

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2022

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

(State or other jurisdiction
of incorporation or organization)

74-2211011

(I.R.S. Employer
Identification No.)

**56 South Rockford Drive
Tempe, Arizona**
(Address of principal executive offices)

85281

(Zip Code)

(623) 300-7000

(Registrant's telephone number, including area code)

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

Title of each class

Common Stock, par value \$0.10 per share

Trading Symbol

BHE

Name of each exchange on which registered

The New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (\$232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 1, 2022, there were 35,176,226 shares of common stock of Benchmark Electronics, Inc., par value \$0.10 per share, outstanding.

TABLE OF CONTENTS

Page

PART I—FINANCIAL INFORMATION

Item 1.	<u>Financial Statements (Unaudited)</u>	1
	<u>Condensed Consolidated Balance Sheets</u>	1
	<u>Condensed Consolidated Statements of Income</u>	2
	<u>Condensed Consolidated Statements of Comprehensive Income</u>	3
	<u>Condensed Consolidated Statements of Shareholders' Equity</u>	4
	<u>Condensed Consolidated Statements of Cash Flows</u>	5
	<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	31
Item 4.	<u>Controls and Procedures</u>	31

PART II—OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	33
Item 1A.	<u>Risk Factors</u>	33
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	33
Item 6.	<u>Exhibits</u>	34
	<u>SIGNATURES</u>	35

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

BENCHMARK ELECTRONICS, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(unaudited)

(in thousands, except par value)	September 30, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 247,298	\$ 271,749
Restricted cash	2,039	—
Accounts receivable, net of allowance for doubtful accounts of \$408 and \$788, respectively	478,835	355,883
Contract assets	187,730	155,243
Inventories	746,920	523,240
Prepaid expenses and other assets	45,009	41,688
Income taxes receivable	372	341
Total current assets	1,708,203	1,348,144
Property, plant and equipment, net	204,154	186,666
Operating lease right-of-use assets	95,533	99,158
Goodwill	192,116	192,116
Deferred income taxes	8,669	5,972
Other assets, net	67,832	71,824
	<u>\$ 2,276,507</u>	<u>\$ 1,903,880</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Current installments of long-term debt	\$ 3,452	\$ 985
Accounts payable	522,499	426,555
Advance payments from customers	211,601	118,124
Income taxes payable	12,007	6,164
Accrued liabilities	99,341	102,554
Total current liabilities	848,900	654,382
Long-term debt, less current installments	296,425	129,289
Operating lease liabilities	87,983	90,878
Other long-term liabilities	42,498	55,445
Deferred income taxes	84	84
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$0.10 par value; 5,000 shares authorized, none issued	—	—
Common stock, \$0.10 par value; 145,000 shares authorized; issued and outstanding – 35,153 and 35,213, respectively	3,515	3,521
Additional paid-in capital	513,808	507,447
Retained earnings	504,419	479,992
Accumulated other comprehensive loss	(21,125)	(17,158)
Total shareholders' equity	<u>\$ 1,000,617</u>	<u>\$ 973,802</u>
	<u>\$ 2,276,507</u>	<u>\$ 1,903,880</u>

See accompanying notes to condensed consolidated financial statements.

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

(in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Sales	\$ 771,575	\$ 571,882	\$ 2,135,687	\$ 1,622,265
Cost of sales	704,825	518,177	1,952,579	1,478,420
Gross profit	66,750	53,705	183,108	143,845
Selling, general and administrative expenses	38,544	34,387	110,675	98,969
Amortization of intangible assets	1,591	1,596	4,792	4,793
Restructuring charges and other costs	1,331	6,428	4,518	9,600
Ransomware related incident costs (recovery), net	—	(500)	—	(3,944)
Income from operations	25,284	11,794	63,123	34,427
Interest expense	(3,493)	(1,987)	(7,428)	(6,215)
Interest income	452	122	843	451
Other income	1,087	500	1,577	664
Income before income taxes	23,330	10,429	58,115	29,327
Income tax expense	4,501	2,364	11,105	5,976
Net income	<u>\$ 18,829</u>	<u>\$ 8,065</u>	<u>\$ 47,010</u>	<u>\$ 23,351</u>
Earnings per share:				
Basic	\$ 0.54	\$ 0.23	\$ 1.34	\$ 0.65
Diluted	\$ 0.53	\$ 0.23	\$ 1.32	\$ 0.64
Weighted-average number of shares outstanding:				
Basic	35,151	35,423	35,184	35,806
Diluted	35,348	35,666	35,604	36,287

See accompanying notes to condensed consolidated financial statements.

BENCHMARK ELECTRONICS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income
(unaudited)

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income	\$ 18,829	\$ 8,065	\$ 47,010	\$ 23,351
Other comprehensive income (loss):				
Foreign currency translation adjustments	(3,541)	(1,438)	(8,197)	(3,146)
Unrealized gain on derivatives, net of tax	730	214	4,293	1,796
Other	(22)	113	(63)	369
Other comprehensive loss	(2,833)	(1,111)	(3,967)	(981)
Comprehensive income	<u>\$ 15,996</u>	<u>\$ 6,954</u>	<u>\$ 43,043</u>	<u>\$ 22,370</u>

See accompanying notes to condensed consolidated financial statements.

BENCHMARK ELECTRONICS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Shareholders' Equity
(unaudited)

(in thousands)	Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balances, December 31, 2021	35,213	\$ 3,521	\$ 507,447	\$ 479,992	\$ (17,158)	\$ 973,802
Stock-based compensation expense	—	—	13,282	—	—	13,282
Shares repurchased and retired	(376)	(37)	(4,177)	(5,177)	—	(9,391)
Stock options exercised	33	3	468	—	—	471
Vesting of restricted stock units	407	41	(41)	—	—	—
Shares withheld for taxes	(124)	(13)	(3,171)	—	—	(3,184)
Dividends declared	—	—	—	(17,406)	—	(17,406)
Net income	—	—	—	47,010	—	47,010
Other comprehensive loss	—	—	—	—	(3,967)	(3,967)
Balances, September 30, 2022	<u>35,153</u>	<u>\$ 3,515</u>	<u>\$ 513,808</u>	<u>\$ 504,419</u>	<u>\$ (21,125)</u>	<u>\$ 1,000,617</u>
Balances, June 30, 2022	35,140	\$ 3,514	\$ 509,172	\$ 491,379	\$ (18,292)	\$ 985,773
Stock-based compensation expense	—	—	4,795	—	—	4,795
Stock options exercised	1	—	12	—	—	12
Vesting of restricted stock units	18	2	(2)	—	—	—
Shares withheld for taxes	(6)	(1)	(169)	—	—	(170)
Dividends declared	—	—	—	(5,789)	—	(5,789)
Net income	—	—	—	18,829	—	18,829
Other comprehensive loss	—	—	—	—	(2,833)	(2,833)
Balances, September 30, 2022	<u>35,153</u>	<u>\$ 3,515</u>	<u>\$ 513,808</u>	<u>\$ 504,419</u>	<u>\$ (21,125)</u>	<u>\$ 1,000,617</u>
Balances, December 31, 2020	36,295	\$ 3,629	\$ 510,405	\$ 492,205	\$ (16,651)	\$ 989,588
Stock-based compensation expense	—	—	10,856	—	—	10,856
Shares repurchased and retired	(1,380)	(137)	(15,364)	(24,715)	—	(40,216)
Stock options exercised	29	3	343	—	—	346
Vesting of restricted stock units	373	37	(37)	—	—	—
Shares withheld for taxes	(108)	(11)	(3,141)	—	—	(3,152)
Dividends declared	—	—	—	(17,456)	—	(17,456)
Net income	—	—	—	23,351	—	23,351
Other comprehensive loss	—	—	—	—	(981)	(981)
Balances, September 30, 2021	<u>35,209</u>	<u>\$ 3,521</u>	<u>\$ 503,062</u>	<u>\$ 473,385</u>	<u>\$ (17,632)</u>	<u>\$ 962,336</u>
Balances, June 30, 2021	35,566	\$ 3,558	\$ 503,386	\$ 476,855	\$ (16,521)	\$ 967,278
Stock-based compensation expense	—	—	3,993	—	—	3,993
Shares repurchased and retired	(372)	(38)	(4,137)	(5,722)	—	(9,897)
Vesting of restricted stock units	22	2	(2)	—	—	—
Shares withheld for taxes	(7)	(1)	(178)	—	—	(179)
Dividends declared	—	—	—	(5,813)	—	(5,813)
Net income	—	—	—	8,065	—	8,065
Other comprehensive loss	—	—	—	—	(1,111)	(1,111)
Balances, September 30, 2021	<u>35,209</u>	<u>\$ 3,521</u>	<u>\$ 503,062</u>	<u>\$ 473,385</u>	<u>\$ (17,632)</u>	<u>\$ 962,336</u>

See accompanying notes to condensed consolidated financial statements.

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

(in thousands)	Nine Months Ended September 30,	
	2022	2021
Cash flows from operating activities:		
Net income	\$ 47,010	\$ 23,351
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	24,874	26,335
Amortization	8,113	6,628
Provision for doubtful accounts	(380)	40
Deferred income taxes	(4,138)	(2,110)
Asset impairments	—	4,358
Loss (gain) on the sale of property, plant and equipment	(246)	164
Gain on assets held for sale	(393)	—
Stock-based compensation expense	13,282	10,856
Changes in operating assets and liabilities:		
Accounts receivable	(123,600)	(2,342)
Contract assets	(32,487)	(17,415)
Inventories	(228,501)	(151,518)
Prepaid expenses and other assets	(9,820)	(9,470)
Accounts payable	84,588	114,477
Advance payments from customers	93,476	7,341
Accrued liabilities	(2,043)	(9,087)
Operating leases	(638)	(196)
Income taxes	6,186	(2,720)
Net cash used in operations	(124,717)	(1,308)
Cash flows from investing activities:		
Additions to property, plant and equipment	(30,179)	(29,497)
Proceeds from the sale of property, plant and equipment	289	222
Proceeds from the sale of assets held for sale	5,372	—
Additions to purchased software	(3,415)	(2,940)
Other	5	72
Net cash used in investing activities	(27,928)	(32,143)
Cash flows from financing activities:		
Debt issuance costs	(574)	—
Proceeds from stock options exercised	471	346
Employee taxes paid for with shares withheld	(3,184)	(3,152)
Dividends paid	(17,414)	(17,448)
Borrowings under credit agreement	593,000	30,000
Principal payments on credit agreement	(423,000)	(35,625)
Principal payments on finance leases	(123)	(833)
Share repurchases	(9,391)	(40,216)
Net cash provided by (used in) financing activities	139,785	(66,928)
Effect of exchange rate changes	(9,552)	(4,414)
Net decrease in cash and cash equivalents and restricted cash	(22,412)	(104,793)
Cash and cash equivalents and restricted cash at beginning of year	271,749	395,990
Cash and cash equivalents and restricted cash at end of period	\$ 249,337	\$ 291,197

See accompanying notes to condensed consolidated financial statements.

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

Note 1 – Basis of Presentation

Benchmark Electronics, Inc. (the Company) is a Texas corporation that provides advanced manufacturing services, which includes design and engineering services and technology solutions. From initial product concept to volume production, including direct order fulfillment and aftermarket services, the Company has been providing integrated services and solutions to original equipment manufacturers (OEMs) since 1979. The Company serves the following industries: aerospace and defense (A&D), medical technologies, complex industrials, semiconductor capital equipment (Semi-Cap), next-generation telecommunications and advanced computing. The Company has manufacturing operations located in the United States and Mexico (the Americas), Asia and Europe.

The unaudited condensed consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) relating to interim financial statements. The condensed consolidated financial statements reflect all normal and recurring adjustments necessary in the opinion of management for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 (the 2021 10-K).

Management 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 condensed consolidated financial statements in accordance with generally accepted accounting principles in the United States (U.S. GAAP) for interim financial statements. However, actual results could differ materially from these estimates.

Note 2 – New Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2020-04, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting (Topic 848)*. The pronouncement provides temporary optional expedients and exceptions for applying U.S. GAAP to transactions affected by reference rate (e.g., London Interbank Offered Rate (LIBOR)) reform if certain criteria are met to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. This update is effective as of March 12, 2020 through December 31, 2022. On May 20, 2022, the Company entered into an amendment to the Amended and Restated Credit Agreement (as defined in Note 5), which triggered a transition from LIBOR to the Bloomberg Short-Term Bank Yield Index Rate (BSBY). This transition and the adoption of ASU No. 2020-04 did not have a material impact on our consolidated financial statements.

