BENCHMARK ELECTRONICS INC
Form DEF 14A
March 28, 2012

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

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant	x
Filed by a Party other than the Registrant	o

Check the appropriate box:

o	Preliminary Proxy Statement
o	**Confidential, For Use of the Commission Only (as Permitted by Rule 14a-6(e)(2))**
x	Definitive Proxy Statement
o	Definitive Additional Materials
o	Soliciting Material Pursuant to §240.14a-12

BENCHMARK ELECTRONICS, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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x	No fee required.
o	Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1)	Title of each class of securities to which transaction applies:
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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

BENCHMARK ELECTRONICS, INC.
3000 Technology Drive
Angleton, Texas 77515

NOTICE OF 2012 ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON WEDNESDAY, MAY 9, 2012

Shareholders of Benchmark Electronics, Inc.:

The 2012 Annual Meeting of Shareholders of Benchmark Electronics, Inc. (the Company) will be held at the Four Seasons Hotel Houston, 1300 Lamar Street, Houston, Texas, on Wednesday, May 9, 2012, beginning at 9:00 a.m. (local time), for the following purposes:

1. to elect eight directors to serve on the Board of Directors until the 2013 annual meeting of shareholders and until their successors are duly elected and qualified;
2. to provide an advisory vote on the compensation of the Company s Named Executive Officers;
3. to ratify the appointment of KPMG LLP as the independent registered public accounting firm of the Company for the year ending December 31, 2012; and
4. to transact such other business as may properly come before the meeting or any adjournment thereof.

Shareholders of record at the close of business on March 15, 2012 are entitled to notice of and to vote at the meeting and any adjournment thereof. You are cordially invited to attend the meeting.

By order of the Board of Directors,

Kenneth S. Barrow
General Counsel and Secretary

Angleton, Texas
March 28, 2012

YOUR VOTE IS IMPORTANT.

Regardless of whether you plan to attend the meeting, you are urged to act promptly to vote your shares. You may vote in person or by using a proxy as follows:

By internet: Go to *www.proxyvote.com.* Please have the notice we sent to you in hand because it has your personal 12 digit control number(s) needed for your vote.
By telephone: Call 1-800-690-6903 on a touch tone phone. Please have the notice we sent to you in hand because it has your personal 12 digit control number(s) needed for your vote.

By mail: Please request written materials as provided in the Notice of Availability of Proxy Materials. Complete, sign, and date the proxy card and return it to the address indicated on the proxy card. The proxy is revocable at any time before it is voted at the meeting.

BENCHMARK ELECTRONICS, INC.
3000 Technology Drive
Angleton, Texas 77515
(979) 849-6550

March 28, 2012

PROXY STATEMENT
FOR
2012 ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON WEDNESDAY, MAY 9, 2012

INTRODUCTION

This Proxy Statement is being furnished in connection with the solicitation of proxies by the Board of Directors (the Board) of Benchmark Electronics, Inc. (the Company) for use at the 2012 Annual Meeting of Shareholders of the Company to be held on Wednesday, May 9, 2012 beginning at 9:00 a.m. (local time), and any adjournment thereof (the Meeting) for the purposes set forth in this Proxy Statement and the accompanying Notice. It is anticipated that this Proxy Statement, the Notice and the enclosed form of proxy will be sent to shareholders on or about March 30, 2012.

Proxies

Proxies in the enclosed form that are properly executed and received by the Company before or at the Meeting and which are not revoked will be voted in accordance with the directions set forth therein. If no direction is made, a proxy that is properly signed and received by the Company and which is not revoked will be voted *FOR* the election of all nominees for director named herein to serve on the Board until the 2013 annual meeting of shareholders and until their successors are duly elected and qualified, *FOR* the resolution approving the named executive officer compensation for 2011 as disclosed in this proxy statement, and *FOR* the ratification of the appointment of KPMG LLP as the independent registered public accounting firm of the Company for the year ending December 31, 2012. If any other matter, not known or determined at the time of the solicitation of proxies, properly comes before the Meeting, the proxies will be voted in accordance with the discretion of the person or persons voting the proxies. The proxy also confers on the persons named therein discretionary authority to vote with respect to any matters presented at the Meeting for which advance notice was not received by the Company prior to February 24, 2012. Proxies may be revoked by written notice received by the Secretary of the Company at any time before they are voted by delivering to the Secretary of the Company a signed notice of revocation, or a later dated signed proxy, or by attending the Meeting and voting in person by ballot.

Voting Securities

Shareholders of record at the close of business on March 15, 2012 are entitled to notice of and to vote at the Meeting. As of March 15, 2012, there were 57,966,868 common shares, $0.10 par value per share (Common Shares), issued, outstanding and entitled to vote at the Meeting. Each Common Share is entitled to one vote on all matters that may properly come before the Meeting.

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Quorum and Other Matters

The presence at the Meeting, in person or by proxy, of the holders of a majority of the outstanding Common Shares is necessary to constitute a quorum. Common Shares represented by a properly completed, signed and returned proxy will be counted as present at the Meeting for purposes of determining a quorum, without regard to whether the proxy is marked as casting a vote or abstaining. Common Shares held by nominees which are voted on at least one matter coming before the Meeting will also be counted as present for purposes of determining a quorum, even if the beneficial owner s discretion has been withheld (a non-vote) for voting on some or all other matters.

All matters specified in the notice of the Meeting require the approval of the affirmative vote of a majority of the outstanding Common Shares entitled to vote and present, in person or represented by proxy, at the Meeting. An abstention, a broker non-vote or a withholding of authority to vote with respect to the election of directors or the ratification of the appointment of the Company s independent registered public accountants will have the effect of a vote against the proposal.

An Inspector of Election appointed by the Company will tabulate votes at the Meeting.

The Board is not aware of any matters that are expected to come before the Meeting other than those referred to in this Proxy Statement. If any other matter properly comes before the Meeting, the proxies will be voted in accordance with the discretion of the person or persons voting the proxies.

PROPOSAL 1

ELECTION OF DIRECTORS

Nominees for Election

The following table sets forth certain information with respect to each nominee for election as a director of the Company. Each nominee was proposed for reelection by the Nominating/Governance Committee for consideration by the Board and proposal to the Shareholders. The information as to age, principal occupation, and directorships has been furnished by each such nominee.

Name	Age	Principal Occupation	Director Since
Cary T. Fu	63	Chairman of the Board of the Company	1990(1)
Michael R. Dawson	58	Retired Senior Vice President and Chief Financial Officer of GlobalSantaFe Corporation	2006
Gayla J. Delly	52	President and Chief Executive Officer of the Company	2011
Peter G. Dorflinger	60	General Partner of MAD Capital Partners	1990
Douglas G. Duncan	61	Retired President and Chief Executive Officer of FedEx Freight Corporation	2006
David W. Scheible	55	President and Chief Executive Officer of Graphic Packaging Holding Company	2011
Bernee D.L. Strom	64	Chairman and Chief Executive Officer of WebTuner Corp.	2004
Clay C. Williams	49	Executive Vice President and Chief Financial Officer of National Oilwell Varco, Inc.	2008

(1) Also served as a director of the Company from 1986 to 1988.

Mr. Fu has been a director of the Company since 1990 and Chairman of the Board since May 2009. He served as Chief Executive Officer of the Company from September 2004 to December 2011, President and Chief Executive Officer of the Company from September 2004 to December 2006, President and Chief Operating Officer of the Company from May 2001 to September 2004, Executive Vice President from 1990 to May 2001 and Executive Vice President Financial Administration from 1990 to April 1992. He also has served the Company as Treasurer from 1986 to January 1996, Secretary from 1990 to January 1996 and from 1986 to 1988 and Assistant Secretary from 1988 to 1990. In addition, Mr. Fu also served as a director of the Company from 1986 to 1988. From 1983 to 1986, Mr. Fu was employed by Intermedics as Controller of the Company and another subsidiary of Intermedics. Mr. Fu holds an M.S. degree in accounting from the University of Houston and is a Certified Public Accountant. Mr. Fu also serves on the board of directors of Teradata Corporation. As one of the Company s founders, Mr. Fu brings to the Board an unparalleled familiarity with the Company s business and industry.

