
Other income (expense)	154	(602)	(1,689)	(1,705)	1,772
Income tax expense (benefit)(4)	18,832	(10,827)	7,258	(1,974)	(21,856)
Net income (loss)	$56,607	$51,959	$79,758	$53,381	$(135,632)
Earnings (loss) per share:(5)					
Basic	$1.01	$0.88	$1.28	$0.82	$(2.02)
Diluted	$1.00	$0.87	$1.27	$0.82	$(2.02)
Weighted-average number of shares outstanding:					
Basic	56,320	59,284	62,141	64,758	67,060
Diluted	56,634	59,773	62,692	65,116	67,060

(in thousands)	December 31, 2012	2011	2010	2009	2008
Selected Balance Sheet Data					
Working capital	$883,676	$849,051	$891,637	$852,896	$813,035
Total assets	1,501,477	1,499,998	1,477,068	1,465,206	1,433,040
Total debt	10,600	11,019	11,381	11,681	11,939
Shareholders' equity	$1,139,525	$1,115,748	$1,119,225	$1,090,389	$1,050,574

(1) See Note 15 to the Consolidated Financial Statements for a discussion of the restructuring charges occurring in 2012, 2011 and 2010. During 2009 and 2008, the Company recognized restructuring charges totaling $8.3 million and $2.8 million related to reductions in workforce and the resizing and closure of certain facilities.

(2) See Note 16 to the Consolidated Financial Statements for a discussion of Thailand flood related charges, net of insurance.

(3) During the fourth quarter of 2008, the Company recorded a non-cash goodwill impairment charge totaling $247.5 million.

(4) See Note 8 to the Consolidated Financial Statements for a discussion of income taxes. During the third quarter of 2009, the Company recorded a $2.7 million discrete tax benefit related to a previously closed facility, a $2.4 million discrete tax benefit related to a revaluation loss in Mexico and a $1.9 million discrete tax benefit related to intercompany pricing deductions. During the third quarter of 2008, the Company recorded a $3.4 million discrete tax benefit related to a previously closed facility.

(5) See Note 1(j) to the Consolidated Financial Statements for the basis of computing earnings (loss) per share.

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations.***

References in this report to "the Company," "Benchmark," "we," or "us" mean Benchmark Electronics, Inc. together with its subsidiaries. The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. They use words such as "anticipate," "believe," "intend," "plan," "projection," "forecast," "strategy," "position," "continue," "estimate," "expect," "may," "will," or those terms or other variations of them or comparable terminology. In particular, statements, express or implied, concerning future operating results or the ability to generate sales, income or cash flow are forward-looking statements. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions, including those discussed under Item 1A of this report. The future results of our operations may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results are beyond our ability to control or predict. Undue reliance should not be placed on any forward-looking statements. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated.

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto in Item 8 of this report.

OVERVIEW

We are a worldwide provider of integrated electronic manufacturing services. We provide our services to original equipment manufacturers (OEMs) of computers and related products for business enterprises, medical devices, industrial control equipment (which includes equipment for the aerospace and defense industry), testing and instrumentation products, and telecommunication equipment. The services that we provide are commonly referred to as electronics manufacturing services (EMS). We offer our customers comprehensive and integrated design and manufacturing services from initial product design to volume production including direct order fulfillment and post deployment services. Our manufacturing and assembly operations include printed circuit boards and subsystem assembly, box build and systems integration, the process of integrating subsystems and, often, downloading and integrating software, to produce a fully configured product. Our precision technology manufacturing capabilities complement our proven electronic manufacturing expertise by providing further vertical integration of critical mechanical components. These capabilities include precision machining, advanced metal joining, and functional testing for multiple industries including medical, instrumentation, aerospace and semiconductor capital equipment. We also are able to provide specialized engineering services, including product design, printed circuit board layout, prototyping, and test development. We believe that we have developed strengths in the manufacturing process for large, complex, high-density printed circuit boards as well as the ability to manufacture high and low volume products in lower cost regions such as Brazil, China, Malaysia, Mexico, Romania and Thailand.

During the past several years, we have made the necessary changes to align our business operations with our customers' demand. These changes include, among other activities, moving production between facilities, reducing staff levels, realigning our business processes and reorganizing our management. During the years ended December 31, 2012, 2011 and 2010, the Company recognized \$2.2 million, \$4.5 million and \$6.7 million (pre-tax) of restructuring charges, primarily related to the closure of facilities, capacity reductions and costs associated with involuntary termination of employees in connection with reductions in workforce of certain facilities worldwide.

We believe that our global manufacturing presence increases our ability to be responsive to our customers' needs by providing accelerated time-to-market and time-to-volume production of high quality products. These capabilities enable us to build stronger strategic relationships with our customers and to become a more integral part of their operations. Our customers face challenges in planning, procuring and managing their inventories efficiently due to customer demand fluctuations, product design changes, short product life cycles and component price fluctuations. We employ production management systems to manage their procurement and manufacturing processes in an efficient and cost-effective manner so that, where possible, components arrive on a just-in-time, as-and-when-needed basis. We are a significant purchaser of electronic components and other raw materials, and can capitalize on the economies of scale associated with our relationships with suppliers to negotiate price discounts, obtain components and other raw materials that are in short supply, and return excess components. Our expertise in supply chain management and our relationships with suppliers across the supply chain enables us to reduce our customers' cost of goods sold and inventory exposure.

We recognize revenue from the sale of manufactured products built to customer specifications and excess inventory when title and risk of ownership have passed, the price to the buyer is fixed and determinable and collectibility is reasonably assured, which generally is when the goods are shipped. Revenue from design, development and engineering services is recognized when the services are performed and collectibility is reasonably certain. Such services provided under fixed price contracts are accounted for using the percentage of completion method. We generally assume no significant obligations after product shipment as we typically warrant workmanship only. Therefore, our warranty provisions are generally not significant.

Our cost of sales includes the cost of materials, electronic components and other materials that comprise the products we manufacture, the cost of labor and manufacturing overhead, and adjustments for excess and obsolete inventory. Our procurement of materials for production requires us to commit significant working capital to our operations and to manage the purchasing, receiving, inspection and stocking of materials. Although we bear the risk of fluctuations in the cost of materials and excess scrap, we periodically negotiate cost of materials adjustments with our customers. Our gross margin for any product depends on the sales price, the proportionate mix of the cost of materials in the product and the cost of labor and manufacturing overhead allocated to the product. We typically have the potential to realize higher gross margins on products where the proportionate level of labor and manufacturing overhead is greater than that of materials. As we gain experience in manufacturing a product, we usually achieve increased efficiencies, which result in lower labor and manufacturing overhead costs for that product and higher gross margins. Our operating results are impacted by the level of capacity utilization of manufacturing facilities. Operating income margins have generally improved during periods of high production volume and high capacity utilization. During periods of low production volume, we generally have idle capacity and reduced operating income margins.

Severe Flooding in Thailand and Suspension of Thailand Operations

Our facilities in Ayudhaya, Thailand were flooded and remained closed from October 13, 2011 to December 20, 2011. As a result of the flooding and temporary closing of our facilities, we recognized estimated property losses of $46.2 million and incurred $13.4 million of flood related costs during the three months ended December 31, 2011. We carried property and business interruption insurance that we believe was appropriate and adequate for this situation. Our combined limit for real and personal property as well as business interruption insurance was approximately $300 million. As such, during the three months ended December 31, 2011, we recorded estimated recoveries from insurance for these property losses and flood related costs totaling $56.2 million. These estimated insurance recoveries included $46.2 million of property losses from the involuntary conversion of property, plant and equipment and inventory and $10.0 million of other costs directly related to the flooding in Thailand.

During the year ended December 31, 2012, we reduced the previously estimated property losses and the corresponding estimated insurance recoveries for these property losses by $5.1 million. In addition, we received $58.2 million of insurance proceeds, which exceeded our previously recorded insurance receivable by $7.1 million. The insurance proceeds included $48.2 million for Thailand property losses and $10.0 million for other flood related costs. As of December 31, 2012, we have collected our recorded insurance receivable for these property losses and flood related costs.