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

Note 3 – Inventories

Inventory costs are summarized as follows:

(in thousands)	September 30, 2022	December 31, 2021
Raw materials	\$ 729,202	\$ 504,307
Work in process	15,301	15,338
Finished goods	2,417	3,595
	<hr/> <u>\$ 746,920</u>	<hr/> <u>\$ 523,240</u>

Note 4 – Goodwill and Other Intangible Assets

Goodwill allocated to the Company's reportable segments were as follows:

(in thousands)	Americas	Asia	Total
Goodwill as of September 30, 2022 and December 31, 2021	<hr/> <u>\$ 154,014</u>	<hr/> <u>\$ 38,102</u>	<hr/> <u>\$ 192,116</u>

Other assets, net consist primarily of acquired identifiable intangible assets and capitalized purchased software costs. Acquired identifiable intangible assets and purchased software as of September 30, 2022 and December 31, 2021 were as follows:

(in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 99,981	\$ (64,282)	\$ 35,699
Purchased software costs	51,910	(35,621)	16,289
Technology licenses	26,800	(26,800)	—
Trade names and trademarks	7,800	—	7,800
Other	868	(374)	494
Intangible assets, September 30, 2022	<u>\$ 187,359</u>	<u>\$ (127,077)</u>	<u>\$ 60,282</u>

(in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 100,136	\$ (59,680)	\$ 40,456
Purchased software costs	49,788	(34,325)	15,463
Technology licenses	26,800	(26,800)	—
Trade names and trademarks	7,800	—	7,800
Other	868	(356)	512
Intangible assets, December 31, 2021	<u>\$ 185,392</u>	<u>\$ (121,161)</u>	<u>\$ 64,231</u>

Customer relationships are being amortized on a straight-line basis over a period of 10 to 14 years. Capitalized purchased software costs are amortized straight-line over the estimated useful life of the related software, which ranges from 2 to 14 years. Technology licenses are being amortized over their estimated useful lives in proportion to the economic benefits consumed. The Company's acquired trade names and trademarks have been determined to have an indefinite life. Amortization on the statements of cash flow for the nine months ended September 30, 2022 and 2021 were as follows:

(in thousands)	Nine Months Ended September 30,	
	2022	2021
Amortization of intangible assets	\$ 4,792	\$ 4,793
Amortization of capitalized purchased software costs	3,019	1,490
Amortization of debt costs	302	345
	<u>\$ 8,113</u>	<u>\$ 6,628</u>

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

Year ending December 31,	Amount
2022 (remaining three months)	\$ 1,592
2023	\$ 5,979
2024	\$ 4,817
2025	\$ 4,817
2026	\$ 4,817

Note 5 – Borrowing Facilities

Long-term debt outstanding as of September 30, 2022 and December 31, 2021 consists of the following:

(in thousands)	September 30, 2022	December 31, 2021
Revolving credit facility	\$ 170,000	\$ —
Term loan	131,250	131,250
Less unamortized debt issuance costs	(1,943)	(1,670)
Long-term debt	<u>\$ 299,307</u>	<u>\$ 129,580</u>

On July 20, 2018, the Company entered into a \$650 million credit agreement (the Prior Credit Agreement) by and among the Company, certain of its subsidiaries, the lenders party thereto and Bank of America, N.A., as Administrative Agent, Swingline Lender and a L/C Issuer. The Prior Credit Agreement was comprised of a five-year \$500 million revolving credit facility and a five-year \$151

million term loan facility, both which had a maturity date of July 20, 2023. The term loan facility proceeds were used to (i) refinance a portion of existing indebtedness and terminate all commitments under the Company's prior \$430 million credit agreement and (ii) pay the fees, costs and expenses associated with the foregoing and the negotiation, execution and delivery of the Prior Credit Agreement.

On December 21, 2021, the Company amended and restated the Prior Credit Agreement by entering into a \$381 million amended and restated credit agreement (the Amended and Restated Credit Agreement). The Amended and Restated Credit Agreement was comprised of a five-year \$250 million revolving credit facility (the Revolving Credit Facility) and a five-year \$131.3 million term loan facility (the Term Loan Facility), which extended the original revolving credit facility and term loan facility maturity dates from July 20, 2023 to December 21, 2026.

On May 20, 2022, the Company entered into Amendment No. 1 (the Amendment) to the Amended and Restated Credit Agreement (as amended, the Credit Agreement). The Amendment increased the Revolving Credit Facility commitments from \$250 million to \$450 million. The Amendment also established that the interest on outstanding borrowings starting on the next reset date and any new borrowings under the Amendment (other than swingline loans) will accrue, at the Company's option, at (a) BSBY plus the Applicable Rate (as defined in the Credit Agreement, approximately 1.00% to 2.00% per annum depending on various factors) or (b) for U.S. Dollar denominated loans, the base rate (which is the highest of (i) the federal funds rate plus 0.50%, (ii) the Bank of America, N.A. prime rate, (iii) the one month BSBY adjusted daily plus 1.00% and (iv) 1.00%).

The Revolving Credit Facility is available for general corporate purposes. The Credit Agreement includes an accordion feature pursuant to which the Company is permitted to add one or more incremental term loans and/or increase commitments under the Revolving Credit Facility in an aggregate amount of \$100 million or a higher amount, subject to the satisfaction of certain conditions and exceptions.

The Term Loan Facility is subject to quarterly principal installments equal to 0.625% of the initial aggregate term loan advances to be paid commencing December 31, 2022 through September 30, 2024 and 1.25% of the initial aggregate term loan advances from December 31, 2024 until the maturity date.

As of September 30, 2022, a portion of the \$131.3 million of the outstanding debt under the Credit Agreement is effectively at a fixed interest rate of 2.928% as a result of a \$123.8 million notional interest rate swap contract discussed in Note 15. A commitment fee of 0.20% to 0.30% per annum (based on the Company's debt to EBITDA ratio) on the unused portion of the Revolving Credit Facility is payable quarterly in arrears.

The Credit Agreement is generally secured by a pledge of (a) all the capital stock of the Company's domestic subsidiaries and 65% of the capital stock of its directly owned foreign subsidiaries, (b) all or substantially all other personal property of Benchmark and its domestic subsidiaries (including, but not limited to, accounts receivable, contract assets, inventory, intellectual property and fixed assets of Benchmark and its domestic subsidiaries), in each case, subject to customary exceptions and limitations, and (c) all proceeds and products of the property and assets described in (a) and (b) above.

The Credit Agreement contains certain financial covenants related to interest coverage and debt leverage, and certain customary affirmative and negative covenants, including restrictions on the Company's ability to incur additional debt and liens, pay dividends, repurchase shares, sell assets and merge or consolidate with other persons. Amounts due under the Credit Agreement could be accelerated upon specified events of default, including a failure to pay amounts due, breach of a covenant, material inaccuracy of a representation, or occurrence of bankruptcy or insolvency, subject, in some cases, to cure periods.

As of September 30, 2022, the Company had \$131.3 million in borrowings outstanding under the Term Loan Facility, \$170.0 million in borrowings outstanding under the Revolving Credit Facility, and \$3.9 million in letters of credit outstanding under the Revolving Credit Facility. The Company had \$276.1 million available for future borrowings under the Revolving Credit Facility subject to compliance with financial covenants as to interest coverage and debt leverage, in addition to other debt covenant restrictions.

Note 6 – Leases

The Company determines if a contract is or contains a lease at inception. The Company has entered into leases for certain facilities, vehicles and other equipment. The Company's leases consist mainly of operating leases which expire at various dates through 2036. Variable lease payments are generally expensed as incurred and include certain index-based changes in rent, certain non-lease components, such as maintenance and other services provided by the lessor, and other charges included in the lease.

The components of lease expense were as follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Finance lease cost:				
Amortization of right-of-use assets (included in depreciation expense)	\$ 24	\$ 24	\$ 72	\$ 420
Interest on lease liabilities	7	9	22	184
Operating lease cost	4,278	4,270	12,977	11,866
Short-term lease cost	64	90	208	281
Variable lease cost	466	410	1,408	1,324
Total lease cost	\$ 4,839	\$ 4,803	\$ 14,687	\$ 14,075

(in thousands)	Nine Months Ended	
	September 30, 2022	September 30, 2021
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows used for finance lease	\$ 22	\$ 203
Operating cash flows used for operating leases	\$ 13,462	\$ 12,870
Financing cash flows used for finance lease	\$ 123	\$ 833
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 11,525	\$ 32,398

The lease assets and liabilities as of September 30, 2022 and December 31, 2021 were as follows (in thousands):

	September 30, 2022	December 31, 2021
Finance lease right-of-use assets (included in other assets)	\$ 688	\$ 760
Operating lease right-of-use assets	\$ 95,533	\$ 99,158
Finance lease liability, current (included in current installments of long-term debt)	\$ 171	\$ 165
Finance lease liability, noncurrent (included in long-term debt)	\$ 399	\$ 529
Operating lease liabilities, current (included in accrued liabilities)	\$ 12,097	\$ 13,465
Operating lease liabilities, noncurrent	\$ 87,983	\$ 90,878
Weighted average remaining lease term – finance leases	3.2 years	3.9 years
Weighted average remaining lease term – operating leases	9.9 years	10.0 years
Weighted average discount rate – finance leases	4.8 %	4.8 %
Weighted average discount rate – operating leases	4.1 %	4.1 %

Future annual minimum lease payments and finance lease commitments as of September 30, 2022 were as follows (in thousands):

Year ending December 31,	Operating Leases	Finance Leases
2022 (remaining three months)	3,550	48
2023	14,885	194
2024	13,417	194
2025	12,647	178
2026	11,269	—
2027 and thereafter	67,280	—
Total minimum lease payments	\$ 123,048	\$ 614
Less: imputed interest	(22,968)	(44)
Present value of lease liabilities	\$ 100,080	\$ 570

As of September 30, 2022, the Company's future operating leases that have not yet commenced include a new facility lease in an existing location in the Americas which expires 2032 and contains renewal options. The aggregate initial annual minimum lease payments of this lease is approximately \$2.4 million.

Note 7 – Common Stock and Stock-Based Awards Plans

Dividends

The Company began declaring and paying quarterly dividends during the first quarter of 2018. For the three and nine months ended September 30, 2022, cash dividends paid totaled \$5.8 million and \$17.4 million, respectively. For the three and nine months ended September 30, 2021, cash dividends paid totaled \$5.9 million and \$17.4 million, respectively. On March 15, 2021, the Company declared a quarterly cash dividend of \$0.16 per share of the Company's common stock to shareholders of record as of March 31, 2021. On June 15, 2021, September 15, 2021, December 15, 2021, March 15, 2022, June 15, 2022 and September 12, 2022, the Company declared a quarterly cash dividend of \$0.165 per share of the Company's common stock to shareholders of record as of June 30, 2021, September 30, 2021, December 31, 2021, March 31, 2022, June 30, 2022 and September 30, 2022, respectively. The dividends for the first, second, third, and fourth quarters of 2021 and the first, second and third quarters of 2022 were paid on April 15, 2021, July 14, 2021, October 14, 2021, December 31, 2021, April 14, 2022, July 14, 2022 and October 14, 2022, respectively. The Company's future dividend policy is subject to the Company's compliance with applicable law, and depends on, among other things, the Company's results of operations, financial condition, level of indebtedness, capital requirements, contractual restrictions, restrictions in the Company's debt agreements, and other factors that the Company's Board of Directors (the Board of Directors) may deem relevant. Dividend payments are not mandatory or guaranteed; there can be no assurance that the Company will continue to pay a dividend in the future.

Share Repurchase Authorization

On February 19, 2020 and October 26, 2018, the Board of Directors authorized the repurchase of \$150 million and \$100 million, respectively, of shares of the Company's common stock in addition to the \$250 million previously approved on March 6, 2018. During the three months ended September 30, 2022, the Company did not repurchase any common shares. During the nine months ended September 30, 2022, the Company repurchased a total of 0.4 million common shares for an aggregate of \$9.4 million at an average price of \$24.96 per share. As of September 30, 2022, the Company had an aggregate \$154.6 million remaining under its stock repurchase program.