Mr. Dawson has been a director of the Company since 2006 and has served as chair of the Audit Committee since May 2007. Mr. Dawson was Senior Vice President and Chief Financial Officer of Northern Offshore, Ltd., an offshore oil and gas drilling contractor from January 2008 to April 2010. Mr. Dawson served as Senior Vice President and Chief Financial Officer of GlobalSantaFe Corporation from June 2005 to November 2007. Previously, he served GlobalSantaFe as Vice President and Controller from 2003 to 2005 and as Vice President and Treasurer from 2001 to 2003. Prior to November 2001, Mr. Dawson served as Vice President, Investor Relations and Corporate

Communications for Global Marine Inc. A former Certified Public Accountant, Mr. Dawson joined Global Marine in 1999 after 16 years with Union Texas Petroleum Holdings, where he served as Director of Acquisitions and Portfolio Management, Director of Investor Relations and in numerous financial management positions in the Controller s organization. Mr. Dawson began his career at Shell Oil Company in 1975. Mr. Dawson holds a B.B.A. degree from the University of Iowa. In recommending Mr. Dawson as a nominee for election as a director of the Company, the Nominating/Governance Committee considered Mr. Dawson s experience as a Chief Financial Officer and related positions with various companies, all of which will add to his service on the Company s Audit Committee. Mr. Dawson qualifies as an independent director under the rules of the New York Stock Exchange (the NYSE) and as defined in Item 407(a) of Regulation S-K promulgated under the Securities Exchange Act of 1934 (the Exchange Act) and as an audit committee financial expert under the rules of the Securities and Exchange Commission (the SEC).

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Ms. Delly has been a director of the Company since being appointed a director by the Board in November 2011 and has served as President and Chief Executive Officer since January 1, 2012. She has been with the Company since 1996 and served as President from December 2006 to December 2011 and Chief Financial Officer from May 2001 to December 2006. She has also served as Executive Vice President of the Company from September 2004 to December 2006, as Vice President Finance of the Company from November 2000 to September 2004, as Treasurer from January 1996 to December 2006 and as Controller of the Company from January 1996 to January 2002. Ms. Delly holds a B.S. degree in accounting from Samford University and is a Certified Public Accountant. Ms. Delly also serves as a director of Flowserve Corporation. Ms. Delly brings to the Board her long-term experience with the Company s business and industry.

Mr. Dorflinger has been a director of the Company since 1990 and is a member of the Audit Committee. Mr. Dorflinger served as chair of the Nominating/Governance Committee from May 2006 to May 2010 and as chair of the Compensation Committee from December 2003 to May 2006. Mr. Dorflinger is a general partner of MAD Capital Partners focusing on private investments in oil and gas exploration, commercial property development, and early stage medical product companies. Mr. Dorflinger is the former President of GlasTech, Inc., a dental products manufacturer, a position he held from November 1998 through May 2002. From January 1998 through October 1998, he served as President and Chief Operating Officer of Physicians Resource Group, Inc., a physicians practice management company. From January 1997 through January 1998, he served as Vice President and General Counsel of Advanced Medical Instruments, Inc., a manufacturer of medical monitoring equipment. From March 1987 through October 1996, he served as Vice President, General Counsel and Secretary of Intermedics. From June 1990 through October 1996, he also served as Group Vice President and General Counsel of SULZERmedica, a division of Sulzer Limited of Switzerland, composed of eight operating medical companies, including Intermedics. Mr. Dorflinger received a J.D. degree from the University of Houston and is also a director of several privately held companies. Mr. Dorflinger brings the experience of many years of service as a director of the Company and his intimate understanding of the Company and its business. Mr. Dorflinger qualifies as an independent director under the rules of the NYSE and Item 407(a) of Regulation S-K promulgated under the Exchange Act.

Mr. Duncan has been a director of the Company since 2006 and is a member of the Audit and Nominating/Governance Committees. He has served as chair of the Nominating/Governance Committee since May 2010. Mr. Duncan is the retired President and Chief Executive Officer of FedEx Freight Corporation, a provider of regional and interregional less-than-truckload freight services. He was founding CEO of this stand-alone corporation for FedEx and served in that capacity from 2001 until 2010. Mr. Duncan graduated from Christopher Newport University. In recommending Mr. Duncan as a nominee for election as a director of the Company, the Nominating/Governance Committee considered not only Mr. Duncan s experience as a Chief Executive Officer, but also his skills and leadership with logistics. Mr. Duncan qualifies as an independent director under the rules of the NYSE and Item 407(a) of Regulation S-K promulgated under the Exchange Act. Mr. Duncan also serves on the board of directors of J.B. Hunt Transport Services, Inc. and Brambles LTD.

Mr. Scheible has been a director of the Company since being appointed a director by the Board in June 2011 and is a member of the Compensation Committee. He serves as Chief Executive Officer, President and Director of Graphic Packaging Holding Company, a global manufacturer of custom packaging, paperboard, laminations and coatings, systems and machinery and contract packaging services to multinational companies. He also served as the Chief Operating Officer of Graphic Packaging from 1999 to 2006 after joining Graphic Packaging in 1998 as President of the Flexible Packaging Division. Prior to joining Graphic Packaging, Mr. Scheible had been an executive with Avery Dennison Corporation (1986 to 1998) a global manufacturer of self-adhesive products, office products and specialized label systems. Mr. Scheible began his career at B.F. Goodrich Corporation in 1980, and has held various positions in the manufacturing industry for more than 30 years. Mr. Scheible received a Masters of Business Administration in Finance and a Bachelor of Science in Biochemistry from Purdue University. Mr. Scheible brings his experience as a Chief Executive Officer of a global manufacturing entity to the Board. Mr. Scheible qualifies as an independent director under the rules of the NYSE and Item 407(a) of Regulation S-K promulgated under the Exchange Act.

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Ms. Strom has been a director of the Company since 2004 and is a member of the Compensation and Nominating/Governance Committees. Ms. Strom has served as Presiding Director since May 2010. She served as chair of the Audit Committee from May 2006 to May 2007 and served as chair of the Nominating/Governance Committee from May 2004 to May 2006. Ms. Strom is Chairman and CEO of WebTuner Corp., a developer of software infrastructure for next generation television systems. She remains a Founding Partner of Revitalization Partners LLC, an international specialty management services firm that provides hands-on interim executive management and advisory services to client companies. Ms. Strom also serves as a director of Ensequence, Inc., a software company that has developed a cross platform technology for interactive video across cable, satellite, broadband and mobile devices. She also has served as President and Chief Executive Officer of The Strom Group, an investment and business advisory firm, since 1990. From July 2000 to February 2001 she was Chairman and Chief Executive Officer of *iCopyright.com*, a provider of Internet content services. From January to June 2000 she was President of InfoSpace.com Ventures, LLC, the venture capital arm of InfoSpace.com, Inc., a global provider of information and commerce infrastructure services for wireless devices and web sites. From 1998 to 1999 she was President and Chief Operating Officer of InfoSpace.com, Inc. From 1997 to 1998, she was CEO of Walker Digital and its first spin-out, priceline.com. From 1995 to 1997 she was President and Chief Executive Officer of USA Digital Radio Partners, LP, a communication and technology company. Ms. Strom received her B.S. in mathematics and history, her M.A. and her Ph.D. (ABD) in mathematics and mathematics education from New York University and her M.B.A. from the Anderson School at the University of California, Los Angeles. She was recently named one of Anderson s 100 Most Impactful alumni. Ms. Strom brings the experience gained through her service on boards or as an officer of several companies and qualifies as an independent director under the rules of the NYSE and Item 407(a) of Regulation S-K promulgated under the Exchange Act.