During the year ended December 31, 2012, we recognized additional Thailand flood related charges totaling $16.1 million, which were offset by the insurance recoveries of $7.1 million in excess of previously recognized inventory and property, plant and equipment losses. While all of these charges consist of costs directly attributable to the Thailand flood which we expect to recover from our insurance, we will record additional insurance recoveries when the appropriate recognition criteria have been met. We cannot estimate the timing of the receipt of insurance proceeds we will ultimately realize. We do not expect to incur additional significant Thailand flood related charges. As a result of the flooding, we have been unable to renew or otherwise obtain adequate cost-effective flood insurance to cover assets at our Thailand facilities. We continue to investigate all flood risk-mitigation alternatives in Thailand. In the event we were to experience a significant uninsured loss in Thailand or elsewhere, it could have a material adverse effect on our business, financial condition and results of operations.

The Ayudhaya, Thailand facilities are among our largest. As a result, the impact on revenue and operations was significant in the fourth quarter of 2011.

We and our customers implemented contingency and recovery plans as a result of the flood to help enable us to meet customer needs. As part of those plans, we restarted production at our Korat, Thailand facility in November 2011, and we shifted production from our Ayudhaya facilities to our various other sites around the globe. As a result of the capital purchases associated with our contingency and recovery plans, we have incurred approximately $25.4 million in capital expenditures.

Summary of 2012 Results

Sales for the year ended December 31, 2012 increased 9.5% to $2.5 billion compared to $2.3 billion in 2011. This increase in sales was primarily due to increased demand from our existing customers, including new program wins, most notably in the computers and related products for business enterprises industry, the telecommunication equipment industry and the medical devices industry, in addition to our recovery from the Thailand flooding that impacted us in the fourth quarter of 2011. These increases were partially offset by decreased demand from customers in the testing and instrumentation products industry as a result of a slowdown in the semiconductor industry and market uncertainty in the global economy.

Our future sales are dependent on the success of our customers, some of which operate in businesses associated with rapid technological change and consequent product obsolescence. Developments adverse to our major customers or their products, or the failure of a major customer to pay for components or services, could have an adverse effect on us. A substantial percentage of our sales have been made to a small number of customers, and the loss of a major customer, if not replaced, would adversely affect us. Sales to our ten largest customers represented 56% and 53% of our sales in 2012 and 2011, respectively. In 2012 and 2011, sales to International Business Machines Corporation represented 21% and 14%, respectively, of our sales.

Our gross profit as a percentage of sales increased to 7.2% for the year ended December 31, 2012 from 6.2% in the same period of 2011. This increase was primarily due to an increase in sales, partially driven by new programs, our continued focus on cost controls, and our recovery from the 2011 Thailand flood that resulted in lower sales volume and resulting under-absorbed manufacturing overhead costs. In addition, the 2011 gross profit was impacted by $4.4 million of settlement costs associated with the transfer of a major program. We experience fluctuations in gross profit from period to period. Different programs contribute different gross profits depending on factors such as the types of services involved, location of production, size of the program, complexity of the product and level of material costs associated with the various products. Moreover, new programs can contribute relatively less to our gross profit in their early stages when manufacturing volumes are usually lower, resulting in inefficiencies and unabsorbed manufacturing overhead costs. In addition, a number of our new and higher volume programs remain subject to competitive constraints that could exert downward pressure on our margins. During periods of low production volume, we generally have idle capacity and reduced gross profit.

We have undertaken initiatives to restructure our business operations with the intention of improving utilization and realizing cost savings in the future. During the year ended December 31, 2012, the Company recognized $2.2 million (pre-tax) of restructuring charges, primarily related to capacity reduction and reductions in workforce of certain facilities worldwide, primarily in Europe.

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 in Item 8 of this report. 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 ongoing basis, we evaluate our estimates, including those related to accounts receivable, inventories, income taxes, long-lived assets, stock-based compensation 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 materially from these estimates. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Allowance for doubtful accounts

Our accounts receivable balance is recorded net of allowances for amounts not expected to be collected from our customers. Because our accounts receivable are typically unsecured, we periodically evaluate the collectibility of our accounts based on a combination of factors, including a particular customer’s ability to pay as well as the age of the receivables. To evaluate a specific customer’s ability to pay, we analyze financial statements, payment history and various information or disclosures by the customer or other publicly available information. In cases where the evidence suggests a customer may not be able to satisfy its obligation to us, we set up a specific allowance in an amount we determine appropriate for the perceived risk. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Inventory obsolescence reserve

We purchase inventory based on forecasted demand and record inventory at the lower of cost or market. We reserve for estimated obsolescence as necessary in an amount equal to the difference between the cost of inventory and estimated market value based on assumptions of future demands and market conditions. We evaluate our inventory valuation on a quarterly basis based on current and forecasted usage and the latest forecasts of product demand and production requirements from our customers. Customers frequently make changes to their forecasts, requiring us to make changes to our inventory purchases, commitments, and production scheduling and which 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 customers' 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 our customers are not responsible for or on inventory which we believe our customers will be unable to fulfill their obligation to ultimately purchase. If actual market conditions are less favorable than those we projected, additional inventory write-downs may be required.

Income Taxes

We estimate our income tax provision in each of the jurisdictions in which we operate, including estimating exposures related to uncertain tax positions. We must also make judgments regarding the ability to realize the deferred tax assets. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event we were to subsequently determine that we would be able to realize our deferred tax assets in excess of our net recorded amount, an adjustment to the valuation allowance would increase income in the period such determination was made. Similarly, should we determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the valuation allowance would reduce income in the period such determination was made.

During 2011, we evaluated the recoverability of our deferred tax assets using the criteria described above and concluded that our projected future taxable income in the U.S. is sufficient to utilize additional net operating loss carryforwards and other deferred tax assets. As a result, we reduced our valuation allowance by $19.1 million in the U.S. and, at the same time, decreased our valuation allowance by $1.5 million in foreign jurisdictions.

We are subject to examination by tax authorities for varying periods in various U.S. and foreign tax jurisdictions. During the course of such examinations, disputes may occur as to matters of fact and/or law. In most tax jurisdictions the passage of time without examination will result in the expiration of applicable statutes of limitations, thereby precluding the taxing authority from conducting an examination of the tax period(s) for which such statute of limitations has expired. We believe that we have adequately provided for our tax liabilities.

Our subsidiary in Thailand has filed for a refund of $8.4 million of previously paid income taxes applicable to the years 2004 and 2005, which is included in other assets. The Thailand tax authorities have conducted their initial examination of the applicable refund filings. We received official notification that the tax authorities have rejected our refund claim during the fourth quarter of 2012. We have filed an appeal of the rejected refund claim as we believe that the conclusions of the Thailand tax authorities are incorrect. During 2011, we recorded a reserve for uncertain tax benefits of $7.1 million against this refund claim.

Impairment of Long-Lived Assets and Goodwill

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 is assessed annually for impairment, and is assessed 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. For purposes of performing our goodwill impairment assessment, our reporting units are the same as our operating segments as defined in Note 12 to the Consolidated Financial Statements in Item 8 of this report. As of December 31, 2012, 2011 and 2010, we had goodwill associated with our Asia business segment of approximately $37.9 million. Beginning in 2012, we elected to perform a qualitative assessment for our annual goodwill impairment test. If the qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, or if we elect to not perform a qualitative assessment, then we would be required to perform a quantitative impairment test for goodwill. This two-step process involves determining the fair values of the reporting units and comparing those fair values to the carrying values, including goodwill, of the reporting unit.

Based on our qualitative assessment of goodwill as of December 31, 2012, we concluded that it was more likely than not that the fair value of our Asia business segment was greater than its carrying amount, and therefore no further testing was required. We completed our annual impairment tests performed as of December 31, 2011 and 2010 and concluded that goodwill was not impaired. We estimated that the fair value of our Asia business segment exceeded its carrying amount by approximately 25% and 117%, respectively, as of December 31, 2011 and 2010. The decrease in 2011 was primarily a result of the Thailand flood. Circumstances that may lead to future impairment of goodwill include unforeseen decreases in future performance or industry demand, the restructuring of our operations as a result of a change in our business strategy or other factors.