Stock-Based Compensation

The Company's 2019 Omnibus Incentive Compensation Plan (as amended, the 2019 Plan) authorizes the Company, upon approval of the Human Capital and Compensation Committee of the Board of Directors, to grant a variety of awards, including stock options, restricted shares and restricted stock units (both time-based and performance-based) and other forms of equity awards, or any combination thereof, to any director, officer, employee or consultant (including any prospective director, officer, employee or consultant) of the Company. Stock options (which have not been awarded since 2015) are granted to employees with an exercise price equal to the market price of shares of the Company's common stock on the date of grant, generally vest over a four-year period from the date of grant and have a term of 10 years. Time-based restricted stock units granted to employees generally vest over a four-year period from the date of grant, subject to the continued employment of the employee by the Company. Performance-based restricted stock units generally vest over a three-year performance cycle, which includes the year of the grant, and are based upon the Company's achievement of specified performance metrics. Awards under the 2019 Plan to non-employee directors have been in the form of restricted stock units, which generally vest one year from the grant date.

On May 25, 2022, the Company's shareholders approved an amendment to the 2019 Plan to increase the total number of authorized common shares available for grant thereunder by 1.4 million shares.

As of September 30, 2022, 2.9 million common shares were available for issuance under the 2019 Plan.

All share-based payments to employees, including grants of employee stock options, are recognized in the condensed consolidated financial statements based on their grant date fair values. The total compensation cost recognized for stock-based awards was \$4.8 million and \$13.3 million for the three and nine months ended September 30, 2022, respectively, and \$4.0 million and \$10.9 million for the three and nine months ended September 30, 2021, respectively. The future tax benefit of these stock-based awards as of the grant date was \$1.1 million and \$3.1 million for the three and nine months ended September 30, 2022, respectively, and \$0.9 million and \$2.5 million for the three and nine months ended September 30, 2021, respectively. Awards of restricted stock units and performance-based restricted stock units are valued at the closing market price of shares of the Company's common stock on the date of grant. For performance-based restricted stock units, compensation expense is based on the probability that the performance goals will be achieved, which is monitored by management throughout the requisite service period. When 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 is recognized as a change in accounting estimate.

As of September 30, 2022, the unrecognized compensation cost and remaining weighted-average amortization period related to stock-based awards were as follows:

(in thousands)	Restricted Stock Units	Performance- based Restricted Stock Units ⁽¹⁾
Unrecognized compensation cost	\$ 24,407	\$ 6,892
Remaining weighted-average amortization period	2.57	1.7 years

⁽¹⁾ Based on the probable achievement of the performance goals identified in each award.

The total cash received by the Company as a result of stock option exercises for the nine months ended September 30, 2022 and 2021 was approximately \$0.5 million and \$0.3 million, respectively. The actual tax benefit realized as a result of stock option exercises and the vesting of other share-based awards during the nine months ended September 30, 2022 and 2021 was \$2.5 million and \$2.6 million, respectively. For the nine months ended September 30, 2022 and 2021, the total intrinsic value of stock options exercised was \$0.4 million and \$0.5 million, respectively.

The Company awarded performance-based restricted stock units to employees during the nine months ended September 30, 2022 and 2021. The number of performance-based restricted stock units that will ultimately be earned will not be determined until the end of the corresponding performance periods, and may vary from as low as zero to as high as 2.5 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 financial results of the Company for the last full calendar year within the performance period. The performance goals consist of certain levels of achievement using the following financial metrics: revenue, operating income margin, 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 units will not vest and will be forfeited. Shares subject to forfeited performance-based restricted stock units will be available for re-issuance under the Company's 2019 Plan.

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

(in thousands, except per share data)	Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2021	132	\$ 20.06		
Exercised	(40)	16.41		
Forfeited or expired	(22)	22.36		
Outstanding and exercisable as of September 30, 2022	<u>70</u>	<u>\$ 21.40</u>	<u>1.45</u>	<u>\$ 107</u>

The aggregate intrinsic value in the table above is before income taxes and is calculated as the difference between the exercise price of the underlying options and the Company's closing stock price as of the last business day of the period ended September 30, 2022 for options that had exercise prices that were below the closing price.

The following table summarizes the activities related to the Company's time-based restricted stock units:

(in thousands, except per share data)	Number of Units	Weighted- Average Grant Date Fair Value
Non-vested awards outstanding as of December 31, 2021	1,057	\$ 28.02
Granted	598	25.80
Vested	(407)	28.09
Forfeited	(68)	27.32
Non-vested awards outstanding as of September 30, 2022	<u>1,180</u>	<u>\$ 26.91</u>

The following table summarizes the activities related to the Company's performance-based restricted stock units:

(in thousands, except per share data)	Number of Units	Weighted-Average Grant Date Fair Value
Non-vested units outstanding as of December 31, 2021	542	\$ 28.06
Granted ⁽¹⁾	177	25.97
Forfeited	(142)	27.21
Non-vested units outstanding as of September 30, 2022	<u>577</u>	<u>\$ 27.63</u>

⁽¹⁾ Represents target number of units that can vest based on the achievement of the performance goals.

Note 8 – Income Taxes

Income tax expense consists of the following:

(in thousands)	Nine Months Ended September 30,	
	2022	2021
Current:		
U.S. Federal	\$ (9)	\$ (426)
State and local	609	528
Foreign	14,715	8,734
Deferred:	<u>(4,210)</u>	<u>(2,860)</u>
	<u>\$ 11,105</u>	<u>\$ 5,976</u>

Income tax expense differs from the amount computed by applying the U.S. federal statutory income tax rate to income before income taxes primarily due to the mix of taxable income by taxing jurisdiction, the impact of tax incentives and tax holidays in foreign locations, state income taxes (net of federal benefit) and the U.S. tax under the global intangible low-taxed income (GILTI) provisions. GILTI requires the Company to include in its U.S. income tax return foreign subsidiary earnings in excess of an allowable return on the foreign subsidiaries tangible fixed assets. The taxable earnings can be offset by a limited deemed paid foreign tax credit with no carrybacks or carryforwards available. The Company accounts for the GILTI as a period cost and does not include it as a factor in the determination of deferred taxes.

As of December 31, 2021, the Company had approximately \$365.2 million in cumulative undistributed foreign earnings of its foreign subsidiaries. These earnings would not be subject to U.S. income tax if distributed to the Company. During 2018, the Company changed its assertion on its foreign subsidiaries earnings that are permanently reinvested. A certain amount of earnings from specific foreign subsidiaries are permanently reinvested, and certain foreign earnings from other specific foreign subsidiaries are considered to be non-permanently reinvested and are available for immediate distribution to the Company. Income taxes have been accrued on the non-permanently reinvested foreign earnings including any applicable local withholding taxes.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in the United States in response to the COVID pandemic. The CARES Act among other things, permits net operating loss carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021, and contains modifications on the limitation of business interest. The Company has evaluated the impact of these provisions and has determined these provisions did not have any impact on the nine months ended September 30, 2022. In addition, the CARES Act allowed for employee retention tax credits to be taken in U.S. payroll tax filings, and allowed for the deferral of the employer portion of social security taxes during the calendar year 2020 with 50% to be paid at the end of calendar years 2021 and 2022, respectively. The Company deferred the payment of the employer portion of social security taxes for the year ended December 31, 2020 until the end of 2021 and 2022, respectively. During December 2021, the Company paid approximately 50% of the social security taxes previously deferred. The Company has also determined it was entitled to employee retention credits and filed for the credits in the second quarter 2020 payroll tax reports pursuant to the guidance provided by the Internal Revenue Service. The amount for the credits has been recorded in operating expenses for the year ended December 31, 2020. The Company was not eligible for employee retention tax credits as of December 31, 2021. The Company has not received the retention credits from the Internal Revenue Service that it applied for during second quarter of 2020. The Internal Revenue Service has had some delays in processing the filings for the tax refunds.

The Company has been granted certain tax incentives, including tax holidays, for its subsidiaries in China and Thailand that will expire at various dates, unless extended or otherwise renegotiated, through 2023 in China and 2030 in Thailand, and are subject to

certain conditions with which the Company expects to comply. The Malaysia tax incentive expired as of March 31, 2021, but the Company has applied for an extension of the Malaysia tax holiday which would extend the tax holiday for another five years until 2026. There is no guarantee that the Company will be granted the extension of the Malaysia tax holiday. The net impact of these tax incentives was to lower foreign income tax expense for the nine months ended September 30, 2022 and 2021 by approximately \$4.5 million (approximately \$0.13 per diluted share), and \$3.4 million (approximately \$0.09 per diluted share), as follows:

(in thousands)	Nine Months Ended September 30,	
	2022	2021
China	\$ 581	\$ —
Malaysia	—	1,259
Thailand	3,924	2,121
	<u>\$ 4,505</u>	<u>\$ 3,380</u>

As of September 30, 2022, the total amount of the reserve for uncertain tax benefits including interest and penalties was \$9.6 million. The reserve is classified as a current or long-term liability in the condensed consolidated balance sheets based on the Company's expectation of when the items will be settled. The Company records interest expense and penalties accrued in relation to uncertain income tax benefits as a component of current income tax expense.

The Company and its subsidiaries in Brazil, China, Ireland, Malaysia, Mexico, the Netherlands, Romania, Singapore, Thailand and the United States remain open to examination by the various local taxing authorities, in total or in part, for fiscal years 2016 to 2021. During such income tax examinations, disputes may occur as to matters of fact or law. Also, in most tax jurisdictions, the passage of time without examination will result in the expiration of applicable statutes of limitations thereby precluding examination of the tax period(s) for which such statute of limitation has expired. The Company believes that it has adequately provided for its tax liabilities.

Note 9 – Revenue

The Company's revenues are generated primarily from its manufacturing services, which entails the sale of manufactured products built to customer specifications. The Company also generates revenue from design, development and engineering services, in addition to the sale of other inventory.

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a manufactured product to a customer. The Company's contracts with customers are generally short-term in nature. The Company applies the optional exemption related to short-term performance obligations and does not disclose information about remaining performance obligations that have original expected durations of one year or less. Customers are generally billed when the product is shipped or as services are performed. Under the majority of the Company's manufacturing contracts with customers, the customer controls all of the work-in-progress as products are being built. Revenues under these contracts are recognized progressively based on the cost-to-cost method. For other manufacturing contracts, the customer does not take control of the product until it is completed. Under these contracts, the Company recognizes revenue upon transfer of control of the product to the customer, which is generally when goods are shipped. Revenue from design, development and engineering services is recognized over time as the services are performed. As a general matter, the Company assumes no significant obligations after shipment as it typically warrants workmanship only. Therefore, the warranty provisions are generally not significant.

If the Company records revenue, but does not issue an invoice, a contract asset is recognized. The contract asset is transferred to accounts receivable when the entitlement to payment becomes unconditional.

Taxes assessed by governmental authorities that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue.

Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as fulfillment costs and are included in cost of sales.

Disaggregation of revenue

In the following tables, revenue is disaggregated by market sector. The tables also include a reconciliation of the disaggregated revenue with the reportable operating segments. Elimination of intersegment sales includes intersegment sales between reportable operating segments.

