LITTELFUSE INC /DE
Form 10-Q
November 03, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 27, 2008

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OF 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM _________ TO _________

Commission file number 0-20388

LITTELFUSE, INC.

(Exact name of registrant as specified in its charter)

Delaware	**36-3795742**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
800 East Northwest Highway Des Plaines, Illinois	**60016**
(Address of principal executive offices)	(Zip Code)

(847) 824-1188

Registrant s telephone number, including area code:

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

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

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

Littelfuse, Inc. had 21,712,017 shares of common stock, $.01 par value, outstanding as of September 27, 2008.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

LITTELFUSE, INC.
Condensed Consolidated Balance Sheets
(in thousands, unaudited)

	September 27, 2008	December 29, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 67,364	$ 64,943
Accounts receivable	90,373	85,607
Inventories	64,598	58,845
Deferred income taxes	10,607	10,986
Prepaid expenses and other current assets	11,936	14,789
Total current assets	244,878	235,170
Property, plant and equipment:		
Land	11,067	12,573
Buildings	57,744	49,321
Equipment	294,284	282,416
	363,095	344,310
Accumulated depreciation	(207,468)	(199,748)
Net property, plant and equipment	155,627	144,562
Intangible assets, net of amortization:		
Patents, licenses and software	8,435	9,231
Distribution network	12,395	13,823
Customer lists, trademarks and tradenames	3,141	1,192
Goodwill	80,673	73,462
	104,644	97,708
Investments	4,733	6,544
Deferred income taxes	7,387	6,141
Other assets	1,153	1,240
Total Assets	$ 518,422	$ 491,365
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 25,427	$ 27,889
Accrued payroll	17,814	19,441
Accrued expenses	14,184	11,595
Accrued severance	12,440	21,092

Accrued income taxes		**1,701**		4,484
Current portion of long-term debt		**37,517**		12,086
Total current liabilities		**109,083**		96,587
Long-term debt, less current portion				1,223
Accrued severance		**7,641**		8,912
Accrued post-retirement benefits		**19,480**		18,371
Other long-term liabilities		**11,473**		12,715
Minority interest		**143**		143
Total shareholders equity		**370,602**		353,414
Total Liabilities and Shareholders Equity	**$**	**518,422**	$	491,365

Common shares issued and outstanding of 21,712,017 and 21,869,824, at September 27, 2008 and December 29, 2007, respectively

See accompanying notes.

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LITTELFUSE, INC.
Consolidated Statements of Income
(in thousands, except per share data, unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 27, 2008	September 29, 2007	**September 27, 2008**	September 29, 2007
Net sales	**$ 141,448**	$ 140,215	**$ 424,982**	$ 401,178
Cost of sales	**105,548**	93,926	**303,139**	272,297
Gross profit	**35,900**	46,289	**121,843**	128,881
Selling, general and administrative expenses	**26,594**	27,578	**79,216**	76,938
Research and development expenses	**6,265**	5,644	**18,101**	16,237
Gain on sale of Ireland property		(8,037)		(8,037)
Amortization of intangibles	**1,030**	877	**2,923**	2,413
Operating income	**2,011**	20,227	**21,603**	41,330
Interest expense	**346**	207	**1,048**	1,037
Other expense (income), net	**(3,246)**	195	**(2,890)**	(690)
Income before income taxes	**4,911**	19,825	**23,445**	40,983
Income taxes	**923**	5,531	**6,204**	12,086
Net income	**$ 3,988**	$ 14,294	**$ 17,241**	$ 28,897
Net income per share:				
Basic	**$ 0.18**	$ 0.64	**$ 0.79**	$ 1.30
Diluted	**$ 0.18**	$ 0.64	**$ 0.79**	$ 1.29
Weighted average shares and equivalent shares outstanding:				
Basic	**21,703**	22,359	**21,724**	22,272
Diluted	**21,855**	22,499	**21,871**	22,445

See accompanying notes.