In 2011 and 2010, we determined the fair value of our reporting units, with the assistance of an independent valuation firm, based upon a combination of the income approach (discounted cash flow method) and market approach (market comparable model) methodologies. In concluding on the fair value estimates of our reporting units in 2011 and 2010, the income approach was given a 75% weighting and the market approach was given a 25% weighting based on the quality and suitability of information available in performing the income approach, relative to the market approach.

The income approach methodology utilized in estimating the fair value of our reporting units for purposes of the goodwill impairment testing required various judgmental assumptions about revenues, operating margins, growth rates, working capital requirements and appropriate discount rate. In determining those judgmental assumptions, we considered a variety of data, including—for each reporting unit—its annual budget for the upcoming year, its longer-term business plan, anticipated future cash flows, market data, and historical cash flow growth rates. The key assumptions used to estimate the fair value of our reporting units under the discounted cash flow method were (i) projected revenue growth over a ten-year period and the annual compounded average growth rate; (ii) projected operating margins over a ten-year period; and (iii) a weighted-average cost of capital.

Under the market approach, the value of our reporting units was estimated by comparing it to publicly-traded firms in similar lines of business and geographic markets. The market approach takes into account, among other things, the market value of total invested capital to earnings before interest, taxes, depreciation and amortization (EBITDA) multiples of comparable companies adjusted to reflect differences in size and growth prospects. The selected multiples were then applied to the present value of our reporting unit’s projected EBITDA to arrive at an indicated range of value. This value was then adjusted for a control premium of 25% in 2011 and 30% in 2010 based on a review of premiums paid for companies similar in nature to our reporting units and then adjusted for any working capital requirement excess (deficit) to determine a final value under the market approach.

Changes in economic and operating conditions that occur after the annual impairment analysis or an interim impairment analysis, and that impact these assumptions, may result in a future goodwill impairment charge.

Stock-Based Compensation

We recognize stock-based compensation expense in our consolidated statements of income. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. Option-pricing models require the input of subjective assumptions, including the expected life of the option and the expected stock price volatility. Judgment is also required in estimating the number of stock-based awards that are expected to vest as a result of satisfaction of time-based vesting schedules. If actual results or future changes in estimates differ significantly from our current estimates, stock-based compensation could increase or decrease. For restricted stock unit awards with performance conditions, compensation expense is based on the probability that the performance goals will be achieved, which is monitored by management throughout the requisite service period. If it becomes probable, based on our expectation of performance during the measurement period, that more or less than the previous estimate of the awarded shares will vest, an adjustment to stock-based compensation expense will be recognized as a change in accounting estimate. See Note 1(m) to the Consolidated Financial Statements in Item 8 of this report.

Recently Enacted Accounting Principles

See Note 1(q) to the Consolidated Financial Statements in Item 8 of this report for a discussion of recently enacted accounting principles.

RESULTS OF OPERATIONS

The following table presents the percentage relationship that certain items in our 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 Consolidated Financial Statements and Notes thereto in Item 8 of this report.

	Year ended December 31,		
	2012	2011	2010
Sales	100.0%	100.0%	100.0%
Cost of sales	92.8	93.8	92.2
Gross profit	7.2	6.2	7.8
Selling, general and administrative expenses	3.6	4.0	3.8
Restructuring charges	0.1	0.2	0.3
Thailand flood related charges, net of insurance	0.4	0.1	-
Income from operations	3.1	1.8	3.7
Other expense, net	(0.0)	(0.0)	(0.1)
Income before income taxes	3.1	1.8	3.6
Income tax expense (benefit)	0.8	(0.5)	0.3
Net income	2.3%	2.3%	3.3%

Year Ended December 31, 2012 Compared With Year Ended December 31, 2011

Sales

Sales for the year ended December 31, 2012 increased 9.5% to $2.5 billion compared to $2.3 billion in 2011. The increase in sales was primarily due to increased demand from our existing customers, including new program wins, most notably in the computers and related products for business enterprises industry, telecommunication equipment industry and the medical devices industry, in addition to our recovery from the Thailand flooding that impacted us in the fourth quarter of 2011. These increases were partially offset by decreased demand from customers in the testing and instrumentation products industry as a result of a slowdown in the semiconductor industry and market uncertainty in the global economy. The following table sets forth the percentages of our sales by industry for 2012 and 2011.

	2012	2011
Computers and related products for business enterprises	31%	29%
Industrial control equipment	27	29
Telecommunication equipment	26	23

Medical devices	10	9
Testing and instrumentation products	6	10
	100 %	100 %

Computers and Related Products for Business Enterprises. Sales to customers in the computers and related products for business enterprises industry for the year ended December 31, 2012 increased 16% to $771.5 million from $663.2 million in 2011 primarily as a result of new program wins.

Industrial Control Equipment. Sales to customers in the industrial control equipment industry for the year ended December 31, 2012 increased 3% to $660.2 million from $641.4 million in 2011.

Telecommunication Equipment. Sales to customers in the telecommunication equipment industry for the year ended December 31, 2012 increased 22% to $637.9 million from $521.8 million in 2011 primarily as a result of our recovery from the Thailand flooding that impacted us in the fourth quarter of 2011 as well as new program wins.

Medical Devices. Sales to customers in the medical devices industry for the year ended December 31, 2012 increased 15% to $244.1 million from $212.2 million in 2011 primarily as a result of new program wins.

Testing and Instrumentation Products. Sales to customers in the testing and instrumentation products industry for the year ended December 31, 2012 decreased 28% to $154.4 million from $214.5 million in 2011 as a result of a slowdown in the semiconductor industry and market uncertainty in the global economy.

Our future sales are dependent on the success of our customers, some of which operate in businesses associated with rapid technological change and consequent product obsolescence. Developments adverse to our major customers or their products, or the failure of a major customer to pay for components or services, could have an adverse effect on us. Adverse worldwide economic conditions have impacted our customers. See Note 9 to the Consolidated Financial Statements in Item 8 of this report.

A substantial percentage of our sales have been made to a small number of customers, and the loss of a major customer, if not replaced, would adversely affect us. Sales to our ten largest customers represented 56% and 53% of our sales in 2012 and 2011, respectively. In 2012 and 2011, sales to International Business Machines Corporation represented 21% and 14%, respectively, of our sales.

Our international operations are subject to the risks of doing business abroad. See Item 1A for factors pertaining to our international sales and fluctuations in the exchange rates of foreign currency and for further discussion of potential adverse effects in operating results associated with the risks of doing business abroad. During 2012 and 2011, 50% and 51%, respectively, of our sales were from our international operations.

We had a backlog of approximately $1.5 billion at December 31, 2012, as compared to the 2011 year-end backlog of $1.6 billion. Backlog consists of purchase orders received, including, in some instances, forecast requirements released for production under customer contracts. Although we expect to fill substantially all of our backlog at December 31, 2012 during 2013, we do not have long-term agreements with all of our customers and customer orders can be canceled, changed or delayed by customers. The timely replacement of canceled, changed or delayed orders with orders from new customers cannot be assured, nor can there be any assurance that any of our current customers will continue to utilize our services. Because of these factors, backlog is not a meaningful indicator of future financial results.

Gross Profit

Gross profit increased 27% to $176.7 million for 2012 from $138.8 million in 2011 due primarily to an increase in sales. Our gross profit as a percentage of sales increased to 7.2% for the year ended December 31, 2012 from 6.2% in the same period of 2011. This increase was primarily due to an increase in sales, partially driven by new programs, our continued focus on cost controls, and our recovery from the 2011 Thailand flood that resulted in lower sales volume and resulting under-absorbed manufacturing overhead costs. In addition, the 2011 gross profit was impacted by $4.4 million of settlement costs associated with the transfer of a major program. We experience fluctuations in gross profit from period to period. Different programs contribute different gross profits depending on factors such as the types of services involved, location of production, size of the program, complexity of the product, and level of material costs associated with the various products. Moreover, new programs can contribute relatively less to our gross profit in their early stages when manufacturing volumes are usually lower, resulting in inefficiencies and under-absorbed manufacturing overhead costs. In addition, a number of our new and higher volume programs remain subject to competitive constraints that could exert downward pressure on our margins. During periods of low production volume, we generally have idle capacity and reduced gross profit.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to $90.0 million in 2012 from $89.7 million in 2011. The increase in selling, general and administrative expenses is primarily due to higher variable compensation expenses offset by reduced overhead resulting from cost controls and lower employee related expenses. Selling, general and administrative expenses, as a percentage of sales, were 3.6% and 4.0%, respectively, for 2012 and 2011. The decrease in selling, general and administrative expenses as a percentage of sales was primarily associated with the impact of higher sales volumes in 2012.