(in thousands)	Reportable Operating Segments Three Months Ended September 30, 2022					Total
	Americas	Asia	Europe			
Market Sector:						
Industrials	\$ 29,504	\$ 90,469	\$ 35,305			\$ 155,278
A&D	69,700	13,514	3,024			86,238
Medical	85,609	67,956	11,981			165,546
Semi-Cap	77,123	91,907	17,295			186,325
Computing	78,438	16,124	—			94,562
Telecommunications	43,012	40,487	127			83,626
External revenue	383,386	320,457	67,732			771,575
Elimination of intersegment sales	17,519	17,269	668			35,456
Segment revenue	<u>\$ 400,905</u>	<u>\$ 337,726</u>	<u>\$ 68,400</u>			<u>\$ 807,031</u>

(in thousands)	Nine Months Ended September 30, 2022					Total
	Americas	Asia	Europe			
Market Sector:						
Industrials	\$ 71,171	\$ 275,422	\$ 104,667			\$ 451,260
A&D	216,204	29,196	11,922			257,322
Medical	240,467	176,408	31,778			448,653
Semi-Cap	212,152	274,703	57,806			544,661
Computing	180,109	38,145	—			218,254
Telecommunications	108,077	107,228	232			215,537
External revenue	1,028,180	901,102	206,405			2,135,687
Elimination of intersegment sales	38,580	44,332	2,186			85,098
Segment revenue	<u>\$ 1,066,760</u>	<u>\$ 945,434</u>	<u>\$ 208,591</u>			<u>\$ 2,220,785</u>

(in thousands)	Three Months Ended September 30, 2021					Total
	Americas	Asia	Europe			
Market Sector:						
Industrials	\$ 19,907	\$ 69,436	\$ 18,849			\$ 108,192
A&D	95,940	827	4,071			100,838
Medical	64,357	43,480	9,956			117,793
Semi-Cap	53,732	63,733	16,111			133,576
Computing	46,804	9,742	11			56,557
Telecommunications	28,456	26,019	451			54,926
External revenue	309,196	213,237	49,449			571,882
Elimination of intersegment sales	9,920	11,194	535			21,649
Segment revenue	<u>\$ 319,116</u>	<u>\$ 224,431</u>	<u>\$ 49,984</u>			<u>\$ 593,531</u>

(in thousands)	Nine Months Ended September 30, 2021					Total
	Americas	Asia	Europe			
Market Sector:						
Industrials	\$ 61,261	\$ 185,961	\$ 56,328			\$ 303,550
A&D	270,854	900	15,145			286,899
Medical	159,701	134,650	40,537			334,888
Semi-Cap	158,090	179,275	48,525			385,890
Computing	114,908	24,922	11			139,841
Telecommunications	90,421	79,960	816			171,197
External revenue	855,235	605,668	161,362			1,622,265
Elimination of intersegment sales	32,989	29,606	1,122			63,717
Segment revenue	<u>\$ 888,224</u>	<u>\$ 635,274</u>	<u>\$ 162,484</u>			<u>\$ 1,685,982</u>

During the nine months ended September 30, 2022 and 2021, 90.6% and 90.0%, respectfully, of the Company's revenue was recognized as products and services that were transferred over time.

The timing of revenue recognition, billings and cash collections result in billed accounts receivable, contract assets and advance payments from customers.

As of September 30, 2022 and December 31, 2021, the Company had \$187.7 million and \$155.2 million, respectively, in contract assets from contracts with customers. The contract assets primarily relate to the Company's right to consideration for work completed but not billed at the reporting date. The contract assets are transferred to accounts receivable when the rights become unconditional.

Significant changes in the contract asset balance during the period are as follows:

(in thousands)	Nine Months Ended September 30,	
	2022	2021
Beginning balance as of December 31	\$ 155,243	\$ 142,779
Revenue recognized	1,937,398	1,463,872
Amounts collected or invoiced	(1,904,911)	(1,446,457)
Ending balance as of September 30	<u>\$ 187,730</u>	<u>\$ 160,194</u>

As of September 30, 2022 and December 31, 2021, the Company had \$211.6 million and \$118.1 million, respectively, in advance payments from customers. Of those amounts, \$187.4 million and \$79.9 million, respectively, were customer deposits and prepayments of inventory and \$24.2 million and \$38.2 million, respectively, were related to the contractual timing of payments. The advance payments are not considered a significant financing component because they are used to meet working capital demands of a contract, offset inventory risks and protect the Company from the failure of other parties to fulfill obligations under a contract.

Note 10 – Accounts Receivable Sale Programs

As of September 30, 2022, in connection with trade accounts receivable sale programs with unaffiliated financial institutions, the Company may elect to sell, at a discount, on an ongoing basis, up to a maximum of \$120.0 million of specific accounts receivable at any one time.

During the three months ended September 30, 2022 and 2021, the Company sold \$103.4 million and \$109.1 million, respectively, of accounts receivable under these programs, and in exchange, the Company received cash proceeds of \$102.9 million and \$108.8 million, respectively, net of the discount. During the nine months ended September 30, 2022 and 2021, the Company sold \$330.0 million and \$275.4 million, respectively, of accounts receivable under these programs, and in exchange, the Company received cash proceeds of \$328.9 million and \$274.8 million, respectively, net of the discount. The sale discount was recorded to other expense within the condensed consolidated statements of income.

Note 11 – Contingencies

The Company is involved in various legal actions arising in the ordinary course of business. Although the outcome of these matters cannot be predicted with certainty, in the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position or results of operations.

Note 12 – Restructuring Charges

The Company has undertaken initiatives to restructure its business operations to improve utilization and realize cost savings. These initiatives have included changing the number and location of production facilities, largely to align capacity and infrastructure with current and anticipated customer demand. This alignment includes transferring programs from higher cost geographies to lower cost geographies. The process of restructuring entails moving production between facilities, reducing staff levels, realigning our business processes, reorganizing our management and other activities.

The Company recognized \$4.9 million of restructuring charges during the nine months ended September 30, 2022 primarily related to the previously announced closures of our sites in San Jose, California, Angleton, Texas, and Moorpark, California in the Americas, and other smaller activities involving capacity reductions and reductions in workforce in certain facilities across various regions. San Jose, California operations have ceased and all restructuring activity was complete as of March 31, 2022. Angleton, Texas operations have ceased and all restructuring activity is complete as of June 30, 2022 upon the disposition of the facility. Moorpark, California operations are expected to cease at the end of March 31, 2023 with restructuring activity estimated to be completed shortly thereafter.

The following table summarizes the 2022 activity in accrued restructuring, which is included in accrued liabilities in the condensed consolidated balance sheets, related to various restructuring activities initiated prior to September 30, 2022:

(in thousands)	Balance as of December 31, 2021	Restructuring Charges	Cash Payment	Non-Cash Activity	Foreign Exchange Adjustments	Balance as of September 30, 2022
Restructuring:						
Severance	\$ 3,257	\$ 2,498	\$ (1,665)	\$ (287)	\$ —	\$ 3,803
Lease facility costs	17	1,261	(1,262)	—	—	16
Other exit costs	237	1,152	(1,205)	(102)	—	82
Total	\$ 3,511	\$ 4,911	\$ (4,132)	\$ (389)	\$ —	\$ 3,901

The components of the restructuring charges during 2022 were as follows:

(in thousands)	Americas	Asia	Europe	Total
Severance costs	\$ 2,368	\$ 130	\$ —	\$ 2,498
Lease facility costs	1,261	—	—	1,261
Other exit costs	1,152	—	—	1,152
	\$ 4,781	\$ 130	\$ —	\$ 4,911

Additionally, during the third quarter of 2021, the Company made the decision to no longer continue certain manufacturing capabilities in the Americas. In connection with that decision, the Company assessed the facility and equipment assets used in those manufacturing capabilities using valuation information from third parties and recorded \$4.4 million of impairment charges as a result of that assessment. The asset impairment charges are included in the restructuring charges and other costs line item on the consolidated statements of income as of September 30, 2021. During the nine months ended September 30, 2022, the Company completed the sale of the equipment for \$1.3 million and recorded a loss on assets held for sale of \$2.0 million included in the restructuring charges and other costs line item on the consolidated statements of income. Additionally, during the nine months ended September 30, 2022, the Company completed the sale of a building in Angleton, Texas for \$4.3 million and recorded a gain on assets held for sale of \$2.4 million included in the restructuring charges and other costs line item on the consolidated statements of income.

Note 13 – Ransomware Incident

During the fourth quarter ended December 31, 2019, some of the Company's systems were affected by a ransomware incident that encrypted information on its systems and disrupted customer and employee access to its applications and services. The Company immediately took steps to isolate the impact and implemented measures to prevent additional systems from being affected, including taking its network offline as a precaution. In connection with this incident, third party consultants and forensic experts were engaged to assist with the restoration and remediation of the Company's systems and, with the assistance of law enforcement, to investigate the incident. The Company has found no evidence that customer or employee data was exfiltrated from its network.

The Company restored connectivity and resumed operations quickly following the ransomware incident. The Company has insurance coverage, including cyber insurance, and worked diligently with our insurance carriers on claims to recover costs incurred, as discussed further below.

In 2019, ransomware incident related costs incurred totaled \$12.7 million or \$7.7 million, net of estimated insurance recoveries of \$5.0 million. These costs were primarily comprised of certain employee related expenses and various third-party consulting services, including forensic experts, legal counsel and other IT professional expenses. During the year ended December 31, 2020, the Company collected \$6.6 million of insurance recoveries, which included \$5.0 million of estimated insurance recoveries recorded in 2019 and an additional \$1.6 million recorded in 2020. During the year ended December 31, 2021, the Company collected an additional \$3.9 million of insurance recoveries. As of December 31, 2021, the Company has collected insurance recoveries totaling \$10.5 million. As of September 30, 2022, no further insurance recoveries are expected.

Note 14 – 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. Stock equivalents include common stock issuable upon the exercise or vesting 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 and the amount of compensation cost, if any, for future service that the Company has not yet recognized are assumed to be used to repurchase

shares in the current period. In periods when losses are reported, the weighted-average number of shares outstanding excludes stock equivalents because their inclusion would have an anti-dilutive effect.

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

(in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income	\$ 18,829	\$ 8,065	\$ 47,010	\$ 23,351
Denominator for basic earnings per share – weighted-average number of common shares outstanding during the period	35,151	35,423	35,184	35,806
Incremental common shares attributable to exercise of dilutive options	13	32	15	43
Incremental common shares attributable to outstanding restricted stock units	184	211	405	438
Denominator for diluted earnings per share	35,348	35,666	35,604	36,287
Basic earnings per share	\$ 0.54	\$ 0.23	\$ 1.34	\$ 0.65
Diluted earnings per share	\$ 0.53	\$ 0.23	\$ 1.32	\$ 0.64

Restricted stock units totaling less than one thousand common shares for the three months ended September 30, 2022 were not included in the computation of diluted earnings per share as their effect would have been anti-dilutive. There were no restricted stock units excluded from the computation of diluted earnings per share for the nine months ended September 30, 2022. Restricted stock units totaling five thousand and four thousand common shares for the three and nine months ended September 30, 2021 were not included in the computation of diluted earnings per share because their effect would have been anti-dilutive.

Note 15 – Financial Instruments

The Company's financial instruments include cash equivalents, accounts receivable, other receivables, accounts payable, accrued liabilities and long-term debt. The Company believes that the carrying values of these instruments approximate fair value because of their short-term nature. The Company uses derivative instruments to manage the variability of foreign currency obligations and interest rates. The Company does not enter into derivatives for speculative purposes.

On July 30, 2021, the Company entered into forward currency exchange contracts designated as cash flow hedges of forecasted foreign currency expenses with a notional amount of \$12.5 million as of September 30, 2022. Changes in the fair value of the derivatives are recorded in accumulated other comprehensive loss in the condensed consolidated balance sheets until earnings are affected by the variability of the cash flows. During the three and nine months ended September 30, 2022, the Company recorded an unrealized loss of less than \$0.1 million (less than \$0.1 million net of tax) and an unrealized gain of \$0.4 million (\$0.3 million net of tax), respectively, on the forward currency exchange contracts in other comprehensive income and transferred unrealized gains of \$0.1 million and \$0.2 million, respectively, to cost of sales (See Note 16). The Company also has forward currency exchange contracts in place as of September 30, 2022 that have not been designated as accounting hedges and, therefore, changes in fair value are recorded within the condensed consolidated statements of income.

As of September 30, 2022, the fair value estimates for the Company's forward currency exchange contracts were based on Level 2 inputs of the fair value hierarchy, which includes obtaining directly or indirectly observable values from third parties active in the relevant markets. Inputs in the fair value of the foreign currency forward contracts include prevailing forward and spot prices for currencies. The Company enters into forward currency exchange contracts for its operations in Mexico and Europe.

The Company has an interest rate swap agreement, with a notional amount of \$123.8 million and \$129.4 million as of September 30, 2022 and December 31, 2021, respectively, to hedge a portion of its interest rate exposure on outstanding borrowings under the Credit Agreement. Under this interest rate swap agreement, the Company receives variable rate interest payments based on the one-month LIBOR rate and pays fixed rate interest payments. The fixed interest rate for the contract is 2.928%. The effect of this swap is to convert a portion of the floating rate interest expense to fixed interest rate expense. Based on the terms of the interest rate swap contract and the underlying borrowings outstanding under the Credit Agreement, the interest rate contract was determined to be highly effective, and thus qualifies and has been designated as a cash flow hedge. As such, changes in the fair value of the interest rate swap are recorded in other comprehensive income on the accompanying condensed consolidated balance sheets until earnings are affected by the variability of cash flows. During the three and nine months ended September 30, 2022, the Company recorded an unrealized gain of \$1.0 million (\$0.7 million net of tax) and \$5.3 million (\$4.0 million net of tax), respectively, on the swap in other comprehensive income. During the three and nine months ended September 30, 2021, the Company recorded an unrealized gain of

\$0.9 million (\$0.6 million net of tax) and \$3.0 million (\$2.2 million net of tax), respectively, on the swap in other comprehensive income (loss). See Note 16.