Mr. Williams has been a director of the Company since 2008 and is a member of the Compensation and Nominating/Governance Committees. He has served as chair of the Compensation Committee since May 2010. Mr. Williams is Executive Vice President and Chief Financial Officer of National Oilwell Varco, Inc., a global service provider and manufacturer of equipment for oil and gas producers. He also served as the Chief Financial Officer of Varco International, Inc. prior to Varco s merger with National-Oilwell. Mr. Williams began his career at Shell Oil Company in 1985, and has held various positions in the energy industry for more than 20 years. Mr. Williams received a B.S. degree in Civil/Geological Engineering from Princeton University and an M.B.A. from the University of Texas at Austin. In recommending Mr. Williams as a nominee for election as a director of the Company, the Nominating/Governance Committee considered Mr. Williams current and past experience as a Chief Financial Officer. Mr. Williams qualifies as an independent director under the rules of the NYSE and as defined in Item 407(a) of Regulation S-K promulgated under the Exchange Act and as an audit committee financial expert under the rules of the SEC.

The officers of the Company are elected by, and serve at the discretion of, the Board.

Election Procedures; Term

The directors will be elected by the affirmative vote of the holders of a majority of the outstanding Common Shares present in person or represented by proxy at the Meeting. Unless the authority to vote for the election of directors is withheld as to any or all of the nominees, all Common Shares represented by proxy will be voted for the election of the nominees. If the authority to vote for the election of directors is withheld as to any but not all of the nominees, all Common Shares represented by any such proxy will be voted for the election of the nominees as to whom such authority is not withheld. If a nominee becomes unavailable to serve as a director for any reason before the election, the shares represented by proxy will be voted for such other person, if any, as may be designated by the Board. The Board, however, has no reason to believe that any nominee will be unavailable to serve as a director.

Any vacancy on the Board occurring after the election may be filled (1) by election at any annual or special meeting of the shareholders called for that purpose, or (2) by a majority of the remaining directors though less than a quorum of the Board, provided that the remaining directors may not fill more than two such director vacancies during the period between any two successive annual meetings of shareholders. A director elected to fill a vacancy will be elected for the unexpired portion of the term of his or her predecessor in office.

All directors will be elected to serve until the 2013 annual meeting of shareholders and until their successors are duly elected and qualified.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE *FOR* THE ELECTION OF EACH OF THE NOMINEES TO THE BOARD OF DIRECTORS.

Executive Officers

The executive officers of the Company are Cary T. Fu, Donald F. Adam and Gayla J. Delly. See Election of Directors Nominees for Election for certain information with respect to the age, positions and length of service with the Company, and business experience of Mr. Fu and Ms. Delly.

Mr. Adam, 48, has been Chief Financial Officer of the Company since December 2006. He has served as Vice President and Corporate Controller from July 2005 to December 2006 and as Corporate Controller from January 2002 to July 2005. From February 1998 to January 2002, Mr. Adam served as Chief Financial Officer of Specialty Piping Components, Inc. Mr. Adam holds a B.B.A. degree in accounting from The University of Texas and is a Certified Public Accountant.

Corporate Governance

The Company has been built on a culture where integrity is the first and most important value, and this value has long been a part of the Company s corporate identity. The Company s practices reflect corporate governance initiatives that are compliant with existing standards of the NYSE and the corporate governance requirements of the Sarbanes-Oxley Act of 2002, including:

A majority of our Board members are independent of the Company and its management as defined by the NYSE and the SEC;

The independent members of the Board meet regularly without the presence of management;

The Audit Committee, the Compensation Committee and the Nominating/Governance Committee each operate under charters that clearly establish their respective roles and responsibilities;

All members of the Audit Committee, the Compensation Committee and the Nominating/Governance Committee meet the tests for independence established by the NYSE;

The Chairman of the Audit Committee is an audit committee financial expert , as defined by the SEC;

The Audit Committee meets with management and the auditors to receive information concerning the design and operation of internal controls;

KPMG LLP, our independent registered public accounting firm, reports directly to the Audit Committee;

The Company s internal audit group reports periodically throughout the year directly to the Audit Committee;

The Company has, consistent with the requirements of the Sarbanes-Oxley Act of 2002, adopted a policy prohibiting personal loans or extensions of credit to any executive officer or director;

The Company has a code of conduct that applies to all employees, officers and directors and a reporting policy to allow for confidential and anonymous reporting to the Audit Committee; and

The Board operates under a set of corporate governance guidelines.

The Board will continue to enhance the Company s governance practices as new ideas and best practices emerge. You can access our current committee charters for our Audit Committee, Compensation Committee and Nominating/Governance Committee, as well as our Code of Conduct applicable to all of the Company s employees, officers and directors, and our Corporate Governance Guidelines, on our website at *www.bench.com* under Investor Corporate Governance, or you may obtain print copies of these materials by writing to the Corporate Secretary at Benchmark Electronics, Inc., 3000 Technology Drive, Angleton, Texas 77515, phone 979-849-6550.

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Shareholders and other interested parties may send communications to the Board, the non-employee directors as a group or individual directors, in each case in care of Benchmark Electronics, Inc., 3000 Technology Drive, Angleton, Texas 77515.

Operation of Board of Directors and Its Committees

The Board has responsibility for establishing broad corporate policies and reviewing our overall performance rather than day-to-day operations. The Board s primary responsibility is to oversee the management of the Company and, in so doing, serve the best interests of the Company and its shareholders. The Board selects, evaluates and provides for the succession of executive officers and, subject to shareholder election, directors. It reviews and approves corporate objectives and strategies, and evaluates significant policies and proposed major commitments of corporate resources. It participates in decisions that have a potential major economic impact on the Company. Management keeps the directors informed of Company activity through regular written reports and presentations at Board and committee meetings.

The directors are elected annually by the shareholders and hold office until their successors are duly elected and qualified. The Amended and Restated Bylaws of the Company provide for a Board of Directors consisting of not less than five, nor more than nine, members, as set from time to time by resolution of the Board of Directors. The Board presently consists of eight members. If all of the nominees for election as director are elected at the Meeting, there will be eight directors.

During 2011, Mr. Fu served as Chief Executive Officer and Chairman of the Board of Directors. The Board believed that having Mr. Fu serve both as Chairman of the Board and Chief Executive Officer represented the most appropriate leadership structure for the Company at that time. In reaching this conclusion the Board considered, among others, the following reasons: Mr. Fu s familiarity with the Company s business and industry, his capacity to identify strategic priorities, his vision, and his ability to facilitate the flow of information between management and the Board. The Board feels that combining the roles of Chief Executive Officer and Chairman of the Board affirms the fact that the Company has the ability to develop and implement strategy effectively without being weakened by multiple leaders. The Board acknowledges, however, that independent Board leadership is important and therefore the Board has established the position for a lead independent director, who carries the title Presiding Director and is elected to preside at the non-management executive sessions. The Presiding Director also serves as an additional communication link between management and the Board.

The NYSE rules require that the Company have a majority of independent directors. The rules provide that no director will qualify as independent unless the Board affirmatively determines that the director has no material relationship with the Company and its subsidiaries, either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company. In evaluating each director s independence, the Board considers the NYSE rules as well as all facts and circumstances deemed relevant. Accordingly, as of the date of this Proxy Statement, the Board has determined that the following nominees are independent : Michael R. Dawson, Peter G. Dorflinger, Douglas G. Duncan, David W. Scheible, Bernee D.L. Strom and Clay C. Williams. The Board has determined that each independent director or nominee had no material relationship with the Company other than as a director, shareholder or management, and that none of the express disqualifications contained in the NYSE rules apply to any of them. In making this determination, the Board considered any transactions, relationships and arrangements as required by the NYSE listing requirements.