Restructuring Charges

We recognized $2.2 million in restructuring charges during 2012 primarily related to capacity reduction and reductions in workforce of certain facilities worldwide, primarily in Europe.

The recognition of the restructuring charges requires that we make certain judgments and estimates regarding the nature, timing and amount of costs associated with planned exit activities. To the extent our actual results in exiting these facilities differ from our estimates and assumptions, we may be required to revise the estimates of future liabilities, requiring the recognition of additional restructuring charges or the reduction of liabilities already recognized. At the end of each reporting period, we evaluate the remaining accrued balances to ensure that no excess accruals are retained and the utilization of the provisions are for their intended purpose in accordance with developed exit plans. See Note 15 to the Consolidated Financial Statements in Item 8 of this report.

Thailand Flood Related Charges, Net of Insurance

During 2012, we recognized additional Thailand flood related charges totaling $16.1 million offset by insurance recoveries totaling $7.1 million in excess of previously recognized inventory and property, plant and equipment losses. During 2011, we recognized $3.4 million in Thailand flood related charges, net of estimated insurance recoveries. The flood related charges consist of costs directly attributable to the Thailand flood, which are expected to be recovered from insurance in subsequent periods. We will record additional insurance recoveries when the appropriate recognition criteria have been met. We do not expect to incur significant additional Thailand flood related charges. See Note 16 to the Consolidated Financial Statements in Item 8 of this report.

Income Tax Expense (Benefit)

Income tax expense of $18.8 million represented an effective tax rate of 25.0% for 2012, compared with income tax benefit of $10.8 million at a negative effective tax rate of 26.3% in 2011. In 2012, we recorded a $0.5 million tax expense related to changes in tax rates in foreign jurisdictions. In 2011, we recorded a $0.6 million tax benefit as a result of a 2010 tax rate incentive received by one of our China subsidiaries during the first quarter of 2011, a $20.6 million tax benefit as a result of a decrease in valuation allowances on deferred tax assets, a $2.7 million tax benefit related to the settlement of income tax audits offset by a tax expense of $7.1 million of additional reserves for uncertain tax benefits. Excluding these tax benefits, the effective tax rate would have been 24.3% in 2012 compared to 14.7% in 2011. This increase in the effective tax rate was primarily due to a shift in the proportion of the consolidated taxable income earned in jurisdictions taxed at higher tax rates. We have been granted certain tax incentives, including tax holidays, for our subsidiaries in China, Malaysia and Thailand that will expire at various dates, unless extended or otherwise renegotiated, through 2012, 2015 and 2018, respectively, and are subject to certain conditions with which we expect to comply. See Note 8 to the Consolidated Financial Statements in Item 8 of this report.

On January 2, 2013 the American Taxpayer Relief Act (ATRA) of 2012 was signed into law. Some of the provisions were retroactive to January 1, 2012. Had the ATRA had been enacted and signed prior to January 1, 2013 our overall tax expense would have been approximately $ 0.8 million lower in 2012. This $0.8 million tax benefit will be reflected in income tax expense in the first quarter of 2013 as a discreet event.

Net Income

We reported net income of approximately $56.6 million, or $1.00 per diluted share for 2012, compared with net income of approximately $52.0 million, or $0.87 per diluted share for 2011. The net increase of $4.6 million in 2012 was due to the factors discussed above.

Year Ended December 31, 2011 Compared With Year Ended December 31, 2010

Sales

Sales for the year ended December 31, 2011 decreased 6% to $2.3 billion compared to $2.4 billion in 2010. This decrease was primarily due to reduced demand from customers in addition to the Thailand flood. The following table sets forth the percentages of our sales by industry for 2011 and 2010.

	2011	2010
Computers and related products for business enterprises	29 %	32 %
Industrial control equipment	29	25
Telecommunication equipment	23	23
Medical devices	9	10
Testing and instrumentation products	10	10
	100 %	100 %

During the year ended December 31, 2011, sales to customers in the medical devices industry, testing and instrumentation industry, computers and related products for business enterprises industry, and telecommunication equipment industry decreased 16%, 15%, 13% and 3%, respectively, from 2010. These decreases were partially offset by an 8% increase in sales to customers in the industrial control equipment industry during the same period.

During 2011 and 2010, 51% and 48%, respectively, of our sales were from our international operations.

We had a backlog of approximately $1.6 billion at December 31, 2011, as compared to the 2010 year-end backlog of $1.5 billion.

Gross Profit

Gross profit decreased 26% to $138.8 million for 2011 from $187.4 million in 2010. The impact on revenue and operations from the flooding in Thailand was significant in the fourth quarter of 2011. In addition to the lower sales volume and the resulting under-absorbed manufacturing overhead costs, the decrease in gross profit was also a result of $4.4 million of settlement costs associated with the transfer of a major program, new program ramp costs and capacity expansion costs, primarily in Asia, incurred in 2011.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased 3% to $89.7 million in 2011 from $92.2 million in 2010 primarily due to reduced stock-based compensation expenses, decreased overhead resulting from cost controls and lower variable compensation expenses, which were partially offset by higher other employee related costs. Selling, general and administrative expenses, as a percentage of sales, were 4.0% and 3.8%, respectively, for 2011 and 2010. The increase in selling, general and administrative expenses as a percentage of sales was due to the impact of lower sales volumes during 2011.

Restructuring Charges

We recognized $4.5 million in restructuring charges during 2011 primarily related to the decision to close our Dublin, Ireland facility.

Thailand Flood Related Charges, Net of Insurance

We recognized $3.4 million in Thailand flood related charges, net of insurance recoveries during the fourth quarter of 2011. See Note 16 to the Consolidated Financial Statements in Item 8 of this report.

Income Tax Expense (Benefit)

Income tax benefit of $10.8 million represented a negative effective tax rate of 26.3% for 2011, compared with income tax expense of $7.3 million at an effective tax rate of 8.3% for the same period in 2010. In 2011, we recorded a $0.6 million tax benefit as a result of a 2010 tax rate incentive received by one of our China subsidiaries during the first quarter of 2011, a $20.6 million tax benefit as a result of a decrease in valuation allowances on deferred tax assets, a $2.7 million tax benefit related to the settlement of income tax audits offset by $7.1 million of additional reserves for uncertain tax benefits. In 2010, we recorded a $10.5 million tax benefit as a result of a decrease in valuation allowances on deferred tax assets in the U.S., and a $1.4 million tax benefit as a result of the expiration of the statute of limitations primarily related to an intercompany transaction between two of our subsidiaries. Excluding these tax benefits, the effective tax rate would have been 14.7% in 2011 compared to 22.0% in 2010. This decrease in the effective tax rate was primarily due to a shift in the proportion of the consolidated taxable income earned in jurisdictions taxed at lower tax rates, an increase in tax incentives in certain foreign jurisdictions and the reduced tax rate in China for one of our subsidiaries during 2011. See Note 8 to the Consolidated Financial Statements in Item 8 of this report.

Net Income

We reported net income of approximately $52.0 million, or $0.87 per diluted share for 2011, compared with net income of approximately $79.8 million, or $1.27 per diluted share for 2010. The net decrease of $27.8 million in 2011 was due to the factors discussed above.

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed our growth and operations through funds generated from operations and proceeds from the sale and maturity of our investments. Cash and cash equivalents totaled $384.6 million at December 31, 2012 and $283.9 million at December 31, 2011, of which $261.2 million at December 31, 2012 and $195.9 million at December 31, 2011 was held outside the U.S. in various foreign subsidiaries. Substantially all of the amounts held outside of the U.S. are intended to be indefinitely reinvested in foreign operations. Under current tax laws and regulations, if cash and cash equivalents held outside the U.S. were to be distributed to the U.S. in the form of dividends or otherwise, we would be subject to additional U.S. income taxes and foreign withholding taxes.