As of September 30, 2022, the fair value estimate for the Company's interest rate swap agreement were based on Level 2 inputs of the fair value hierarchy, as the Company obtained the valuation from a third party active in relevant markets. The valuation of the swap is primarily measured through various pricing models or discounted cash flow analysis that incorporate observable market parameters, such as interest rate yield curves and volatility.

The following table presents the fair value of the Company's derivative instruments:

(in thousands)	Fair Values of Derivative Instruments					
	Asset Derivatives		September 30, 2022		December 31, 2021	
	Balance Sheet Location		September 30, 2022	December 31, 2021	Balance Sheet Location	
Derivatives designated as hedging instruments:						
Forward currency exchange contracts	Other current assets	\$ 247	\$ —	Accrued liabilities	\$ —	\$ 178
Interest rate swap	Other current assets	\$ 976	\$ —	Accrued liabilities	\$ —	\$ 4,332

Note 16 – Accumulated Other Comprehensive Loss

The changes in accumulated other comprehensive loss by component were as follows:

(in thousands)	For the Three Months Ended September 30,						2021			
	2022		2021		2022		2021		2021	
	Foreign Currency Translation Adjustments	Derivative Instruments, Net of Tax	Other	Total	Foreign Currency Translation Adjustments	Derivative Instruments, Net of Tax	Other	Total	Foreign Currency Translation Adjustments	Derivative Instruments, Net of Tax
Beginning balance	\$ (17,385)	\$ 191	\$ (1,098)	\$ (18,292)	\$ (10,083)	\$ (5,160)	\$ (1,278)	\$ (16,521)	\$ (17,385)	\$ (5,160)
Other comprehensive gain (loss) before reclassifications	(3,541)	828	(22)	(2,735)	(1,438)	154	113	(1,171)	(3,541)	154
Amounts reclassified from accumulated other comprehensive loss	—	(98)	—	(98)	—	60	—	60	—	60
Net current period other comprehensive gain (loss)	(3,541)	730	(22)	(2,833)	(1,438)	214	113	(1,111)	(3,541)	214
Ending balance	<u>\$ (20,926)</u>	<u>\$ 921</u>	<u>\$ (1,120)</u>	<u>\$ (21,125)</u>	<u>\$ (11,521)</u>	<u>\$ (4,946)</u>	<u>\$ (1,165)</u>	<u>\$ (17,632)</u>	<u>\$ (20,926)</u>	<u>\$ (4,946)</u>

(in thousands)	For the Nine Months Ended September 30,						2021			
	2022		2021		2022		2021		2021	
	Foreign Currency Translation Adjustments	Derivative Instruments, Net of Tax	Other	Total	Foreign Currency Translation Adjustments	Derivative Instruments, Net of Tax	Other	Total	Foreign Currency Translation Adjustments	Derivative Instruments, Net of Tax
Beginning balance	\$ (12,729)	\$ (3,372)	\$ (1,057)	\$ (17,158)	\$ (8,375)	\$ (6,742)	\$ (1,534)	\$ (16,651)	\$ (12,729)	\$ (6,742)
Other comprehensive gain (loss) before reclassifications	(8,197)	4,460	(63)	(3,800)	(3,146)	1,736	369	(1,041)	(8,197)	1,736
Amounts reclassified from accumulated other comprehensive loss	—	(167)	—	(167)	—	60	—	60	—	60
Net current period other comprehensive gain (loss)	(8,197)	4,293	(63)	(3,967)	(3,146)	1,796	369	(981)	(8,197)	1,796
Ending balance	<u>\$ (20,926)</u>	<u>\$ 921</u>	<u>\$ (1,120)</u>	<u>\$ (21,125)</u>	<u>\$ (11,521)</u>	<u>\$ (4,946)</u>	<u>\$ (1,165)</u>	<u>\$ (17,632)</u>	<u>\$ (20,926)</u>	<u>\$ (4,946)</u>

Unrealized gains and losses relating to derivative instruments, reclassified from accumulated other comprehensive loss for the three and nine months ended September 30, 2022 and 2021, were recognized as a component of cost of sales in the condensed consolidated statements of income, which relate to the Company's foreign currency contracts accounted for as cash flow hedges. See Note 15 for further explanation of the change in derivative instruments that is recorded to accumulated other comprehensive loss.

Note 17 – Segment and Geographic Information

The Company currently has manufacturing facilities in the Americas, Asia and Europe to serve its customers. The Company is operated and managed geographically, and management evaluates performance and allocates the Company's resources on a geographic basis. Intersegment sales are generally recorded at prices that approximate arm's length transactions. Operating segments' measure of profitability is based on income from operations. Corporate and intersegment eliminations includes (1) corporate expenses not allocated to the Company's three reporting segments, which are primarily general and administrative expenses such as corporate employee payroll and benefit costs and corporate facility costs, and (2) income from operations on intersegment sales between reporting segments. Corporate functions include legal, finance, tax, treasury, information technology, risk management, human resources, business development and other administrative functions. The accounting policies for the reportable operating segments are the same as for the Company taken as a whole. The Company has three reportable operating segments: Americas, Asia, and Europe. Information about operating segments is as follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net sales:				
Americas	\$ 400,905	\$ 319,116	\$ 1,066,760	\$ 888,224
Asia	337,726	224,431	945,434	635,274
Europe	68,400	49,984	208,591	162,484
Elimination of intersegment sales	(35,456)	(21,649)	(85,098)	(63,717)
	<u>\$ 771,575</u>	<u>\$ 571,882</u>	<u>\$ 2,135,687</u>	<u>\$ 1,622,265</u>
Depreciation and amortization:				
Americas	\$ 4,895	\$ 4,914	\$ 14,522	\$ 15,461
Asia	2,570	2,708	7,668	8,051
Europe	822	736	2,440	2,140
Corporate	2,838	2,611	8,357	7,311
	<u>\$ 11,125</u>	<u>\$ 10,969</u>	<u>\$ 32,987</u>	<u>\$ 32,963</u>
Income from operations:				
Americas	\$ 14,608	\$ 11,053	\$ 41,094	\$ 31,282
Asia	33,662	21,391	91,320	64,210
Europe	4,880	978	10,526	7,918
Corporate and intersegment eliminations	(27,866)	(21,628)	(79,817)	(68,983)
	<u>25,284</u>	<u>11,794</u>	<u>63,123</u>	<u>34,427</u>
Interest expense	(3,493)	(1,987)	(7,428)	(6,215)
Interest income	452	122	843	451
Other expense	1,087	500	1,577	664
Income before income taxes	<u>\$ 23,330</u>	<u>\$ 10,429</u>	<u>\$ 58,115</u>	<u>\$ 29,327</u>
Capital expenditures:				
Americas	\$ 5,495	\$ 11,787	\$ 20,587	\$ 23,629
Asia	1,104	274	7,151	2,608
Europe	590	691	3,839	3,410
Corporate	1,434	1,066	2,017	2,790
	<u>\$ 8,623</u>	<u>\$ 13,818</u>	<u>\$ 33,594</u>	<u>\$ 32,437</u>

(in thousands)	September 30, 2022	December 31, 2021
Total assets:		
Americas	\$ 1,085,331	\$ 885,574
Asia	836,895	663,881
Europe	186,256	178,263
Corporate	168,025	176,162
	<u>\$ 2,276,507</u>	<u>\$ 1,903,880</u>

Geographic net sales information provided below reflects the destination of the product shipped. Long-lived assets information is based on the physical location of the asset and includes property, plant and equipment, net, operating lease right-of-use assets, and other long-term assets, net.

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Geographic net sales:				
United States	\$ 423,183	\$ 342,674	\$ 1,154,135	\$ 961,322
Singapore	126,178	84,902	348,134	226,657
Other Asia	90,681	55,124	251,396	140,227
Europe	91,086	64,775	287,056	207,066
Other	40,447	24,407	94,966	86,993
	<u>\$ 771,575</u>	<u>\$ 571,882</u>	<u>\$ 2,135,687</u>	<u>\$ 1,622,265</u>

(in thousands)	September 30, 2022		December 31, 2021	
	2022	2021	2022	2021
Long-lived assets:				
United States	\$ 250,799	\$ 240,430		
Asia	67,425	65,327		
Europe	28,276	29,588		
Other	21,019	22,303		
	<u>\$ 367,519</u>	<u>\$ 357,648</u>		

Note 18 –Supplemental Cash Flow and Non-Cash Information

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

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Income taxes paid, net				
\$ 8,032	\$ 8,396	\$ 20,883	\$ 17,769	
Interest paid				
\$ 3,264	\$ 2,254	\$ 6,807	\$ 6,336	
Non-cash investing activity:				
Additions to property, plant and equipment in accounts payable		\$ 21,921	\$ 7,980	

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The financial information and the discussion below should be read in conjunction with other information, including the condensed consolidated financial statements and Notes thereto in Part I, Item 1 of this quarterly report on Form 10-Q for the quarterly period ended September 30, 2022 (this Report), consolidated financial statements appearing in the Company's annual report on Form 10-K for the year ended December 31, 2021 (the Form 10-K), and Part I, Item 1A, Risk Factors of the Form 10-K. In this Report, references to Benchmark, the Company or use of the words "we", "our" and "us" include Benchmark's subsidiaries unless otherwise noted.

This Report contains 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 and may include words such as "anticipate," "believe," "intend," "plan," "project," "forecast," "strategy," "position," "continue," "estimate," "expect," "may," "will," "could," "predict," and similar expressions of the negative or other variations thereof. In particular, statements, express or implied, concerning the estimated financial impact of the COVID-19 pandemic, the Company's outlook and guidance for fourth quarter 2022 results, future operating results or margins, the ability to generate sales and income or cash flow, expected revenue mix, the Company's business strategy and strategic initiatives, the Company's repurchases of shares of its common stock, the Company's expectations regarding restructuring charges and amortization of intangibles, and the Company's intentions concerning the payment of dividends, among others, are forward-looking statements. Although the Company believes these statements are based on and derived from reasonable assumptions, they involve risks, uncertainties and assumptions that are beyond the Company's ability to control or predict, relating to operations, markets and the business environment generally, including those discussed under Part I, Item 1A of the Form 10-K, and in any of the Company's subsequent reports filed with the Securities and Exchange Commission. In particular, these statements also depend on the duration, severity and evolution of the COVID-19 pandemic and related risks, including the emergence and severity of its variants, the availability of vaccines and potential hesitancy to utilize them, government and other third-party responses to the crisis and the consequences for the global economy, the Company's business and the businesses of its suppliers and customers. Events relating to the possibility of customer demand fluctuations, supply chain constraints, inflationary pressures, the effects of foreign currency fluctuations, or the ability to utilize the Company's manufacturing facilities at sufficient levels to cover its fixed operating costs, may have resulting impacts on the Company's business, financial condition, results of operations, and the Company's ability (or inability) to execute on its plans. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual outcomes, including the future results of our operations, may vary materially from those indicated. Undue reliance should not be placed on any forward-looking statements. Forward-looking statements are not guarantees of performance. All forward-looking statements included in this document are based upon information available to the Company as of the date of this document, and the Company assumes no obligation to update.

OVERVIEW

We are a worldwide provider of advanced manufacturing services (both electronic manufacturing services (EMS) and precision technology services), which includes design and engineering services and technology solutions.

From initial product concept to volume production, including direct order fulfillment and aftermarket services, Benchmark has been providing integrated services and solutions to original equipment manufacturers (OEMs) since 1979. Today, Benchmark proudly serves the following industries: aerospace and defense (A&D), medical technologies, complex industrials, semiconductor capital equipment (Semi-Cap), next-generation telecommunications and advanced computing.