Our Board oversees an enterprise-wide approach to risk management. The Board not only aims to understand the risks facing the Company and the steps management is taking to address them, but also actively decides on the levels of risks appropriate for the Company when designing and implementing its business strategy. In achieving this objective, the full Board participates in an annual enterprise risk management assessment. In this process, risk is assessed throughout the business, focusing on six primary areas of risk: financial risk, legal/compliance risk, operational/transaction risk, customer services/reputation risk, information technology risk and inherent (other) risks. In addition to discussion of risk with the full Board at least once a year, the independent directors discuss risk management during non-management executive sessions led by the Presiding Director.

While the Board has the ultimate oversight responsibility for the risk management process, various committees of the Board have also been entrusted with responsibility for risk management. In particular, the Audit Committee focuses on assessing and mitigating financial reporting risk, including internal controls, and receives an annual risk assessment report from the Company s internal auditor, and quarterly reports on identified risk areas. In setting compensation, the Compensation Committee also strives to create incentives that encourage a level of risk-taking behavior consistent with the Company s business strategy.

The Board held six meetings during 2011. Each of the directors attended at least 75% of such meetings during the period in which he or she was director. In 2011, Mr. Fu and Ms. Delly were also employees of the Company. They do not participate in any meeting at which their compensation is evaluated. All members of all committees are independent directors. In addition to committee meetings, the non-employee directors regularly meet outside the presence of Mr. Fu and Ms. Delly. These executive sessions are currently held either before, after or otherwise in conjunction with the Board s regularly scheduled meetings. Additional executive sessions can be scheduled at the request of the non-employee directors. The non-employee directors elect a Presiding Director to preside at these non-management executive sessions, on a rotating basis. Since May 2010, Ms. Strom has served as Presiding Director over the executive sessions and will serve as Presiding Director from May 2012 to May 2013.

The Board has an Audit Committee, a Compensation Committee and a Nominating/Governance Committee. Each committee has a charter that has been approved by the Board. Each committee must review the appropriateness of its charter at least annually. Each member of each committee meets the independence requirements of the NYSE.

The Audit Committee, consisting of Messrs. Dawson, Dorflinger and Duncan, met twelve times during 2011 and each member attended at least 75% of the meetings during the period in which he or she was a member of such committee. Mr. Dawson qualifies as an audit committee financial expert under the rules of the SEC. For a description of Mr. Dawson s qualifications see Election of Directors Nominees for Election . An audit committee financial expert is defined as a person who has the following attributes: (i) an understanding of generally accepted accounting principles and financial statements; (ii) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves; (iii) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the registrant s financial statements, or experience actively supervising one or more persons engaged in such activities; (iv) an understanding of internal controls and procedures for financial reporting; and (v) an understanding of audit committee functions. The Board, in its business judgment, has determined that Audit Committee members are independent, as required by applicable listing standards of the NYSE governing the qualifications of the members of audit committees, including the requirements of the Securities Exchange Act of 1934. The function of the Audit Committee is to assist the Board in fulfilling its responsibility to oversee (i) management s conduct of the Company s financial reporting process (including management s development and maintenance of systems of internal accounting and financial controls), (ii) the integrity of the Company s financial statements, (iii) the Company s compliance with legal and regulatory requirements and ethical standards, (iv) the qualifications and independence of the Company s outside auditors and (v) the performance of the Company s internal audit function and the outside auditors; and to prepare the audit committee report required by the rules of the SEC to be included in the Company s annual proxy statement. Additional information regarding the functions performed by the committee is set forth below in the Report of the Audit Committee.

The Compensation Committee, consisting of Mr. Williams, Mr. Scheible and Ms. Strom, met four times during 2011 and each member attended at least 75% of the meetings during the period in which he or she was a member of such committee. The functions of the Compensation Committee are to (i) oversee the administration of the compensation plans, in particular the incentive compensation and equity-based plans, of the Company (and, to the extent appropriate, the subsidiaries of the Company), (ii) discharge the Board s responsibilities relating to the compensation of the Company s executives, (iii) review and make recommendations on director compensation and (iv) prepare the annual report on executive compensation

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required by the rules and regulations of the SEC to be included in the Company s annual proxy statement. Additional information regarding the functions performed by the committee is set forth below in the Report of the Compensation Committee.

The Nominating/Governance Committee, consisting of Messrs. Duncan, Williams and Ms. Strom, met four times during 2011 and each member attended at least 75% of the meetings during the period in which he or she was a member of such committee. The functions of the Nominating/Governance Committee are to (i) identify individuals qualified to become Board members and recommend such individuals to the Board for nomination for election to the Board, (ii) make recommendations to the Board concerning committee appointments, (iii) develop, recommend and annually review corporate governance guidelines for the Company and (iv) oversee corporate governance matters and coordinate an annual evaluation of the Board.

To be considered by the Nominating/Governance Committee, a director nominee should have experience as a board member or senior executive of a public company or nationally recognized private company. In addition to these minimum requirements, the Nominating/Governance Committee will also evaluate whether the nominee s skills are complementary to the existing Board members skills, and the Board s needs for operational, management, financial, international, technological or other expertise. In addition, although there is no specific policy on considering diversity, the Board and the Nominating/ Governance Committee, believe that the Board membership should reflect diversity in its broadest sense, including persons diverse in geography, gender, ethnicity, viewpoint, education, skills and professional experience. The Nominating/Governance Committee typically utilizes a search firm to identify and screen the candidates, do reference checks, prepare a biography for each candidate for the Nominating/Governance Committee to review and coordinate interviews. The Nominating/Governance Committee, the Chairman of the Board and executive officers interview candidates that meet the criteria, and the Nominating/Governance Committee selects nominees who best suit the Board s needs. The Nominating/Governance Committee will consider for nomination to the Board candidates suggested by the shareholders, provided that such recommendations are submitted and received by us at our principal executive offices at 3000 Technology Drive, Angleton, Texas 77515, with an appropriate biographical summary, in accordance with the requirements described below under Date of Submission of Shareholder Proposals.

The Board does not have a formal written policy requiring members to attend the Shareholders Meeting, although all members have traditionally attended. We anticipate that all of our directors will attend our 2012 Annual Meeting of Shareholders.

Certain Transactions

The Board reviews Related Person Transactions (as defined below) in which the Company is or will be a participant to determine if they are in the best interests of our shareholders and the Company. Financial transactions, arrangements, relationships or any series of similar transactions, arrangements or relationships in which a Related Person (as defined below) had or will have a direct or indirect material interest and that exceed $120,000 (Related Person Transactions) are subject to the Board s review. Related Persons are directors, director nominees, executive officers, holders of 5% or more of our voting stock and their immediate family members. Immediate family members are children, stepchildren, spouses, parents, siblings, stepparents, mothers-in-law, fathers-in-law, brothers-in-law, sisters-in-law, daughters-in-law, sons-in-law and any person, other than a tenant or domestic employee, who shares in the household of a director, director nominee, executive officer or holder of 5% or more of our voting stock.

The Board does not have a written policy regarding Related Person Transactions. The Board does not believe a written policy is necessary because the Board has not, and does not expect to, approve the Company s engagement in any Related Person Transactions other than in rare circumstances. Each Related Person Transaction is considered on a stand-alone basis based on facts and circumstances at the time.

After its review, the Board decides whether to approve or ratify a Related Person Transaction that is in, or is not inconsistent with, the best interests of the Company and its shareholders, as the Board determines in good faith.

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On November 8, 2011, the Company entered into an Employment Termination and Settlement Agreement (the Termination Agreement) with Cary T. Fu, pursuant to which the Company and Mr. Fu agreed that Mr. Fu s employment with the Company and its affiliates would terminate, and that Mr. Fu would resign, effective December 31, 2011. Concurrently, the Company engaged Mr. Fu as a consultant pursuant to a Consulting Services and Non-Compete Agreement (the Consulting Agreement). Pursuant to his Consulting Agreement, the Company agreed to pay Mr. Fu $775,000 in one lump sum on December 30, 2012. The Consulting Agreement, which is effective as of January 1, 2012, has a term of two years and may be extended by mutual agreement between Mr. Fu and the Company. In addition, under the terms of the Termination Agreement, the Company (1) paid Mr. Fu a lump sum payment equal to $775,000 on December 30, 2011; (2) paid Mr. Fu a cash payment of $27,513 on January 2, 2012, as a health care benefit bridge to Medicare eligibility, and (3) extended the exercise period for all stock options granted to Mr. Fu (to the extent vested as of December 31, 2011) from three months to twenty-four months after December 31, 2011 (though such extension shall not extend the maximum term during which any such option may be exercised beyond ten years).