Cash provided by operating activities was $151.1 million in 2012. The cash provided by operations during 2012 consisted primarily of net income of $56.6 million adjusted for $35.7 million of depreciation and amortization, a $66.1 million decrease in inventories, and a $32.4 decrease in prepaid expense and other assets resulting from Thailand flood insurance recoveries, offset by a $34.4 million increase in accounts receivable and a $21.1 million decrease in accounts payable. Working capital was $883.7 million at December 31, 2012 and $849.0 million at December 31, 2011. We experienced a strong demand pull from customers late in the fourth quarter of 2012 which reduced inventories and improved cash flows from operations.

We are continuing the practice of purchasing components only after customer orders or forecasts are received, which mitigates, but does not eliminate, the risk of loss on inventories. Supplies of electronic components and other materials used in operations are subject to industry-wide shortages. In certain instances, suppliers may allocate available quantities to us. If shortages of these components and other material supplies used in operations occur, vendors may not ship the quantities we need for production and we may be forced to delay shipments, which would increase backorders and therefore impact cash flows.

Cash used in investing activities was $9.5 million for the year ended December 31, 2012 primarily due to the purchases of additional property, plant and equipment totaling $47.9 million, offset by Thailand flood property insurance proceeds totaling $23.4 million and proceeds from the redemptions of investments totaling $15.8 million. Purchases of additional property, plant and equipment were primarily of machinery and equipment in the Americas and Asia.

Cash used in financing activities was $43.7 million for the year ended December 31, 2012. During the year ended December 31, 2012, share repurchases totaled $47.1 million and we received $4.7 million from the exercise of stock options.

Under the terms of a credit agreement (the U.S. Credit Agreement), we have a $200.0 million five-year revolving credit facility to be used for general corporate purposes with a maturity date of July 30, 2017. The U.S. Credit Agreement includes an accordion feature under which total commitments under the facility may be increased by an additional $100 million, subject to satisfaction of certain conditions and lender approval. Interest on outstanding borrowings under the U.S. Credit Agreement is payable quarterly, at our option, at LIBOR plus 1.75% to 2.75% or a prime rate plus 0.75% to 1.75%, based upon our leverage ratio as specified in the U.S. Credit Agreement. A commitment fee of 0.30% to 0.40% per annum (based upon our liquidity ratio) on the unused portion of the revolving credit line is payable quarterly in arrears. As of December 31, 2012 and December 31, 2011, we had no borrowings outstanding under the Credit Agreement and $200.0 million was available for future borrowings.

The U.S. Credit Agreement is secured by our domestic inventory and accounts receivable, 100% of the stock of our domestic subsidiaries and 65% of the voting capital stock of each direct foreign subsidiary and substantially all of our and our domestic subsidiaries' other tangible and intangible assets. The U.S. Credit Agreement contains customary financial covenants as to debt leverage and fixed charges, and restricts our ability to incur additional debt, pay dividends, repurchase shares, sell assets and merge or consolidate with other persons. As of December 31, 2012, we were in compliance with all such covenants and restrictions.

Our Thailand subsidiary has a multi-purpose credit facility with Kasikornbank Public Company Limited (the Thai Credit Facility) that provides for approximately $11.3 million (350 million Thai baht) in working capital availability. The Thai Credit Facility is secured by land and buildings in Thailand. The availability of funds under the Thai Credit Facility is reviewed annually and is currently accessible through October 2013. As of December 31, 2012 and 2011, our Thailand subsidiary had no working capital borrowings outstanding.

Our operations, and the operations of businesses we acquire, are subject to certain foreign, federal, state and local regulatory requirements relating to environmental, waste management, health and safety matters. We believe we operate in substantial compliance with all applicable requirements and we seek to ensure that newly acquired businesses comply or will comply substantially with applicable requirements. To date, the costs of compliance and workplace and environmental remediation have not been material to us. However, material costs and liabilities may arise from these requirements or from new, modified or more stringent requirements in the future. In addition, our past, current and future operations, and the operations of businesses we have or may acquire, may give rise to claims of exposure by employees or the public, or to other claims or liabilities relating to environmental, waste management or health and safety concerns.

As of December 31, 2012, we had cash and cash equivalents totaling $384.6 million and $200.0 million available for borrowings under the U.S. Credit Agreement. During the next twelve months, we believe our capital expenditures will be approximately $35 million to $45 million, principally for machinery and equipment to support our ongoing business around the globe.

On June 13, 2012, our Board of Directors approved the repurchase of up to $100 million of our outstanding common shares (the 2012 Repurchase Program). As of December 31, 2012, we have $88.0 million remaining under the 2012 Repurchase Program to repurchase additional shares. We are under no commitment or obligation to repurchase any particular amount of common shares. Management believes that our existing cash balances and funds generated from operations will be sufficient to permit us to meet our liquidity requirements over the next twelve months. Management further believes that our ongoing cash flows from operations and any borrowings we may incur under our credit facilities will enable us to meet operating cash requirements in future years. Should we desire to consummate significant acquisition opportunities, our capital needs would increase and could possibly result in our need to increase available borrowings under our revolving credit facility or access public or private debt and equity markets. There can be no assurance, however, that we would be successful in raising additional debt or equity on terms that we would consider acceptable.

CONTRACTUAL OBLIGATIONS

We have certain contractual obligations that extend out beyond 2013 under lease obligations and debt arrangements. Non-cancelable purchase commitments do not typically extend beyond the normal lead-time of several weeks. Purchase orders beyond this time frame are typically cancelable. We do not utilize off-balance sheet financing techniques other than traditional operating leases and we have not guaranteed the obligations of any entity that is not one of our wholly owned subsidiaries. The total contractual cash obligations in existence at December 31, 2012 due pursuant to contractual commitments are:

	Payments due by period				
		Less than	1-3	3-5	More than
(in thousands)	Total	1 year	years	years	5 years
Operating lease obligations	$25,383	$ 6,817	$11,347	$4,510	$ 2,709
Capital lease obligations	17,440	1,550	3,194	3,323	9,373
Total obligations	$42,823	$ 8,367	$14,541	$7,833	$ 12,082

The amount of unrecognized tax benefits as of December 31, 2012 including interest and penalties was $21.3 million. We have not provided a detailed estimate of the timing of future cash outflows associated with the liabilities recognized in this balance due to the uncertainty of when the related tax settlements may become due. See Note 8 to the Consolidated Financial Statements in Item 8 of this report.

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2012, we did not have any significant off-balance sheet arrangements. See Note 10 to the Consolidated Financial Statements in Item 8 of this report.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk.***

Our international sales are a significant portion of our net sales; we are exposed to risks associated with operating internationally, including the following:

- Foreign currency exchange risk;
- Import and export duties, taxes and regulatory changes;
- Inflationary economies or currencies; and
- Economic and political instability.

Additionally, some of our operations are in developing countries. Certain events, including natural disasters, can impact the infrastructure of a developing country more severely than they would impact the infrastructure of a developed country. A developing country can also take longer to recover from such events, which could lead to delays in our ability to resume full operations.

We do not use derivative financial instruments for speculative purposes. As of December 31, 2012, we did not have any foreign currency hedges. In the future, significant transactions involving our international operations may cause us to consider engaging in hedging transactions to attempt to mitigate our exposure to fluctuations in foreign exchange rates. These exposures are primarily, but not limited to, vendor payments and intercompany balances in currencies other than the currency in which our foreign operations primarily generate and expend cash. Our international operations in some instances operate in a natural hedge because both operating expenses and a portion of sales are denominated in local currency. Our sales are substantially denominated in U.S. dollars. Our foreign currency cash flows are generated in certain Asian and European countries, Mexico and Brazil.

We are also exposed to market risk for changes in interest rates, a portion of which relates to our invested cash balances. We do not use derivative financial instruments in our investing activities. We place cash and cash equivalents and investments with various major financial institutions. We protect our invested principal funds by limiting default risk, market risk and reinvestment risk. As of December 31, 2012, the outstanding amount in the long-term investment portfolio included $12.2 million (par value) of auction rate securities with an average annual return of approximately 0.30%.