Our customer engagement focuses on three principal areas:

- *Manufacturing Services*, which include printed circuit board assemblies (PCBAs) using both traditional surface mount technologies and microelectronics, subsystem assembly, system build and integration. System builds and integration often involve building a finished assembly that includes PCBAs, complex subsystem assemblies, mechatronics, displays, optics, and other components. These final products may be configured to order and delivered directly to the end-customer across all the industries we serve. Manufacturing services also includes precision technology services comprised of precision machining, advanced metal joining, assembly and functional testing primarily for the Semi-Cap market (serving semiconductor capital equipment customers) and A&D market.
- *Design & Engineering Services*, which include design for manufacturability, design optimization for our factory processes and supply chain, and test development, concurrent and sustaining engineering, turnkey product design and regulatory services. Our engineering services may be for systems, sub-systems, printed circuit boards and assemblies, and components. We have the flexibility and capability to engage anywhere in the customers design process flow. We provide

these services across all the industries we serve, but focus primarily in regulated industries such as medical, complex industrials, A&D, and Semi-Cap.

- *Technology Solutions*, which involve developing a library of building blocks or reference designs primarily in defense solutions, surveillance systems, millimeter wave (mmWave) radio frequency (RF) subsystems, and front-end managed connected data collection systems. We often partner with our customers to merge these solutions utilizing our engineering services to provide turnkey product development from requirements through the launch to volume production into our factories. Our building blocks can be utilized across a variety of industries but we have significant focus and capabilities in the A&D and the complex industrials markets. We have also developed differentiated capabilities in RF and high-speed design for both components and substrates. The need to reduce size, weight, and power (SWaP) to accommodate high frequency electronics communications is important to customers in the A&D, medical and next-generation telecommunications markets.

Our core strength lies in our ability to partner with our customers to provide concept-to-production solutions in support of our customers through a tightly integrated and seamless set of design, test, manufacturing, supply chain and support services. The integration of these services along with our global manufacturing presence increases our ability to respond to our customers' needs by providing accelerated time-to-market and time-to-volume production of high-quality products – especially for complex products with lower volume and higher mix in regulated markets with higher reliability requirements. These capabilities enable us to build strong strategic relationships with our customers and to become an integral part of their business.

We believe our primary competitive advantage is our ability to engage with our customers at any point in their concept to production process by providing our leading edge technical capabilities in engineering services (including product design in which we can take a product idea from concept to design to volume manufacturing), technology solutions (especially high frequency RF solutions and microelectronics), and manufacturing services (including electronics and complex precision machining capabilities) provided by highly skilled personnel. We also have diversified end market and regulated market experience in our targeted higher-value markets. To support customers in these markets, we have invested in strategic global supply chain design and execution.

In addition, we believe that a strong focus on human capital through the talent we hire and retain is critical to maintaining our competitiveness. We are driving a customer-centric organization with a high degree of accountability and ownership to develop processes necessary to exceed customer expectations and deliver financial performance aligned to our goals. Through our employee feedback process, we solicit and act upon information to improve our Company and better support our customers and business processes in the future. We have taken steps to attract the best leaders and are accelerating our efforts to increase our diversity and inclusion in our employee and management ranks as we seek to develop an innovative and forward-thinking workforce for the future.

Our customers often face challenges in designing supply chains, demand planning, procuring materials and managing their inventories efficiently due to fluctuations in their customer demand, product design changes, short product life cycles and component price fluctuations.

We employ enterprise resource planning (ERP) systems and lean manufacturing principles to manage 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. Because we are a significant purchaser of electronic components and other raw materials, we are generally able to 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. Utilizing our agility and expertise in supply chain management and our relationships with suppliers across the supply chain, we strive to help reduce our customers' cost of goods sold and inventory exposure. However, due to the COVID pandemic, as well as global labor and supply disruptions, we continue to see component supply chain constraints across all commodity categories that are constraining our ability to produce the full demand forecasts we are receiving from customers.

We recognize manufacturing services revenue as the customer takes control of the manufactured products built to customer specifications. We also generate revenue from our design, development and engineering services, in addition to the sale of other inventory.

Revenue is measured based on the consideration specified in a contract with a customer. Under the majority of our manufacturing contracts with customers, the customer controls all of the work-in-progress as products are being built. Revenues under these contracts are recognized progressively based on the cost-to-cost method. For other manufacturing contracts, the customer does not take control of the product until it is completed. Under these contracts, we recognize revenue upon transfer of control of the product to the customer, which is generally when the goods are shipped. Revenue from design, development and engineering services is recognized over time as the services are performed. As a general matter, we assume no significant obligations after shipment as we typically warrant workmanship only. Therefore, the warranty provisions are generally not significant.

COVID Pandemic Update

In late 2019, there was an outbreak of a new strain of coronavirus (COVID) first identified in Wuhan, Hubei Province, China, which has since spread globally. On March 11, 2020, the World Health Organization declared COVID a pandemic. Further, the COVID outbreak has resulted in government authorities around the world implementing numerous measures to try to reduce the spread of COVID, such as travel bans and restrictions, quarantines, “shelter-in-place,” “stay-at-home,” and total lock-down orders, business limitations or shutdowns and similar orders. As a result, the COVID pandemic has negatively impacted the global economy, disrupted global supply chains and workforce participation, and created significant volatility and disruption of financial markets. In an effort to first and foremost protect the health and safety of our employees, we took, and at times continue to take, proactive action to adopt social distancing policies at our locations globally. These measures include, but are not limited to, working from home for certain employees, limiting the number of employees attending meetings, reducing the number of people in our locations at any one time, and significantly limiting employee travel. More recently, more contagious variants of COVID, such as the Omicron variant and its subvariants, have emerged and spread globally, which initially caused many governments and businesses to reimplement various measures, or impose new restrictions, in an effort to lessen the spread of COVID and its variants. While many of these restrictions have been lifted, uncertainty remains as to whether additional restrictions may be initiated or again reimplemented in response to surges in COVID cases. The lingering impact of the COVID pandemic continues to create significant volatility throughout the global economy, including supply chain constraints, labor supply issues and higher inflation. Accordingly, it is unclear at this point the full impact COVID and its variants will have on the global economy and on our Company.

As a result of the COVID pandemic, our revenue during 2021 and the first nine months of 2022 has been negatively impacted primarily as a result of operational inefficiencies relating to reduced productivity levels throughout our facilities and supply chain constraints, which affected our ability to support customer demand. Additionally, the COVID pandemic negatively impacted our operating results due to increased direct costs associated with labor expenses and personal protective equipment for our employees.

Benchmark provides critical infrastructure products and essential services in each of our locations, which has allowed us to continue to operate. The COVID pandemic continues to affect the Company's operations into 2022. End market demand continues to grow as more customers recover from the pandemic. However, we continue to see component supply chain constraints across all commodity categories which are constraining our ability to produce the full demand forecasts we are receiving from customers. See “Third Quarter 2022 Highlights” below for additional information.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in the United States in response to the COVID pandemic. The CARES Act among other things, permits net operating loss carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021, and contains modifications on the limitation of business interest. The Company evaluated the impact of these provisions and determined these provisions did not have any impact on the nine months ended September 30, 2022. In addition, the CARES Act allows for employee retention tax credits to be taken in U.S. payroll tax filings and allows for the deferral of the employer portion of social security taxes with 50% to be paid at the end of calendar years 2021 and 2022, respectively. Accordingly, the Company deferred the payment of the employer portion of social security taxes for the year ended December 31, 2020 until the end of 2021 and 2022, respectively. During December 2021, the Company paid approximately 50% of the social security taxes previously deferred. The Company has also determined it was entitled to employee retention credits and filed for the credits in the second quarter 2020 payroll tax reports pursuant to the guidance provided by the Internal Revenue Service. The amount of credits has been recorded in operating expenses for the year ended December 31, 2020. The Company was not eligible for employee retention tax credits as of December 31, 2021. The Company has not received the retention credits from the Internal Revenue Service that it applied for during the second quarter of 2020. The Internal Revenue Service has had some delays in processing the filings for the tax refunds.

We continue to monitor the evolving situation and guidance from international and domestic authorities, including federal, state and local public health authorities, and may take additional actions based on their recommendations. In these circumstances, there may be developments outside our control requiring us to adjust our operating plan. As such, the exact extent of the impact of the COVID pandemic on our business, financial condition and results of operations, is currently unknown and will depend on future developments, which are highly uncertain, continuously evolving and cannot be predicted. This includes, but is not limited to, the duration and spread of the COVID pandemic and its severity; the emergence and severity of its variants, including the Omicron variant; the actions to contain the virus or treat its impact, including the availability and efficacy of vaccinations (particularly with respect to emerging strains of the virus) and the rate of inoculations; general economic factors, such as increased inflation; global supply chain constraints and shortages; labor supply issues; and how quickly and to what extent normal economic and operating conditions can resume, which may not return fully to pre-pandemic levels.

Accordingly, our current results and financial condition discussed herein may not be indicative of future operating results and trends. See “Risk Factors” in Part I, Item 1A of our 2021 10-K for additional risks we face due to the COVID pandemic.

Third Quarter 2022 Highlights

Sales for the three months ended September 30, 2022 were \$771.6 million, a 35% increase from sales of \$571.9 million during the three months ended September 30, 2021. During the third quarter of 2022, sales to customers in our various industry sectors fluctuated from the third quarter of 2021 as follows:

Higher-Value Markets

Industrials increased by 44%,
A&D decreased by 14%,
Medical increased by 41%, and
Semi-Cap increased by 39%.

Traditional Markets

Computing increased by 67%, and
Telecommunications increased by 52%.

The overall revenue increase was due primarily to higher overall demand from both our Higher-value and Traditional markets (as discussed below). Higher-value market revenues were up 29% year-over-year from strength in the Semi-Cap, Medical and Industrials sectors. Traditional market revenues were up 60% year-over-year from strength in both Computing and Telecommunications sectors.

Our sales depend 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, the availability of electronic component supply, or the failure of a major customer to pay for components or services, including in each case as a result of the COVID pandemic, have adversely affected us. A substantial percentage of our sales are 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 53% and 47% of our total sales during the nine months ended September 30, 2022 and 2021, respectively. Due to the COVID pandemic, as well as global labor and supply disruptions, we continue to see component supply chain constraints across all commodity categories that are constraining our ability to produce the full demand forecasts we are receiving from customers. Lead times continue to extend, and more components are being placed on allocation by suppliers. Additionally, there continues to be an increase in pushouts of previously committed component orders and tighter allocation and timing restrictions across the component suppliers. Though we have recently started to see the easing of certain material constraints, these last-minute allocations created inefficiencies in our operations and contributed to the sequential increase in inventory, as well as increased costs to us and our customers.

We experience fluctuations in gross profit from period to period. Different programs contribute different gross profits depending on the type 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. During periods of low production volume, we generally have unabsorbed manufacturing overhead costs and reduced gross profit. Gross profit can also be impacted by higher costs associated with other situations, such as COVID and supply chain constraints. This includes supply chain premiums for excess component costs paid to secure available supply resulting in revenue with cost recovery only with no margin. In addition, a number of our new program ramps require incremental investment during the launch and ramp phase which can exert downward pressure on our gross profit.

We have undertaken initiatives to restructure our business operations with the intention of improving utilization and reducing costs. During the first nine months of 2022, we recognized \$4.9 million of restructuring and other costs due to expenses associated with various site closures and restructuring activities, as well as a \$2.0 million loss on assets held for sale related to the Company's 2021 decision to no longer continue certain manufacturing capabilities in the Americas and a gain on assets held for sale of \$2.4 million related to the sale of our Angleton, Texas facility.

RESULTS OF OPERATIONS

The following table presents the percentage relationship that certain items in our condensed consolidated statements of income bear on sales for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	91.3	90.6	91.4	91.1
Gross profit	8.7	9.4	8.6	8.9
Selling, general and administrative expenses	5.0	6.0	5.2	6.1
Amortization of intangible assets	0.2	0.3	0.2	0.3
Restructuring charges and other costs	0.2	1.1	0.2	0.6
Ransomware related incident costs (recovery), net	—	(0.1)	—	(0.2)
Income from operations	3.3	2.1	3.0	2.1
Other expense, net	(0.3)	(0.3)	(0.3)	(0.3)
Income before income taxes	3.0	1.8	2.7	1.8
Income tax expense	0.6	0.4	0.5	0.4
Net income	2.4 %	1.4 %	2.2 %	1.4 %

Sales

As noted above, sales for the third quarter of 2022 increased 35% from the same quarter in 2021.