Also on November 8, 2011, the Board announced that Ms. Delly, the Company s President, would be appointed to serve as a member of the Board and would succeed Mr. Fu as CEO effective January 1, 2012. At the same time, the Company entered into an Amended and Restated Employment Agreement (the Employment Agreement) with Ms. Delly in connection with her promotion from President to President and CEO of the Company. The Employment Agreement, which was effective January 1, 2012, has an initial term of four years, and will be automatically renewed thereafter for successive one year terms, unless either party gives to the other written notice of termination no fewer than ninety days prior to the expiration of the initial term or any subsequent term. In addition, under the terms of the Employment Agreement, (1) Ms. Delly will be entitled to receive an annual base salary of $750,000, as increased or decreased from time to time by the Compensation Committee of the Board (Base Salary); (2) Ms. Delly will be eligible to participate in any annual fiscal year bonus plan maintained by the Company for its key executive employees, subject to the terms and conditions thereunder (the Executive Bonus Plan) and, for the Company s fiscal year 2012, Ms. Delly s target bonus opportunity under the Executive Bonus Plan will be 100% of Base Salary and maximum bonus opportunity will be 200% of Base Salary (with actual payouts being based on the Company s attainment of applicable performance goals); (3) Ms. Delly was granted equity-based long-term incentive awards under the Company s 2010 Omnibus Incentive Compensation Plan (the 2010 Plan) on January 1, 2012 consisting of 37,119 shares of restricted stock, 37,119 stock options and 37,119 performance restricted stock units, and (4) Ms. Delly will be eligible to participate in long-term incentive compensation programs and other compensation and benefit plans and programs maintained by the Company for similarly situated executives, in each case in accordance with the terms of the applicable plan or program. In the event that Ms. Delly s employment pursuant to the Employment Agreement is terminated by the Company without cause or by Ms. Delly for good reason (in each case, as defined in the Employment Agreement), Ms. Delly will be eligible to receive, subject to execution of a release of claims in favor of the Company and compliance with other conditions set forth in the Employment Agreement (1) a severance payment equal to two times (three times upon any such termination within 24 months of a change in control of the Company) the sum of (x) base salary at the rate in effect on the date of termination and (y) target bonus under the Executive Bonus Plan for the year in which termination occurs, payable in a lump sum within 60 days of the date of termination, (2) a pro-rated target annual bonus for the year in which termination occurs, and (3) 18 months continuation of group health insurance coverage, with the Company paying the portion of the premium costs that it would have paid if Ms. Delly had remained actively employed with the Company. The Employment Agreement also provides that, if payments and benefits provided to Ms. Delly along with other payments and benefits provided the Company would collectively constitute parachute payments for purposes of the golden parachute excise tax provisions under Sections 280G of the Internal Revenue Code, such payments and benefits will be reduced to an amount sufficient to avoid application of the golden parachute excise tax but only if the net after-tax amount received by Mr. Delly in respect of such payments and benefits in the absence of such reduction would be less than the net after-tax amount received by Ms. Delly in respect of such payments and benefits as a result of such reduction.

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COMPENSATION DISCUSSION AND ANALYSIS

Philosophy and Objectives

Our executive compensation program is designed to:

- Attract, retain and reward high-caliber management talent;
- Incentivize the achievement of both the Company s short-term and long-term operating objectives and performance;
- Be transparent, fair, objective and, to the extent practical, formulaic;
- Encourage the taking of prudent business risks for appropriate potential long-term benefits, while avoiding excessive, unnecessary or unwise risk; and;
- Encourage smart investment and prudent deployment of capital.

At-risk, incentive compensation commits our senior executives to delivering challenging results over both the short- and long-term by rewarding the achievement of those results and aligning their interests with the financial interests of our shareholders.

In order to more closely align the financial interests of our executive officers with that of our shareholders, we have (i) a share ownership guideline requiring our executive officers to acquire a long-term ownership stake in the Company (See Share Ownership Guidelines), (ii) a practice of making on a single day all board-level compensation decisions (including adjustments to base salaries, annual incentive compensation opportunities, and long-term equity-based incentive compensation) to reinforce performance feedback to the executive (See Timing of Compensation Decisions) and (iii) a performance-based restricted stock units (PSUs) compensation component in our compensation program, to more closely tie pay to performance. The vesting of PSUs depends upon the Company s achievement of absolute financial goals as set by the Board, including annual revenue growth rate (8% or higher), operating income margin (4.5% or higher), and return on invested capital (12% or higher), over a four year period (See Long-Term Equity-Based Incentive Compensation).

The primary components of our executive compensation program, described in more detail within the report, are:

- ***Base Salary*** pays a set level of monthly cash income to the executive, generally within the median range of the Peer Group (identified below).
- ***Annual Incentive Award*** pays a variable cash award to reward good near-term operational performance in sales, earnings and cash flow and which is based solely upon financial performance by the Company measured against revenue, earnings, and inventory turn targets set by the Board at the beginning of each year.
- ***Restricted Shares*** are awarded to retain management and permit each executive to steadily build an ownership stake in the Company to encourage long-term shareholder value creation.
- ***Performance-Based Restricted Stock Units (PSUs)*** reward performance and accelerate the executive s ownership stake, subject to the achievement of specific long-term financial objectives over a four year period.
- ***Stock Options*** directly align the interests of executives with the financial interest of our shareholders by increasing in value to the executive with the increase in value of shares of the Company, generally over a four year vesting period and as long as the executive holds the options.

Three of the components Annual Incentive Awards, Performance-Based Restricted Stock Units, and Stock Options are at-risk in that they are of value only when the Company s financial objectives are achieved by the executive or the value of the Company s shares rise. The Company believes that the design of these closely aligns the executive s pay with performance beneficial to the Company and its shareholders.

Role of Compensation Committee

Our Compensation Committee, which is comprised solely of independent directors, is responsible for reviewing and approving all salary and annual incentive compensation paid to officers of the Company, including our Chief Executive Officer and other Named Executive Officers. With respect to long-term equity-based incentive compensation paid to our Named Executive Officers (including our Chief Executive Officer), as well as to all other employees, the Compensation Committee makes a recommendation to the Board, which then approves the compensation.

Our Compensation Committee directly engaged Mercer Human Resource Consulting, Inc. to serve as the Compensation Committee s independent compensation consultant (the consultant) and perform an executive compensation review. The consultant did not provide any services on behalf of management and did not have any potential business conflicts with its role as an independent advisor.

Role of Management

Regarding most compensation matters, including executive and director compensation, our management provides recommendations to the Compensation Committee; however, the Compensation Committee does not delegate any of its responsibilities to others in setting compensation for the executive officers. The Chief Executive Officer annually reviews the performance of the other executive officers, and conclusions reached and recommendations based on these reviews, including with respect to salary adjustments and annual equity awards, are presented to the Compensation Committee. Our Compensation Committee can exercise its discretion in modifying any recommended adjustments or awards to the officers of the Company (which includes the executive officers).

Evaluation of Say on Pay Advisory Vote

At the 2011 Annual Meeting of Shareholders, our shareholders voted 91% in favor of the compensation of our Named Executive Officers as described in our 2011 proxy statement. In consideration of the results, the Compensation Committee acknowledged the overwhelming support received from our shareholders and viewed the results as a confirmation of the Company s existing executive compensation policies and decisions. Accordingly, we did not significantly change our compensation principles and objectives in 2011.