Item 8. Financial Statements and Supplementary Data.

BENCHMARK ELECTRONICS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except par value)	December 31, 2012		2011	
Assets				
Current assets:				
Cash and cash equivalents	$	384,579	$	283,920
Accounts receivable, net of allowance for doubtful accounts of $1,442 and $1,094, respectively		459,081		425,936
Inventories, net		324,041		391,580
Prepaid expenses and other assets		29,539		84,723
Income taxes receivable		8,062		6,667
Deferred income taxes		8,889		8,175
Total current assets		1,214,191		1,201,001
Long-term investments		10,324		24,673
Property, plant and equipment, net		176,104		163,660
Goodwill, net		37,912		37,912
Deferred income taxes		29,535		37,420
Other, net		33,411		35,332
	$	1,501,477	$	1,499,998
Liabilities and Shareholders' Equity				
Current liabilities:				
Current installments of capital lease obligations	$	497	$	419
Accounts payable		260,622		285,671
Income taxes payable		3,828		5,224
Accrued liabilities		65,568		60,636
Total current liabilities		330,515		351,950
Capital lease obligations, less current		10,103		10,600

installments						
Other long-term liabilities		19,578			21,700	
Deferred income taxes		1,756			-	
Shareholders' equity:						
Preferred shares, $0.10 par value; 5,000 shares authorized, none issued		-			-	
Common shares, $0.10 par value; 145,000 shares authorized; issued – 55,297 and 57,902, respectively; outstanding – 55,186 and 57,791, respectively		5,519			5,779	
Additional paid-in capital		651,148			674,498	
Retained earnings		493,666			449,193	
Accumulated other comprehensive loss		(10,536	)		(13,450	)
Less treasury shares, at cost; 111 shares		(272	)		(272	)
Total shareholders' equity		1,139,525			1,115,748	
Commitments and contingencies						
	$	1,501,477		$	1,499,998	

See accompanying notes to consolidated financial statements.

43

BENCHMARK ELECTRONICS, INC. AND SUBSIDIARIES

Consolidated Statements of Income

	Year ended December 31,		
(in thousands, except per share data)	2012	2011	2010
Sales	$2,468,150	$2,253,030	$2,402,143
Cost of sales	2,291,412	2,114,195	2,214,728
Gross profit	176,738	138,835	187,415
Selling, general and administrative expenses	89,951	89,665	92,245
Restructuring charges	2,200	4,515	6,724
Thailand flood related charges, net of insurance	9,028	3,362	—
Income from operations	75,559	41,293	88,446
Interest expense	(1,580)	(1,327)	(1,362)
Interest income	1,306	1,768	1,621
Other income (expense)	154	(602)	(1,689)
Income before income taxes	75,439	41,132	87,016
Income tax expense (benefit)	18,832	(10,827)	7,258
Net income	$56,607	$51,959	$79,758
Earnings per share:			
Basic	$1.01	$0.88	$1.28
Diluted	$1.00	$0.87	$1.27
Weighted-average number of shares outstanding:			
Basic	56,320	59,284	62,141
Diluted	56,634	59,773	62,692

See accompanying notes to consolidated financial statements.

44

BENCHMARK ELECTRONICS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

	Year ended December 31,		
(in thousands)	2012	2011	2010
Net income	$56,607	$51,959	$79,758
Other comprehensive income (loss):			
Foreign currency translation adjustments	993	(6,903)	(2,318)
Unrealized gain on investments, net of tax	1,476	526	536
Other	445	(111)	(187)
Comprehensive income	$59,521	$45,471	$77,789

The components of accumulated other comprehensive loss are as follows:

	December 31,	
(in thousands)	2012	2011
Foreign currency translation losses	$(8,681)	$(9,674)
Unrealized loss on investments, net of tax	(1,851)	(3,327)
Other	(4)	(449)
	$(10,536)	$(13,450)

See accompanying notes to consolidated financial statements.

BENCHMARK ELECTRONICS, INC. AND SUBSIDIARIES
Consolidated Statement of Shareholders' Equity

(in thousands)	Shares	Common shares	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury shares	Total shareholders' equity
Balances, December 31, 2009	64,097	$ 6,410	$ 732,956	$ 356,288	$ (4,993)	$ (272)	$ 1,090,389
Stock-based compensation expense	-	-	5,415	-	-	-	5,415
Shares repurchased and retired	(3,320)	(332)	(35,689)	(22,834)	-	-	(58,855)
Stock options exercised	290	29	3,223	-	-	-	3,252
Issuance of restricted shares, net of forfeitures	18	2	(2)	-	-	-	-
Excess tax benefit of stock-based compensation	-	-	1,235	-	-	-	1,235
Comprehensive income	-	-	-	79,758	(1,969)	-	77,789
Balances, December 31, 2010	61,085	6,109	707,138	413,212	(6,962)	(272)	1,119,225
Stock-based compensation expense	-	-	5,097	-	-	-	5,097
Shares repurchased and retired	(3,715)	(372)	(39,931)	(15,978)	-	-	(56,281)
Stock options exercised	257	26	2,545	-	-	-	2,571
Issuance of restricted shares, net of forfeitures	164	16	(16)	-	-	-	-
Excess tax shortfall of stock-based compensation	-	-	(335)	-	-	-	(335)
Comprehensive income	-	-	-	51,959	(6,488)	-	45,471
Balances, December 31, 2011	57,791	5,779	674,498	449,193	(13,450)	(272)	1,115,748
Stock-based compensation expense	-	-	6,270	-	-	-	6,270
Shares repurchased and retired	(3,224)	(322)	(34,650)	(12,134)	-	-	(47,106)
Stock options exercised	375	38	4,619	-	-	-	4,657
Issuance of restricted shares, net of forfeitures	244	24	(24)	-	-	-	-
Excess tax benefit of stock-based compensation	-	-	435	-	-	-	435
Comprehensive income	-	-	-	56,607	2,914	-	59,521
Balances, December 31, 2012	55,186	$ 5,519	$ 651,148	$ 493,666	$ (10,536)	$ (272)	$ 1,139,525

See accompanying notes to consolidated financial statements.

BENCHMARK ELECTRONICS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Year Ended December 31,		
(in thousands)	2012	2011	2010
Cash flows from operating activities:			
Net income	$56,607	$51,959	$79,758
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	35,713	35,484	39,830
Deferred income taxes	9,064	(17,991)	280
Asset impairment	-	46,530	237
Insurance recovery	-	(56,152)	-
Loss on liquidation of subsidiary	-	-	315
Gain on the sale of property, plant and equipment	(229)	(190)	(69)
Stock-based compensation expense	6,270	5,097	5,415
Excess tax shortfall (benefits) from stock-based compensation	(76)	14	(1,176)
Changes in operating assets and liabilities:			
Accounts receivable	(34,359)	27,703	(40,190)
Inventories	66,089	(72,666)	(48,008)
Prepaid expenses and other assets	32,375	12,087	(18,480)
Accounts payable	(21,081)	28,391	(16,675)
Accrued liabilities	3,176	2,655	5,356
Income taxes	(2,402)	(8,137)	(1,427)
Net cash provided by operations	151,147	54,784	5,166
Cash flows from investing activities:			
Proceeds from sales and redemptions of investments	15,825	11,150	10,925
Additions to property, plant and equipment	(47,911)	(71,396)	(35,778)
Proceeds from the sale of property, plant and equipment	346	369	257
Additions to purchased software	(1,124)	(601)	(261)
Thailand flood property insurance proceeds	23,372	-	-
Net cash used in investing activities	(9,492)	(60,478)	(24,857)
Cash flows from financing activities:			
Proceeds from stock options exercised	4,657	2,571	3,252
Excess tax (shortfall) benefits from stock-based compensation	76	(14)	1,176
Principal payments on capital lease obligations	(419)	(363)	(300)
Share repurchases	(47,106)	(56,281)	(58,855)
Debt issuance costs	(931)	-	-
Net cash used in financing activities	(43,723)	(54,087)	(54,727)
Effect of exchange rate changes	2,727	(2,644)	(480)
Net increase (decrease) in cash and cash equivalents	100,659	(62,425)	(74,898)
Cash and cash equivalents at beginning of year	283,920	346,345	421,243
Cash and cash equivalents at end of year	$384,579	$283,920	$346,345

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

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

Note 1—Summary of Significant Accounting Policies

(a) Business

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

(b) Principles of Consolidation

The consolidated financial statements include the financial statements of Benchmark Electronics, Inc. and its wholly owned and majority owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

(c) Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with an original maturity at the date of purchase of three months or less to be cash equivalents. Cash equivalents of $286.1 million and $155.0 million at December 31, 2012 and 2011, respectively, consist primarily of money-market funds, certificates of deposit, time deposits, commercial paper and U.S. Government backed Agency securities with an initial term of less than three months.