Sales are analyzed by management by industry sector and by geographic segment, which reflects our reportable segments. Our global business development strategy is based on our targeted industry sectors. Management measures operational performance and allocates resources on a geographic segment basis.

Sales by industry sector were as follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Higher-Value Markets				
Industrials	\$ 155,278	\$ 108,192	\$ 451,260	\$ 303,550
A&D	86,238	100,838	257,322	286,899
Medical	165,546	117,793	448,653	334,888
Semi-Cap	186,325	133,576	544,661	385,890
	593,387	460,399	1,701,896	1,311,227
Traditional Markets				
Computing	94,562	56,557	218,254	139,841
Telecommunications	83,626	54,926	215,537	171,197
	178,188	111,483	433,791	311,038
Total	\$ 771,575	\$ 571,882	\$ 2,135,687	\$ 1,622,265

Industrials. Third quarter 2022 sales increased 44% to \$155.3 million from \$108.2 million in the third quarter of 2021. Sales during the first nine months of 2022 increased 49% to \$451.3 million from \$303.6 million in the same period of 2021. The increases were primarily due to continued demand improvements from energy-related products, building infrastructure, and light detection and ranging (LiDAR) applications.

Aerospace and Defense. Third quarter 2022 sales decreased 14% to \$86.2 million from \$100.8 million in the third quarter of 2021. Sales during the first nine months of 2022 decreased 10% to \$257.3 million from \$286.9 million in the same period of 2021. The decreases were primarily due to supply chain constraints with certain programs.

Medical. Third quarter 2022 sales increased 41% to \$165.5 million from \$117.8 million in the third quarter of 2021. Sales during the first nine months of 2022 increased 34% to \$448.7 million from \$334.9 million in the same period of 2021. The increases were primarily due to growth with existing customers and new program ramps.

Semiconductor Capital Equipment. Third quarter 2022 sales increased 39% to \$186.3 million from \$133.6 million in the third quarter of 2021. Sales during the first nine months of 2022 increased 41% to \$544.7 million from \$385.9 million in the same period of 2021. The increases were primarily due to high demand for our precision machining capabilities and complex system assembly.

Computing. Third quarter 2022 sales increased 67% to \$94.6 million from \$56.6 million in the third quarter of 2021. Sales during the first nine months of 2022 increased 56% to \$218.3 million from \$139.8 million in the same period of 2021. The increases were primarily due to the planned ramp of high-performance computing programs.

Telecommunications. Third quarter 2022 sales increased 52% to \$83.6 million from \$54.9 million in the third quarter of 2021. Sales during the first nine months of 2022 increased 26% to \$215.5 million from \$171.2 million in the same period of 2021. The increases were primarily due to continued demand strength and new ramps for broadband infrastructure.

Our international operations are subject to the risks of doing business abroad. See Part I, Item 1A of our 2021 10-K for factors pertaining to our international sales, fluctuations in foreign currency exchange rates and a discussion of potential adverse effects in operating results associated with the risks of doing business abroad. During the third quarter of 2022 and 2021, 61% and 54%, respectively, of our sales were from international operations.

Sales by geographic segment were as follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net sales:				
Americas	\$ 400,905	\$ 319,116	\$ 1,066,760	\$ 888,224
Asia	337,726	224,431	945,434	635,274
Europe	68,400	49,984	208,591	162,484
Elimination of intersegment sales:	(35,456)	(21,649)	(85,098)	(63,717)
Total net sales	<u>\$ 771,575</u>	<u>\$ 571,882</u>	<u>\$ 2,135,687</u>	<u>\$ 1,622,265</u>

Americas. Third quarter 2022 sales increased 26% to \$400.9 million from \$319.1 million in the third quarter of 2021. Sales during the first nine months of 2022 increased 20% to \$1,066.8 million from \$888.2 million in the same period of 2021. The increases were primarily due to increasing demand with existing customers and new program ramps with existing and new customers.

Asia. Third quarter 2022 sales increased 50% to \$337.7 million from \$224.4 million in the third quarter of 2021. Sales during the first nine months of 2022 increased 49% to \$945.4 million from \$635.3 million in the same period of 2021. The increases were primarily due to increasing demand with existing customers, production ramps of new programs for existing customers and new customer program ramps.

Europe. Third quarter 2022 sales increased 37% to \$68.4 million from \$50.0 million in the third quarter of 2021. Sales during the first nine months of 2022 increased 28% to \$208.6 million from \$162.5 million in the same period of 2021. The increases were primarily due to increasing demand with existing customers and new customer program ramps.

Gross Profit

Gross profit increased 24% to \$66.8 million in the third quarter of 2022 from \$53.7 million in the third quarter of 2021. Gross profit increased 27.3% to \$183.1 million in the first nine months of 2022 from \$143.8 million in the same period of 2021. Gross margin decreased primarily due to the mix of our revenue, operational inefficiencies caused by supply chain challenges and the dilutive impact of revenue from supply chain premiums with no margin.

Operating Income

Third quarter 2022 operating income increased 114% to \$25.3 million from \$11.8 million in the third quarter of 2021. Operating income increased 83% to \$63.1 million first nine months of 2022 from \$34.4 million in the same period of 2021. The increases were primarily due to an increase in revenue and respective gross profit partially offset by an increase in selling, general and administrative (SG&A) expenses.

Operating income by reportable segment was as follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Operating income:				
Americas	\$ 14,608	\$ 11,053	\$ 41,094	\$ 31,282
Asia	33,662	21,391	91,320	64,210
Europe	4,880	978	10,526	7,918
Corporate and other costs	(27,866)	(21,628)	(79,817)	(68,983)
Total operating income	<u>\$ 25,284</u>	<u>\$ 11,794</u>	<u>\$ 63,123</u>	<u>\$ 34,427</u>

Americas. Third quarter 2022 operating income increased 32% to \$14.6 million from \$11.1 million in the third quarter of 2021. Operating income during the first nine months of 2022 increased 31% to \$41.1 million from \$31.3 million in the same period of 2021. The increases were primarily due to higher revenue.

Asia. Third quarter 2022 operating income increased 57% to \$33.7 million from \$21.4 million in the third quarter of 2021. Operating income during the first nine months of 2022 increased 42% to \$91.3 million from \$64.2 million in the same period of 2021. The increases were primarily due to higher revenue and improved productivity in labor.

Europe. Third quarter 2022 operating income increased 399% to \$4.9 million from \$1.0 million in the third quarter of 2021. Operating income during the first nine months of 2022 increased 33% to \$10.5 million from \$7.9 million in the same period of 2021. The increases were primarily due to higher revenue.

Selling, General and Administrative Expenses

SG&A increased to \$38.5 million in the third quarter of 2022 from \$34.4 million in the third quarter of 2021. SG&A increased to \$110.7 million in the first nine months of 2022 from \$99.0 million in the same period of 2021. The increases were primarily due to the increase in variable compensation and expenses related to continued IT infrastructure investments.

Amortization of Intangible Assets

Amortization of intangible assets was \$1.6 million in both the third quarter of 2022 and 2021. Amortization of intangibles was \$4.8 million in both the first nine months of 2022 and 2021.

Restructuring Charges and Other Costs

During the third quarter and first nine months of 2022, we recognized \$1.3 million and \$4.9 million of restructuring charges and other costs, respectively, primarily due to expenses associated with announced site closures or exits, reductions in force and other restructuring activities primarily in the Americas. During the first nine months of 2022, we also incurred a \$2.0 million loss on assets held for sale related to certain manufacturing capabilities in the Americas that the Company made the decision in 2021 to no longer continue and a gain on assets held for sale of \$2.4 million related to the sale of the Angleton, Texas facility. During the third quarter and first nine months of 2021, we recognized \$2.0 million and \$5.2 million of restructuring and other costs, respectively, primarily due to expenses associated with announced site closures or exits, reduction in force and other restructuring activities primarily in the Americas. Additionally, during the third quarter of 2021, the Company made the decision to no longer continue certain manufacturing capabilities in the Americas. In connection with that decision, the Company assessed the facility and equipment assets used in those manufacturing capabilities using valuation information from third parties and recorded \$4.4 million of impairment charges as a result of that assessment. See Note 12 to the condensed consolidated financial statements in Part I, Item 1 of this Report for additional information on our restructuring charges.

Ransomware Incident Related Costs, Net

No insurance recoveries were made in the third quarter or first nine months of 2022. Insurance recoveries of \$0.5 million and \$3.9 million were collected during the third quarter of 2021 and first nine months of 2021, respectively. As of September 30, 2022, no further insurance recoveries are expected.

Interest Expense

Interest expense increased to \$3.5 million in the third quarter of 2022 from \$2.0 million in the third quarter of 2021. Interest expense increased to \$7.4 million in the first nine months of 2022 from \$6.2 million in the same period of 2021. The increases were primarily due to increased borrowings under our revolving credit facility to support investment in working capital.

Interest Income

Interest income increased to \$0.5 million in the third quarter of 2022 from \$0.1 million in the third quarter of 2021. Interest income increased to \$0.8 million in the first nine months of 2022 from \$0.5 million in the same period of 2021. The increases were primarily due to higher interest rates.

Income Tax Expense

Income tax expense of \$4.5 million represented a 19.3% effective tax rate for the third quarter of 2022, compared with \$2.4 million in the third quarter of 2021 representing an effective tax rate of 19.1%. Income tax expense of \$11.1 million represented a 19.1% effective tax rate for the first nine months of 2022, compared with \$6.0 million for the same period of 2021 representing an effective tax rate of 20.1%. The differences between the effective tax rates for 2022 compared to 2021 is related to the mix of profits in our various jurisdictions.

We have been granted certain tax incentives, including tax holidays, for our subsidiaries in China and Thailand that will expire at various dates, unless extended or otherwise renegotiated, through 2023 in China and 2030 in Thailand. See Note 8 to the condensed consolidated financial statements in Part I, Item 1 of this Report.

Net Income

We reported a net income of \$18.8 million, or \$0.53 per diluted share, for the third quarter of 2022, compared with a net income of \$8.1 million, or \$0.23 per diluted share, for the third quarter of 2021. We reported a net income of \$47.0 million, or \$1.32 per diluted share, for the first nine months of 2022, compared with a net income of \$23.4 million, or \$0.64 per diluted share, for the same period in 2021. The increases were primarily the result of items discussed above.

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed our organic growth and operations through funds generated from operations and borrowings under our Credit Agreement (as defined below). Cash and cash equivalents and restricted cash totaled \$249.3 million at September 30, 2022 and \$271.7 million at December 31, 2021, of which \$189.6 million and \$194.7 million, respectively, were held outside the U.S. in various foreign subsidiaries.

Cash used in operating activities was \$124.7 million during the first nine months of 2022. The cash used in operations during 2022 consisted primarily of a \$228.5 million increase in inventories, a \$123.6 million increase in accounts receivable, a \$32.5 million increase in contract assets, a \$9.8 million increase in prepaids and other assets and a \$2.0 decrease in accrued liabilities, partially offset by \$47.0 million of net income, \$33.0 million of depreciation and amortization, a \$93.5 million increase in advance payments from customers and a \$84.6 million increase in accounts payable. Working capital was \$0.9 billion at September 30, 2022 and \$0.7 billion at December 31, 2021. The growth in working capital is a result of the proactive investment in inventory to support our revenue growth.

We primarily purchase 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. When shortages of these components and other material supplies used in operations have occurred, vendors have at times been unable to ship the quantities we need for production, forcing us to delay shipments, which can increase backorders and impact cash flows. Vendors also may increase the costs of components based on the market conditions including these shortages. In certain instances, we request and receive advance payments from customers as prepayments of inventory to meet working capital demands of a contract, offset inventory risks such as inventory purchased in advance of current needs and protect the Company from the failure of other parties to fulfill obligations under a contract. For example, as discussed above under "COVID Pandemic Update," we have been impacted by supply chain constraints, including shortages, longer lead times and increased transit times.

Cash used in investing activities was \$27.9 million during the first nine months of 2022 primarily due to purchases of additional property, plant and equipment totaling \$30.2 million and purchased software of \$3.4 million, partially offset by proceeds from the sale of assets held for sale of \$5.4 million. The purchases of property, plant and equipment were primarily for machinery and equipment in the Americas.

Cash provided by financing activities was \$139.8 million during the first nine months of 2022. Borrowings under the Credit Agreement were \$593.0 million and proceeds from stock option exercises were \$0.5 million. Principal payments under the Credit Agreement totaled \$423.0 million, dividends paid totaled \$17.4 million, share repurchases totaled \$9.4 million and debt issuance costs totaled \$0.6 million.