Competitive Market Review

In setting executive officer compensation, our Compensation Committee considers all factors it deems relevant. The Compensation Committee also considers data and recommendations presented by the consultant and management based on market pay survey data that provides information on the level of the total target compensation (which is comprised of salary, annual incentive compensation and long-term incentive awards) paid to similarly positioned executives at companies in the Peer Group, identified below. The Company s targeted compensation opportunity is generally set with the median range of the Peer Group. Our compensation program is designed to deliver above median compensation for above median performance and below median compensation for below median performance. To determine the amount of compensation to be paid to each of these executives, the Compensation Committee performed a subjective evaluation of each executive s performance and responsibilities; market pay survey data; relativity in pay among the Company s executive officers; comparability of each executive s role to other named executive officers cited within proxies from the Peer Group; general compensation trends; the Company s financial position; specific challenges faced by the executive; and, for each executive other than the Chief Executive Officer, the recommendation of the Chief Executive Officer (without assigning specific weight to each factor). In setting executive compensation, our Compensation Committee has not established a set formula or other quantitative policy for allocating between long-term and immediately payable compensation, cash and non-cash compensation, establishing the amount of equity awards or allocating equity awards between stock options, restricted shares and performance based restricted share units, but rather considers compensation in totality for each individual.

The Peer Group was selected in August 2010 by the Compensation Committee based on a recommendation by the consultant from publicly traded companies that are major competitors in the marketplace for talent for the applicable positions. The companies in the Peer Group include entities with revenues of between $0.6 billion and $5.2 billion, manufacturers and companies in the electrical components, systems software, semiconductor components and electronics manufacturing services industries. The Peer Group consists of the following 9 companies:

Amphenol Corporation
BMC Software, Inc.
Lam Research Corporation
Molex Incorporated
Multi-Fineline Electronix, Inc.
Novellus Systems, Inc.
Plexus Corp
Sanmina-SCI Corporation
Teradyne, Inc.

Timing of Compensation Decisions

In order to reinforce performance feedback through compensation, beginning in 2011, our Compensation Committee began to make executive compensation decisions in March of each year rather than effect changes to different compensation components at different times throughout the year. The Compensation Committee s practice had previously been to review and approve stock-based awards to all eligible employees, including executive officers, once a year, on the date of the Compensation Committee s regularly scheduled fourth quarter meeting and, in the case of stock options, to grant such stock options at an exercise price equal to the closing price of the Company s Common Shares as reported by the New York Stock Exchange on that date. The Company believes that the practice of granting stock-based awards in March of each year is reasonable when followed on a consistent basis each year and reduces the risk of inadvertently timing the grant of such awards with the release of material nonpublic information. In 2010, in order to make all performance and compensation reviews at the same time each year, the Compensation Committee postponed the grant of equity awards until March 2011. Consequently, no stock-based awards were granted in 2010.

2011 Compensation

Base Salary Compensation

Our Compensation Committee reviews base salaries for executive officers annually. In making salary determinations, the Compensation Committee considers the terms of any employment contract with the executive, the recommendations of the Chief Executive Officer (as to executive officers), salary norms for persons in comparable positions in the Peer Group, the executive s experience and scope of responsibility, and the Compensation Committee s assessment of the executive s individual past and potential future contribution to the Company s results (without assigning a specific weight to each factor). During its review of base salaries for executives, the Compensation Committee primarily considers market data provided by the consultant, the results of a review of the executive s compensation relative to the Company s other executive officers, the executive s individual performance and the committee members own business experience and views on appropriate compensation levels.

Annual Cash-Based Incentive Compensation

The purpose of the annual incentive compensation plan is to align the interests of executive officers with our shareholders by motivating executive officers to achieve superior financial and operational performance that increases shareholder value. Incentive bonuses are generally granted based on a percentage of each executive officer s base salary earned during the fiscal year. The 2011 incentive compensation plan for Messrs. Fu and Adam and Ms. Delly was adopted by the Compensation Committee in March 2011. Our practice is to award cash incentive bonuses based upon the attainment of corporate performance goals. The following table sets forth the 2011 threshold, target, incremental and maximum performance goals with respect to fiscal year financial results of the Company for each of the executive officers:

	Corporate Performance Goals		
Objective Level	Earnings Per Share Before Special Items[1]	Inventory Turns[2]	Revenue
Threshold	$ 1.50	6.0	$ 2.5 billion
Target	$ 1.60	6.5	$ 2.6 billion
Incremental	$ 1.70	7.0	$ 2.7 billion
Maximum	$ 1.80	7.5	$ 2.8 billion
Actual	$ 1.00	5.6	$ 2.3 billion

(1) Earnings per share before special items excludes restructuring and Thailand flood related charges, net of insurance and tax.

(2) Inventory turns is calculated as sales divided by average inventory for each of the four quarters ended December 31, 2011.

The following table sets forth the potential 2011 threshold, target, incremental and maximum cash incentive payment levels, as a percentage of salary, for each of the executives based on the Company s achievement of each of the three performance goals above:

	Potential 2011 Incentive Payments as a Percentage of Salary Related to Achievement of Each of Three Corporate Performance Goals			
Named Executive	Threshold	Target	Incremental	Maximum
Cary T. Fu	16.70 %	41.67 %	58.33 %	75.00 %
Donald F. Adam	8.30 %	25.00 %	33.33 %	41.67 %
Gayla J. Delly	12.50 %	33.33 %	45.83 %	58.33 %

The total incentive bonus award is determined according to the level of achievement of the corporate performance goals. The maximum incentive bonus for these executive officers was 225% for Mr. Fu, 125% for Mr. Adam and 175% for Ms. Delly.

At its March 2012 meeting, our Compensation Committee determined that the executives had achieved below threshold performance in earnings per share before special items, inventory turns and in revenue. As a result, the Compensation Committee determined that no cash incentive compensation was earned in 2011.

Long-Term Equity-Based Incentive Compensation

Our Compensation Committee believes that equity-based incentive compensation is critical in motivating the long-term creation of shareholder value because it focuses executive attention on share price as the primary measure of the Company s overall performance. In 2010, the Board adopted and our shareholders approved, the 2010 Plan, which superseded the Benchmark Electronics, Inc. 2000 Stock Awards Plan (the 2000 Plan). In 2011, our Compensation Committee awarded executive officers a combination of stock options, restricted shares and PSUs (in each case, as further described below). To determine the awards for each executive, the Compensation Committee performed a subjective evaluation of each executive s performance and responsibilities, and also considered market pay survey data, relative pay among the Company s executive officers and other factors (without assigning a specific weight to each factor). Although our management recommended the number of shares to be covered by equity awards granted to employees, the Compensation Committee approved the grant of all equity awards and did not delegate the timing of such grants. Equity

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award grants to our Chief Executive Officer and other executive officers are not made automatically each year. The amount and terms of equity awards already held by an executive officer generally are not significant factors in the Compensation Committee s determination of whether and how many equity awards should be granted to the executive officer.

Stock Options The Compensation Committee grants stock options at not less than 100% of the fair market value of the Common Shares on the date of grant. Because stock options provide value only in the event of share price appreciation, our Compensation Committee believes these awards are, by their nature, performance-based and are an important component of our executive compensation program.

Restricted Shares Long-term equity-based incentive compensation awards also include time-based awards which vest over four years, to improve retention of executives and to enable a steadily-growing ownership stake in the Company that encourages long-term strategic performance.

Performance-Based Restricted Stock Units Beginning in 2011, in addition to grants of stock options and restricted shares, the Compensation Committee added PSU awards to the long-term incentive compensation component of executive compensation. Our Compensation Committee believes the PSUs, which vest over four years subject to the achievement of measurable, absolute financial goals, will enable management to build a meaningful ownership stake in the Company to encourage long-term strategic thinking and the avoidance of unnecessary or excessive risk taking. The financial goals were set by our Board, and include an annual revenue growth rate of 8% or more; operating income margins of 4.5% or more; and return on invested capital of 12% or more.

The long-term equity-based incentive compensation awards made in March 2011 were evenly balanced, with approximately one-third of the total value awarded in stock options, restricted shares and PSUs, respectively.