(d) Allowance for Doubtful Accounts

Accounts receivable are recorded net of allowances for amounts not expected to be collected. In estimating the allowance, management considers a specific customer's financial condition, payment history, and various information or disclosures by the customer or other publicly available information. Accounts receivable are charged off against the allowance after all reasonable efforts to collect the full amount (including litigation, where appropriate) have been exhausted.

(e) Investments

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A three-tier fair value hierarchy of inputs is employed to determine fair value measurements. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities. Level 2 inputs are observable prices that are not quoted on active exchanges, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable. Level 3 inputs are unobservable inputs employed for measuring the fair value of assets or liabilities. This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

As of December 31, 2012, $12.2 million (par value) of long-term investments were recorded at fair value. The long-term investments consist of auction rate securities, primarily secured by guaranteed student loans backed by a U.S. government agency, and are classified as available-for-sale. Auction rate securities are adjustable rate debt instruments whose interest rates were intended to reset every 7 to 35 days through an auction process. Overall changes in the global credit and capital markets led to failed auctions for these securities beginning in early 2008. These failed auctions, in addition to overall global economic conditions, impacted the liquidity of these investments and resulted in the Company continuing to hold these securities beyond their typical auction reset dates. The market for these types of securities remains illiquid as of December 31, 2012. These securities are classified as long-term investments and the contractual maturity of these securities is over ten years.

These long-term investments were valued using Level 3 inputs as of December 31, 2012, as the assets were subject to valuation using significant unobservable inputs. The Company estimated the fair value of each security with the assistance of an independent valuation firm using a discounted cash flow model to calculate the present value of projected cash flows based on a number of inputs and assumptions including the security structure and terms, the current market conditions and the related impact on the expected weighted-average life, interest rate estimates and default risk of the securities.

As of December 31, 2012, the Company has recorded an unrealized loss of $1.9 million on the long-term investments based upon this valuation. This unrealized loss reduced the fair value of the Company’s auction rate securities as of December 31, 2012 to $10.3 million. These investments have been in an unrealized loss position for greater than 12 months. During 2012, 2011 and 2010, the Company recorded unrealized gains of $1.5 million, $0.5 million and $0.5 million, respectively, on its long-term investments.

The Company conducts periodic reviews to identify and evaluate each investment that has an unrealized loss. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. Due to the unrealized losses on the auction rate securities held, the Company has assessed whether the calculated impairment is other-than-temporary. In performing this assessment, even though the Company has no intention to sell the securities before the amortized cost basis is recovered and believes it is more-likely-than-not that it will not be required to sell the securities prior to recovery, the Company has performed additional analyses to determine if a portion of the unrealized loss is considered a credit loss. A credit loss would be identified as the amount of the principal cash flows not expected to be received over the remaining term of the security as projected using the Company’s best estimates. The Company has assessed each security for credit impairment, taking into account factors such as (i) the length of time and the extent to which fair value has been below cost; (ii) activity in the market of the issuer which may indicate adverse credit conditions; (iii) the payment structure of the security; and (iv) the failure of the issuer of the security to make scheduled payments. The Company used an independent valuation firm to assist in making these assessments.

Based on these assessments, the Company has determined that there is no credit loss associated with its auction rate securities as of December 31, 2012, as shown by the cash flows expected to be received over the remaining life of the securities.

The following table provides a reconciliation of the beginning and ending balance of the Company’s auction rate securities classified as long-term investments measured at fair value using significant unobservable inputs (Level 3 inputs):

(in thousands)	2012	2011
Balance as of January 1	$24,673	$35,297
Net unrealized gains included in other comprehensive income	1,476	526

Sales of investments at par value	(15,825)	(11,150)
Balance as of December 31	$10,324	$24,673
Unrealized losses still held	$1,851	$3,327

The cumulative unrealized loss is included as a component of accumulated other comprehensive loss within shareholders’ equity in the accompanying consolidated balance sheet. As of December 31, 2012, there were no long-term investments measured at fair value using Level 1 or Level 2 inputs. All income generated from these investments is recorded as interest income.

(f) Inventories

Inventories include material, labor and overhead and are stated at the lower of cost (principally first-in, first-out method) or market.

(g) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is calculated on the straight-line method over the useful lives of the assets – 5 to 40 years for buildings and building improvements, 2 to 10 years for machinery and equipment, 2 to 10 years for furniture and fixtures and 2 to 5 years for vehicles. Leasehold improvements are amortized on the straight-line method over the shorter of the useful life of the improvement or the remainder of the lease term.

(h) Goodwill and Other Intangible Assets

Goodwill represents the excess of purchase price over fair value of net assets acquired. Goodwill and intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized, but instead assessed for impairment at least annually. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values.

(i) Impairment of Long-Lived Assets and Goodwill

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. Recoverability of assets to be held and used is evaluated by a comparison of the carrying amount of an asset to 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 is recognized by the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset. Assets to be disposed of would be separately disclosed and reported at the lower of the carrying amount or estimated fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be disclosed separately in the appropriate asset and liability sections of the balance sheet.

In September 2011, the Financial Accounts Standards Board (FASB) issued an accounting standards update that gives an entity the option to perform a qualitative assessment to determine whether or not it is required to calculate the fair value of a reporting unit. Based on this qualitative assessment, if the entity determines that it is not more likely than not that the reporting unit's fair value is less than its carrying value, then the entity is not required to perform the two-step goodwill impairment test. Effective January 1, 2012, the Company adopted the provisions of this update and, in connection with its annual goodwill impairment assessment as of December 31, 2012, concluded that goodwill was not impaired. The Company will continue to perform this qualitative assessment for goodwill impairment on an annual basis, at a minimum, and whenever events and changes in circumstances suggest that the carrying amount may be impaired. Circumstances that may lead to the impairment of goodwill include unforeseen decreases in future performance or industry demand or the restructuring of our operations as a result of a change in our business strategy.

The Company completed the annual two-step goodwill impairment test as of December 31, 2011 and 2010 and determined that goodwill was not impaired.

(j) 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 years ended December 31, 2012, 2011 and 2010. Stock equivalents include common shares issuable upon the exercise of stock options and other equity instruments, and are computed using the treasury stock method. Under the treasury stock method, the exercise price of a share, the amount of compensation cost, if any, for future service that the Company has not yet recognized, and the amount of estimated tax benefits that would be recorded in paid-in-capital, if any, when the share is exercised are assumed to be used to repurchase shares in the current period.

The following table sets forth the calculation of basic and diluted earnings per share.

	Year Ended December 31,		
(in thousands, except per share data)	2012	2011	2010
Net income	$56,607	$51,959	$79,758
Denominator for basic earnings per share – weighted- average number of common shares outstanding during the period	56,320	59,284	62,141
Incremental common shares attributable to exercise of outstanding dilutive options	150	270	455
Incremental common shares attributable to outstanding restricted shares, restricted stock units and phantom stock	164	219	96
Denominator for diluted earnings per share	56,634	59,773	62,692
Basic earnings per share	$1.01	$0.88	$1.28
Diluted earnings per share	$1.00	$0.87	$1.27

Options to purchase 3.7 million, 3.4 million and 2.7 million common shares in 2012, 2011 and 2010, respectively, were not included in the computation of diluted earnings per share because their effect would have been anti-dilutive.