On December 21, 2021, the Company amended and restated the Company's prior \$650 million credit agreement by entering into a \$381 million amended and restated credit agreement (the Amended and Restated Credit Agreement). Under the terms of the Amended and Restated Credit Agreement, in addition to the \$131.3 million term loan facility, we have a \$250.0 million five-year revolving credit facility to be used for general corporate purposes, both with a maturity date of December 21, 2026. On May 20, 2022, the Company entered into Amendment No. 1 (the Amendment) to the Amended and Restated Credit Agreement (as amended, the Credit Agreement). The Amendment, among other things, increased the revolving credit facility commitments from \$250 million to \$450 million. The Credit Agreement includes an accordion feature pursuant to which the Company is permitted to add one or more incremental term loans and/or increase commitments under the revolving credit facility in an aggregate amount of \$100 million or a higher amount, subject to the satisfaction of certain conditions and exceptions. As of September 30, 2022, we had \$131.3 million in borrowings outstanding under the term loan facility, \$170.0 million in borrowings outstanding under the revolving credit facility, and \$3.9 million in letters of credit outstanding under our revolving credit facility. Under the revolving credit facility, \$276.1 million remains available for future borrowings, subject to compliance with financial covenants as to interest coverage and debt leverage, in addition to other debt covenant restrictions. See Note 5 to the condensed consolidated financial statements in Part I, Item 1 of this Report for more information regarding the terms of the Credit Agreement.

The Credit Agreement contains certain financial covenants related to interest coverage and debt leverage, and certain customary affirmative and negative covenants, including restrictions on our ability to incur additional debt and liens, pay dividends, repurchase shares, sell assets and merge or consolidate with other persons. Amounts due under the Credit Agreement could be accelerated upon specified events of default, including a failure to pay amounts due, breach of a covenant, material inaccuracy of a representation, or occurrence of bankruptcy or insolvency, subject, in some cases, to cure periods. As of September 30, 2022, we were in compliance with all of these covenants and restrictions.

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 September 30, 2022, we had cash and cash equivalents, including restricted cash, totaling \$249.3 million and \$276.1 million available for borrowings under the Credit Agreement, subject to compliance with financial covenants as to interest coverage and debt leverage, in addition to other debt covenant restrictions.

During the next 12 months, we believe our capital expenditures will approximate \$50 million to \$60 million, principally for machinery and equipment to help increase our production capacity to support anticipated revenue growth and our ongoing business around the globe.

On March 6, 2018, our Board of Directors approved an expanded stock repurchase program granting us the authority to repurchase up to \$250 million in common stock in addition to the \$100 million approved on December 7, 2015. On February 19, 2020 and October 26, 2021, the Board of Directors authorized the repurchase of an additional \$150 million and \$100 million, respectively, of shares of the Company's common stock. During the nine months ended September 30, 2022, we repurchased a total of 0.4 million common shares for an aggregate of \$9.4 million at an average price of \$24.96 per share. As of September 30, 2022, we had \$154.6 million remaining under the share repurchase authorization to purchase additional shares. We are under no commitment or obligation to repurchase any particular amount of common stock.

The Company began declaring and paying quarterly dividends during the first quarter of 2018. In February 2020, the Board of Directors approved a quarterly dividend increase, raising the quarterly dividend from \$0.15 to \$0.16 per common share. In May 2021, the Board of Directors approved another quarterly dividend increase, raising the quarterly dividend from \$0.16 to \$0.165 per common share. During both the first nine months of 2022 and 2021, cash dividends paid totaled \$17.4 million. On September 12, 2022, the Company declared a quarterly cash dividend of \$0.165 per share of the Company's common stock to shareholders of record as of September 30, 2022. The dividend of \$5.8 million was paid on October 14, 2022. The Board of Directors currently intends to continue paying quarterly dividends. However, the Company's future dividend policy is subject to the Company's compliance with applicable law, and depends on, among other things, the Company's results of operations, financial condition, level of indebtedness, capital requirements, contractual restrictions, restrictions in the Company's debt agreements, and other factors that the Board of Directors may deem relevant, including the impact of the COVID pandemic. Dividend payments are not mandatory or guaranteed; there can be no assurance that the Company will continue to pay a dividend in the future.

Management believes that our existing cash balances, funds generated from operations, and borrowing availability under our revolving credit facility will be sufficient to permit us to meet our liquidity requirements over the next 12 months. Management further believes that our ongoing cash flows from operations and any borrowings we may incur under our revolving credit facility will enable us to meet operating cash requirements in future years. If we consummated significant acquisitions in the future, our capital needs would increase and could possibly result in our need to increase available borrowings under our Credit Agreement 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 acceptable terms.

CONTRACTUAL OBLIGATIONS

We have certain contractual obligations for operating and capital leases that were summarized in Contractual Obligations in our 2021 10-K. Other than items discussed in Note 6 to the condensed consolidated financial statements in Part I, Item 1 of this Report, there have been no material changes to our contractual obligations, outside of the ordinary course of our business, since December 31, 2021.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES AND RECENTLY ENACTED ACCOUNTING PRINCIPLES

Management's discussion and analysis is based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. See Note 2 to the condensed consolidated financial statements in Part I, Item 1 of this Report for a discussion of recently enacted accounting principles. Also, our significant accounting policies are summarized in Note 1 to the Consolidated Financial Statements included in our 2021 10-K. There have been no changes to the items disclosed as critical accounting estimates in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of our 2021 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our international sales comprise a significant portion of our net sales. We are exposed to risks associated with operating internationally, including:

- 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 transact business in various foreign countries and are subject to foreign currency fluctuation risks. We use natural hedging and forward contracts to economically hedge transactional exposure primarily associated with trade accounts receivable, other receivables, trade accounts payable, and lease liabilities that are denominated in a currency other than the functional currency of the respective operating entity. We do not use derivative financial instruments for speculative purposes. Certain forward currency exchange contracts in place as of September 30, 2022 have not been designated as accounting hedges and, therefore, changes in fair value are recorded within our condensed consolidated statements of income.

On July 30, 2021, the Company entered into forward currency exchange contracts designated as cash flow hedges of forecasted foreign currency expenses. Changes in the fair value of the derivatives are recorded in accumulated other comprehensive loss in the condensed consolidated balance sheets until earnings are affected by the variability of the cash flows.

Our sales are substantially denominated in U.S. dollars. Our foreign currency cash flows are generated in certain European and Asian countries and Mexico.

We are also exposed to market risk for changes in interest rates on our financial instruments, 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. We mitigate default risk by generally investing in investment-grade securities.

We are also exposed to interest rate risk on borrowings under our Credit Agreement. As of September 30, 2022, we had \$131.3 million outstanding on the floating rate term loan facility, and we have an interest rate swap agreement with a notional amount of \$123.8 million. Under this swap agreement, we receive variable rate interest rate payments and pay fixed rate interest payments. The effect of this swap is to convert a portion of our floating rate interest expense to fixed interest rate expense. The interest rate swap is designated as a cash flow hedge.

For additional information regarding our forward currency exchange contracts and interest rate swap agreement, see Note 15 to the condensed consolidated financial statements in Part I, Item 1 of this Report.

Item 4. Controls and Procedures

As of the end of the period covered by this Report, the Company's management (with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO)) conducted an evaluation pursuant to Rule 13a-15 under the Exchange Act of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) of the Exchange Act). Based on this evaluation, the CEO and CFO concluded that as of the end of the period covered by this Report, such disclosure controls and procedures were effective at a reasonable assurance level to ensure that information required to be disclosed by the Company in reports it files or submits under the Exchange Act is recorded, processed, summarized and reported

within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f) of the Exchange Act) that occurred during the last fiscal quarter covered by this Report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

We are currently upgrading our enterprise resource planning (ERP) system, which is expected to occur in phases over the next several years. We have completed the implementation of the upgrades at certain of the Company's locations, and have revised and updated the related controls. These changes did not materially affect our internal control over financial reporting. As we implement the upgrades of this ERP system at the remaining locations over the next several years, we will continue to assess the impact on our internal control over financial reporting.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by individuals' acts, by collusion of two or more people, or by management overriding the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in various legal actions arising in the ordinary course of business. There have been no material changes to the legal proceedings previously reported under Part I, Item 3 of our 2021 10-K, and, in the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position or results of operations.

Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed in Part I, Item 1A of our 2021 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) The following table provides information for the quarter ended September 30, 2022 about the Company's repurchases of its equity securities registered pursuant to Section 12 of the Exchange Act:

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of 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(1)
July 1 to 31, 2022	—	\$ —	—	\$154.6 million
August 1 to 31, 2022	—	—	—	\$154.6 million
September 1 to 30, 2022	—	—	—	\$154.6 million
Total	<u>—</u>	<u>\$ —</u>	<u>—</u>	<u>\$154.6 million</u>

⁽¹⁾ On October 30, 2018, the Company announced that the Board of Directors authorized the repurchase of \$100 million of shares of the Company's common stock in addition to the \$250 million previously announced on March 7, 2018. On February 24, 2020, the Company announced that the Board of Directors authorized the repurchase of an additional \$150 million of shares of the Company's common stock. Net of shares repurchased through June 30, 2022, the total remaining authorization outstanding as of September 30, 2022 is \$154.6 million. Stock 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 are funded from available cash and may be commenced, suspended or discontinued at any time without prior notice. Shares of stock repurchased under the program are retired.

Item 6. Exhibits

Exhibit Number	Description of Exhibit
3.1	Restated Certificate of Formation dated May 17, 2016 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated May 17, 2016) (the 8-K) (Commission file number 1-10560)
3.2	Amended and Restated Bylaws of the Company dated December 2, 2020 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K dated December 7, 2020 (Commission file number 1-10560))
4.1	Specimen form of certificate evidencing the Common Shares (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014) (Commission file number 1-10560)
31.1 ⁽¹⁾	Section 302 Certification of Chief Executive Officer
31.2 ⁽¹⁾	Section 302 Certification of Chief Financial Officer
32.1 ⁽²⁾	Section 1350 Certification of Chief Executive Officer
32.2 ⁽²⁾	Section 1350 Certification of Chief Financial Officer
101.INS ⁽¹⁾	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH ⁽¹⁾	Inline XBRL Taxonomy Extension Schema Document
101.CAL ⁽¹⁾	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF ⁽¹⁾	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB ⁽¹⁾	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE ⁽¹⁾	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104 ⁽¹⁾	Cover Page Interactive Data File - the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document (included in Exhibit 101)

⁽¹⁾ Filed herewith.

⁽²⁾ Furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on November 4, 2022.

BENCHMARK ELECTRONICS, INC.

(Registrant)

By: /s/ Jeffrey W. Benck

Jeffrey W. Benck

President and Chief Executive Officer

(Principal Executive Officer)

By: /s/ Roop K. Lakkaraju

Roop K. Lakkaraju

Chief Financial Officer

(Principal Financial and Accounting Officer)

Section 302 Certification of Chief Executive Officer

I, Jeffrey W. Benck, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Benchmark Electronics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2022

By: /s/ Jeffrey W. Benck
 Jeffrey W. Benck
 President and Chief Executive Officer
 (principal executive officer)

Section 302 Certification of Chief Financial Officer

I, Roop K. Lakkaraju, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Benchmark Electronics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2022

By: /s/ Roop K. Lakkaraju
 Roop K. Lakkaraju
 Chief Financial Officer
 (principal financial and accounting officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
(Section 906 of the Sarbanes-Oxley Act of 2002)**

In connection with the Quarterly Report of Benchmark Electronics, Inc. (the Company) on Form 10-Q for the period ending September 30, 2022 (the Report), I certify to the best of my knowledge that:

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

Date: November 4, 2022

By: /s/ Jeffrey W. Benck
Jeffrey W. Benck
President and Chief Executive Officer
(principal executive officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
(Section 906 of the Sarbanes-Oxley Act of 2002)**

In connection with the Quarterly Report of Benchmark Electronics, Inc. (the Company) on Form 10-Q for the period ending September 30, 2022 (the Report), I certify to the best of my knowledge that:

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

Date: November 4, 2022

By: /s/ Roop K. Lakkaraju
Roop K. Lakkaraju
Chief Financial Officer
(principal financial and accounting officer)