Deferred Compensation Benefits

In order to attract and retain key employees the Company established the Benchmark Electronics, Inc. Deferred Compensation Plan (the Deferred Compensation Plan) which allows certain designated employees, including our Named Executive Officers, the opportunity to defer, on a pre-tax basis, their salary, bonus awards, and other specified compensation and to receive the deferred amounts, together with an investment return (positive or negative), either at a pre-determined time in the future or upon termination of employment with the Company. The Company intends that the Deferred Compensation Plan will at all times be maintained on an unfunded basis for federal income tax purposes under the Internal Revenue Code and be administered as a nonqualified top-hat plan exempt from the substantive requirements of the Employee Retirement Income Security Act.

Retirement Benefits

All employees in the United States, including the executive officers, are eligible to participate in the Company s 401(k) Employee Savings Plan (the Savings Plan). The Savings Plan is a defined contribution tax-qualified retirement savings plan pursuant to which employees are able to contribute a portion of their eligible cash compensation to the Savings Plan and the Company provides matching cash contributions up to 4% of the employees eligible compensation. All contributions to the Savings Plan as well as any matching contributions are fully vested upon contribution.

Perquisites and Personal Benefits

The Company provides only minimal perquisites or other personal benefits to executive officers, consisting primarily of a portion of the cost of financial planning services, health club memberships and annual physical exams.

Other Matters

Share Ownership Guidelines

Our executive officers are subject to a share ownership requirement. During the term of his or her employment with the Company, our executive officers are expected to directly own Common Shares of the Company having a market value of at least (a) three times their annual base salary if he or she is President or Chief Executive Officer and (b) two times his or her annual base salary if he or she is Chief Financial Officer. Mr. Fu, who served as Chief Executive Officer until December 31, 2011, is in compliance with this ownership requirement. Our executive officers who have not yet achieved this ownership requirement (including Ms. Delly and Mr. Adam) are expected to retain 20% of the underlying shares of (a) each exercise of stock option grants and (b) each vesting of restricted share grants until such executive officer has achieved his or her respective ownership requirement.

Analysis of Compensation Risk

During 2011 our Compensation Committee conducted an analysis of potential risks posed by the Company s compensation program, asking, in essence, whether the program might encourage the executive officers to take unnecessary or excessive risks, or whether the program might encourage the manipulation of reported earnings. As part of its analysis the Compensation Committee also considered mitigating factors and controls:

Component	Potential Risk	Mitigating Factors
Base Salary	Unsustainable fixed expense Retention challenges if too low	Management of expenses and increases Periodic market surveys
Annual Incentive Plan	Imprudent risk taking to maximize short-term reported financial results Earnings manipulation	Internal financial controls Award limits Long-term incentive awards at risk Share ownership guidelines Tied to independently audited results
Long-Term Equity-Based Incentive Plans	Imprudent risk taking to maximize short-term stock price Earnings manipulation	Award limits Share ownership guidelines Long vesting periods Internal financial controls Independent audit
Health & Insurance Benefits	Unsustainable fixed expense Retention challenges if too low	Management of expenses Periodic market surveys
Retirement Benefits (401k and Deferred Compensation Plans)	Unsustainable fixed expense Retention challenges if too low Legal compliance risks	Management of expenses Limited non-qualified retirement benefits Third party professional advisors Periodic market surveys
Severance Plans	Unsustainable fixed expense	Limitations within employment, severance and change of control agreements
Perquisites & Expatriate Benefits	Unsustainable fixed expense Retention challenges if too low	Award limits Management of expenses Periodic market surveys

Based on its analysis the Compensation Committee determined that our compensation program is unlikely to motivate inappropriate risk-taking.

IRS Limits on Deductibility of Compensation

An income tax deduction under Section 162(m) of the Internal Revenue Code will generally be available for annual compensation in excess of $1 million paid to the executive officers (other than the Chief Financial Officer) only if that compensation is performance-based and complies with certain other tax law requirements. Although our Compensation Committee considers deductibility issues when approving executive compensation elements, we believe that the other compensation objectives, such as attracting, retaining and providing incentives to qualified managers, are important and may supersede the goal of maintaining deductibility. Consequently, the Compensation Committee may make compensation decisions without regard to deductibility when it believes it is in the best interests of the Company and our shareholders to do so.

REPORT OF COMPENSATION COMMITTEE

Our executive compensation program is administered by the Compensation Committee, a committee of the Board composed of independent directors listed below this report. The Compensation Committee is responsible for recommending to the full Board the compensation of our Chief Executive Officer, determining the compensation of our other executive officers and administering our employee benefit plans. None of the members of the Compensation Committee has any interlocking or other relationships with the Company that would call into question their independence as Compensation Committee members. Our Compensation Committee operates under a written charter previously approved by the Board.

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis (the CD&A) for the year ended December 31, 2011 with management. Based on such reviews and discussions, the Compensation Committee recommended to the Board, and the Board has approved, that the CD&A be included in the proxy statement under Schedule 14A for the year ended December 31, 2011 for filing with the SEC and incorporation by reference into the Company s annual report on Form 10-K for the fiscal year ended December 31, 2011.

SUBMITTED BY THE COMPENSATION COMMITTEE OF
THE COMPANY S BOARD OF DIRECTORS

Clay C. Williams, Chair
David W. Scheible
Bernee D. L. Strom

COMPENSATION TABLES AND NARRATIVES

The following tables, narratives and footnotes describe the total compensation and benefits of our Chief Executive Officer and our other two executive officers for 2011 (our Named Executive Officers).

Summary Compensation Table

The following table sets forth information concerning the compensation and benefits of our Named Executive Officers during the fiscal years ended December 31, 2011, 2010 and 2009.

Name and Principal Position	Year	Salary ($)	Stock Awards[1] ($)	Option Awards[2] ($)	Non-Equity Incentive Plan Compensation ($)	All Other Compensation[3] ($)	Total[4] ($)
Cary T. Fu	2011	$770,192	$940,329[6]	$771,695[7]	$	$785,280	$3,267,496
Chairman and	2010	740,000			740,000	10,124	1,490,124
Chief Executive Officer (PEO)[5]	2009	700,000	343,980	731,700	933,800	9,524	2,719,004
Donald F. Adam	2011	366,154	583,655	277,412		10,280	1,237,501
Chief Financial Officer	2010	340,000			198,322	10,124	548,446
(PFO)	2009	300,000	133,770	284,550	199,890	9,524	927,734
Gayla J. Delly	2011	526,154	843,059	400,708		10,280	1,780,201
President[5]	2010	505,000			399,758	10,124	914,882
	2009	485,000	210,210	447,150	485,000	9,524	1,636,884

(1) The amounts reflect the aggregate grant date fair value of restricted stock and PSU grants pursuant to the Company s equity awards plans during the fiscal years ended December 31, 2011, 2010 and 2009, respectively, computed in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718. Stock awards were valued using the closing market price of the Company s Common Shares on the grant date. During 2010, the Company did not grant any stock awards to our Named Executive Officers. During 2009, stock awards consisted of restricted stock. A portion of the 2011 awards listed above are subject to performance conditions, with the grant date fair value calculated for purposes of the Stock Awards column assuming a target level of achievement. Assuming the highest level of performance conditions will be achieved, at a maximum of 300% for grants in 2011, the grant date fair value of stock awards for each of our Named Executive Officers would be as follows:

Cary T. Fu	$1,410,466
Donald F. Adam	875,483
Gayla J. Delly	1,264,561

(2) The amounts reflect the aggregate grant date fair value of stock option grants pursuant to the Company s equity awards plans during the fiscal years ended December 31, 2011, 2010 and 2009, respectively, computed in accordance with the provisions of FASB ASC Topic 718. Assumptions used in the calculation of this amount for fiscal years ended December 31, 2011, 2010 and 2009 are included in footnote 1(l) to the Company s audited financial statements for the fiscal year ended December 31, 2011, included in the Company s Annual Report on

Form 10-K filed with the Securities and Exchange Commission on February 29, 2012. During 2010, the Company did not grant any option awards to our Named Executive Officers.