(k) Revenue Recognition

Revenue from the sale of manufactured products built to customer specifications and excess inventory is recognized when title and risk of ownership have passed, the price to the buyer is fixed and determinable and recoverability is reasonably assured, which generally is when the goods are shipped. To a lesser extent, the Company also derives revenue from non-manufacturing services, such as product design, circuit board layout and test development. Revenue from design, development and engineering services is recognized when the services are performed and collectibility is reasonably certain. Such services provided under fixed price contracts are accounted for using the percentage of completion method. The Company assumes no significant obligations after shipment as the Company typically warrants workmanship only. Based on historical experience, the warranty provision is immaterial.

(l) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. The Company records a valuation allowance to reduce its deferred tax assets to the amounts that is more likely than not to be realized. The Company has considered the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in assessing the need for the valuation allowance.

(m) Stock-Based Compensation

All share-based payments to employees, including grants of employee stock options, are recognized in the financial statements based on their fair values. The total compensation cost recognized for stock-based awards was $6.3 million, $5.1 million and $5.4 million for 2012, 2011 and 2010, respectively. The total income tax benefit recognized in the income statement for stock-based awards was $2.1 million, $1.7 million and $1.9 million for 2012, 2011 and 2010, respectively. The compensation expense for stock-based awards includes an estimate for forfeitures and is recognized over the vesting period of the awards using the straight-line method. Cash flows from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for stock-based awards (excess tax benefits) are classified as cash flows from financing activities. Awards of restricted shares, restricted stock units, performance restricted stock units and phantom stock are valued at the closing market price of the Company’s common shares on the date of grant. For restricted stock unit awards with performance conditions, compensation expense is based on the probability that the performance goals will be achieved, which is monitored by management throughout the requisite service period. If it becomes probable, based on the Company’s expectation of performance during the measurement period, that more or less than the previous estimate of the awarded shares will vest, an adjustment to stock-based compensation expense will be recognized as a change in accounting estimate.

As of December 31, 2012, there was approximately $4.2 million of total unrecognized compensation cost related to nonvested stock options. That cost is expected to be recognized over a weighted-average period of 2.0 years. As of December 31, 2012, there was $4.5 million of total unrecognized compensation cost related to restricted share awards. That cost is expected to be recognized over a weighted-average period of 2.7 years. As of December 31, 2012, there was $1.3 million of total unrecognized compensation cost related to restricted stock units and phantom stock awards. That cost is expected to be recognized over a weighted-average period of 2.2 years. As of December 31, 2012, there was $2.2 million of total unrecognized compensation cost related to performance based restricted stock units. That cost is expected to be recognized over a weighted-average period of 2.8 years.

During the years ended December 31, 2012, 2011 and 2010, the Company issued 0.4 million, 0.4 million and 61 thousand options, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The weighted-average assumptions used to value the option grants during the years ended December 31, 2012, 2011 and 2010 were as follows:

	Year Ended December 31,		
	2012	2011	2010
Stock Options			
Expected term of options	6.3 years	6.2 years	7.0 years
Expected volatility	42 %	41 %	40 %
Risk-free interest rate	1.305 %	2.674 %	2.94 %
Dividend yield	zero	zero	zero

52

The expected term of the options represents the estimated period of time until exercise and is based on historical experience, giving consideration to the contractual terms, vesting schedules and expectations of future plan participant behavior. Separate groups of plan participants that have similar historical exercise behavior are considered separately for valuation purposes. Expected stock price volatility is based on the historical volatility of the Company's common shares. The risk-free interest rate is based on the U.S. Treasury zero-coupon rates in effect at the time of grant with an equivalent remaining term. The dividend yield reflects that the Company has not paid any cash dividends since inception and does not anticipate paying cash dividends in the foreseeable future.

The weighted-average fair value per option granted during the years ended December 31, 2012, 2011 and 2010 was $6.83, $8.14 and $9.03, respectively. The total cash received as a result of stock option exercises for the years ended December 31, 2012, 2011 and 2010 was approximately $4.7 million, $2.6 million and $3.3 million, respectively. The actual tax benefit realized as a result of stock option exercises and the vesting of other share-based awards during 2012, 2011 and 2010 was $1.3 million, $0.9 million and $1.3 million, respectively. For the years ended December 31, 2012, 2011 and 2010, the total intrinsic value of stock options exercised was $1.4 million, $1.4 million and $2.1 million, respectively.

The Company issued performance based restricted stock unit awards to employees during 2012 and 2011. The number of performance based restricted stock unit awards that will ultimately be earned will not be determined until the end of the performance periods, which are December 31, 2014 and 2015, and may vary from as low as zero to as high as three times the target number depending on the level of achievement of certain performance goals. The level of achievement of these goals is based upon the audited financial results of the Company for the last full calendar year within the performance period (the years ending December 31, 2014 and 2015). The performance goals consist of certain levels of achievement using the following financial metrics: revenue growth, operating income margin expansion, and return on invested capital. If the performance goals are not met based on the Company's financial results, the applicable performance based restricted stock unit awards will not vest and will be forfeited.

(n) Use of Estimates

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.

(o) Fair Values of Financial Instruments

The Company's financial instruments consist of cash equivalents, accounts receivable, accrued liabilities, accounts payable and capital lease obligations. The Company believes that the carrying value of these instruments approximate their fair value. As of December 31, 2012, the Company's long-term investments are recorded at fair value. See Note 10.

(p) Foreign Currency

For foreign subsidiaries using the local currency as their functional currency, assets and liabilities are translated at exchange rates in effect at the balance sheet date and income and expenses are translated at average exchange rates. The effects of these translation adjustments are reported in other comprehensive income. Exchange losses arising from transactions denominated in a currency other than the functional currency of the entity involved are included in other expense and totaled approximately $1.2 million, $1.5 million and $2.4 million in 2012, 2011, and 2010, respectively.

(q) Recently Enacted Accounting Principles

In December 2011, the FASB issued an amendment to disclosures about offsetting assets and liabilities. The amended standard requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Company will adopt the provisions of this guidance effective January 1, 2013. Adoption of this guidance is for disclosure purposes only and will not have any impact on the Company's consolidated financial statements.

The Company has determined that all other recently issued accounting standards will not have a material impact on its consolidated financial position, results of operations and cash flows, or do not apply to its operations.

Note 2—Inventories

Inventory costs are summarized as follows:

	December 31,	
(in thousands)	2012	2011
Raw materials	$213,027	$293,618
Work in process	67,221	71,574
Finished goods	43,793	26,388
	$324,041	$391,580

Note 3—Property, Plant and Equipment

Property, plant and equipment consists of the following:

	December 31,	
(in thousands)	2012	2011
Land	$6,172	$6,172
Buildings and building improvements	85,668	79,420
Machinery and equipment	390,237	363,803
Furniture and fixtures	6,799	7,351
Vehicles	893	784
Leasehold improvements	14,200	17,708
Construction in progress	2,147	1,405
	506,116	476,643
Less accumulated depreciation	(330,012)	(312,983)
	$176,104	$163,660

Note 4—Goodwill and Other Intangible Assets

Goodwill associated with the Company's Asia business segment totaled $37.9 million at December 31, 2012, 2011 and 2010.

Other assets consist primarily of acquired identifiable intangible assets, capitalized purchased software costs and assets held for sale. Other intangible assets as of December 31, 2012 and 2011 were as follows:

(in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$ 17,793	$ (10,702)	$ 7,091
Technology licenses	11,300	(7,880)	3,420
Other	868	(142)	726
Other intangible assets, December 31, 2012	$ 29,961	$ (18,724)	$ 11,237

(in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$ 17,763	$ (8,916)	$ 8,847
Technology licenses	11,300	(6,974)	4,326
Other	868	(118)	750
Other intangible assets, December 31, 2011	$ 29,931	$ (16,008)	$ 13,923

Customer relationships are being amortized on a straight-line basis over a period of ten years. Technology licenses are being amortized over their estimated useful lives in proportion to the economic benefits consumed. Amortization of other intangible assets for the years ended December 31, 2012, 2011 and 2010 was $2.7 million, $4.6 million and $4.2 million, respectively.

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

Year ending December 31,	Amount
2013	