(3) The amounts shown in this column reflect cash incentive bonuses paid to our Named Executive Officers pursuant to the Company s annual incentive compensation plans. The amounts include cash bonuses earned in year of service regardless of when paid.

(4) For fiscal year ended December 31, 2011, the All Other Compensation column includes (a) $9,800 paid by the Company pursuant to the Company s Savings Plan to each of our Named Executive Officers (under the Savings Plan, the Company is obligated to make matching contributions to the Savings Plan in an amount equal to 100% of each participant s elective contributions, to the extent that such elective contributions do not exceed 4% of such participant s eligible compensation), (b) payments by the

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Company of premiums of $480 for term life insurance on behalf of each of our Named Executive Officers and (c) in the case of Mr. Fu, $775,000 paid by the Company on December 30, 2011 pursuant to the Termination Agreement.

(5) Mr. Fu resigned as Chief Executive Officer effective as of December 31, 2011 and Ms. Delly was promoted from President to President and Chief Executive Officer effective as of January 1, 2012.

(6) During 2011, as a result of the terms of Mr. Fu s Termination Agreement, the Company cancelled unvested stock awards previously granted to Mr. Fu with an aggregate fair value of $1,320,231, which is not reflected in the table, computed in accordance with the provisions of FASB ASC Topic 718.

(7) During 2011, the Company recorded additional stock-based compensation expense of $455,749, which is reflected in the table, computed in accordance with the provisions of FASB ASC Topic 718 in its financial statements as a result of the extension of the exercise period to December 31, 2013 for all stock options granted to Mr. Fu and fully vested prior to December 31, 2011. Also, as a result of the terms of Mr. Fu s Termination Agreement, the Company cancelled unvested stock options previously granted to Mr. Fu with an aggregate fair value of $913,295, which is not reflected in the table, computed in accordance with the provisions of FASB ASC Topic 718.

Employment Agreements

The Company has entered into employment agreements with each of Mr. Adam and Ms. Delly. The agreements provide for annual base salaries, subject to increases from time to time as determined by the Compensation Committee. These agreements are automatically extended by successive one-year terms, unless terminated by the Company or the executive. Effective March 2, 2011, Ms. Delly s annual base salary was $530,000 and Mr. Adam s current annual based salary was $370,000. Effective January 1, 2012, the Compensation Committee increased Ms. Delly s annual base salary to $750,000 in connection with her promotion to President and Chief Executive Officer.

In addition to annual base salaries, each employment agreement provides for payment of bonuses if the Company attains or exceeds its corporate performance goals which are specified each year by the Compensation Committee. A more detailed discussion of the corporate performance goals and these bonuses, including the percentage of base salary and the mechanism by which the bonuses are paid and determined by the Compensation Committee is set forth in Compensation Discussion and Analysis 2011 Compensation Annual Cash-Based Incentive Compensation .

Each employment agreement also provides for severance payments if the applicable Named Executive Officer s employment is terminated under certain qualifying circumstances. A more detailed discussion of the severance terms is set forth in Potential Payments Upon Termination or Change in Control .

Each employment agreement contains restrictive covenants that prohibit the applicable Named Executive Officer from competing with the Company or soliciting its customers or service providers during the term of the employment agreement and for two years thereafter as well as a confidentiality covenant of indefinite length.

In connection with her promotion from President to President and Chief Executive Officer of the Company, Ms. Delly s employment agreement was amended and restated effective as of January 1, 2012. Under the amended and restated employment agreement (i) Ms. Delly s annual base salary was increased to $750,000 (as indicated above), (ii) for the Company s fiscal year 2012, Ms. Delly s target bonus opportunity is 100% of base salary, while her maximum bonus opportunity would be 200% of base salary and (iii) in addition to the restrictive covenants described above, Ms. Delly may not, during her period of employment and for two years thereafter, solicit or hire employees or consultants of the Company, make disparaging remarks about the Company, its subsidiaries or products and services or divert customers of the Company to its competitors. A more detailed discussion of Ms. Delly s amended and restated employment agreement is set forth above in Certain Transactions .

The Company was previously party to an employment agreement with Mr. Fu. The terms of such employment agreement were substantially similar to the terms of the Company s employment agreements (as in effect in 2011) with

Mr. Adams and Ms. Delly. The employment agreement was terminated in connection with the Company s and Mr. Fu s agreement that Mr. Fu would resign as Chief Executive Officer of the Company effective December 31, 2011. On November 8, 2011, the Company and Mr. Fu entered into the

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Termination Agreement in connection with Mr. Fu s termination of employment. A more detailed discussion of the Termination Agreement is set forth in Potential Payments Upon Termination or Change in Control .

Grants of Plan-Based Awards

The 2000 Plan and the 2010 Plan authorize the Company, upon recommendation of the compensation committee of the Board of Directors, to grant a variety of types of awards, including stock options, restricted shares, restricted stock units, stock appreciation rights, performance compensation awards, phantom stock awards and deferred share units, or any combination thereof, to any director, officer, employee or consultant (including any prospective director, officer, employee or consultant) of the Company. Stock options are granted to employees with an exercise price equal to the market price of the Company s common shares on the date of grant, generally vest over a four-year period from the date of grant and have a term of ten years. Restricted shares, restricted stock units and phantom stock awards 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. The 2000 Plan expired on February 16, 2010 and no additional grants can be made under that plan. The 2010 Plan was approved by the Company s shareholders on May 18, 2010 and replaced the 2000 Plan. As of December 31, 2011, the Company had equity awards outstanding with respect to 4.5 million Common Shares under the Company s 2000 and 2010 Plans, and 4.2 million additional common shares are available for issuance under the Company s 2010 Plan.

The following table sets forth information concerning grants of nonqualified stock option and restricted share awards to the Named Executive Officers during the fiscal year ended December 31, 2011 under the 2010 Plan, as well as estimated possible payouts under cash and equity incentive plans.

2011 Grants of Plan-Based Awards

(1) The information included in the Threshold , Target and Maximum columns represent the range of potential payout under the 2011 incentive compensation plan for Messrs. Fu and Adam and Ms. Delly adopted by the Compensation Committee in March 2011.

(2) The information included in the Threshold , Target and Maximum columns represent the range of potential shares that may be earned in respect of PSUs granted under the 2011 incentive compensation plan for Messrs. Fu and Adam and Ms. Delly adopted by the Compensation Committee in March 2011. The number of PSUs that will ultimately be earned will not be determined until the end of the performance period, which is December 31, 2014. Shares earned will be proportionately increased in the event of attainment of performance goals at levels between Threshold and Target or Target and Maximum .

(3) Represents closing market price of a share of the Company s stock on option s grant date.

(4) The amounts shown in this column reflect the grant date fair value of the restricted share, PSU and stock option awards granted, or modified, in 2011, as computed in accordance with FASB ASC Topic 718. The restricted share and PSU awards were valued using the closing market price of the Company s Common Shares on the restricted share grant date. The stock option awards were valued using the Black-Scholes option-pricing model. Assumptions used in the Black-Scholes model are included in footnote 1(l) to the Company s audited financial statements for the year ended December 31, 2011, included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012.

(5) The amounts represent the incremental fair value corresponding to the extension of the exercise period for all stock options granted to Mr. Fu and fully vested prior to December 31, 2011, pursuant to the Termination Agreement, as computed in accordance with the provisions of FASB ASC Topic 718. The original grant dates of these awards were: August 1, 2002; December 11, 2003; November 30, 2004; January 10, 2006; November 15, 2006; December 5, 2007; December 10, 2008; and December 9, 2009. The exercise price represents the closing market price of a share of the Company s stock on the option s original grant date.

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2011 Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information concerning stock options and stock awards held by our Named Executive Officers at December 31, 2011.

	Option Awards				Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that have not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that have not Vested ($)
Cary T. Fu								