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LITTELFUSE, INC.
Consolidated Statements of Cash Flows
(in thousands, unaudited)

	For the Nine Months Ended	
	September 27, 2008	September 29, 2007
Operating activities:		
Net income	**$ 17,241**	$ 28,897
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**20,843**	18,503
Amortization of intangibles	**2,923**	2,413
Stock-based compensation	**3,770**	3,795
Gain on sale of property, plant and equipment	**(305)**	(8,037)
Pension settlement expense	**5,725**	1,847
Changes in operating assets and liabilities:		
Accounts receivable	**(5,669)**	(5,356)
Inventories	**(6,190)**	7,182
Accounts payable and accrued expenses	**(223)**	(6,615)
Accrued payroll and severance	**(11,552)**	(2,582)
Accrued taxes	**(5,932)**	(4,373)
Prepaid expenses and other	**7,082**	(4,400)
Net cash provided by operating activities	**27,713**	31,274
Investing activities:		
Purchases of property, plant, and equipment	**(36,956)**	(26,215)
Purchases of businesses, net of cash acquired	**(9,280)**	(4,507)
Sale of property, plant and equipment	**3,384**	8,593
Net cash used in investing activities	**(42,852)**	(22,129)
Financing activities:		
Proceeds from debt	**75,500**	41,700
Payments of debt	**(51,412)**	(59,866)
Notes receivable, common stock	**5**	
Purchases of common stock	**(6,623)**	
Proceeds from exercise of stock options	**1,687**	6,205
Excess tax benefit on share-based compensation	**136**	1,005
Net cash provided by (used in) financing activities	**19,293**	(10,956)
Effect of exchange rate changes on cash	**(1,733)**	2,823
Increase in cash and cash equivalents	**2,421**	1,012
Cash and cash equivalents at beginning of period	**64,943**	56,704

Cash and cash equivalents at end of period	**$ 67,364**	$ 57,716

See accompanying notes.

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Notes to Condensed Consolidated Financial Statements
(Unaudited)
September 27, 2008

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Littelfuse, Inc. and its subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, severance, pension settlement and accrued employee-related costs pursuant to contractual obligations, considered necessary for a fair presentation have been included. Certain items in the 2007 financial statements have been reclassified to conform to the 2008 presentation. Operating results for the three and nine months ended September 27, 2008 are not necessarily indicative of the results that may be expected for the year ending December 27, 2008. For further information, refer to the Company s consolidated financial statements and the notes thereto incorporated by reference in the Company s Annual Report on Form 10-K for the year ended December 29, 2007.

2. Business Segment Information

Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS 131), establishes annual and interim reporting standards for an enterprise s operating segments and related disclosures about its products, services, geographic areas and major customers. An operating segment is defined as a component of an enterprise that engages in business activities from which it may earn revenues and incur expenses, and about which separate financial information is regularly evaluated by the Chief Operating Decision Maker (CODM) in deciding how to allocate resources. The CODM, as defined by SFAS 131, is the Company s President and Chief Executive Officer (CEO).

Littelfuse, Inc. and its subsidiaries design, manufacture, and sell circuit protection devices throughout the world. The Company reports its operations by the following business unit segments: electronics, automotive, and electrical. Each operating segment is directly responsible for sales, marketing and research and development. Manufacturing, purchasing, logistics, customer service, finance, information technology and human resources are shared functions that are allocated back to the three operating segments. The CEO allocates resources to and assesses the performance of each operating segment using information about its revenue and operating income (loss) before interest and taxes, but does not evaluate the operating segments using discrete asset information.

Sales, marketing and research and development expenses are charged directly into each operating segment. All other functions are shared by the operating segments and expenses for these shared functions are allocated to the operating segments and included in the operating results reported below. The Company does not report inter-segment revenue because the operating segments do not record it. The Company does not allocate interest and other income, interest expense, or taxes to operating segments. Although the CEO uses operating income to evaluate the segments, operating costs included in one segment may benefit other segments. Except as discussed above, the accounting policies for segment reporting are the same as for the Company as a whole.

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2. Business Segment Information, continued

Business unit segment information for the three and nine months ended September 27, 2008 and September 29, 2007 is summarized as follows (in thousands):

	For the Three Months Ended		For the Nine Months Ended	
	September 27, 2008	September 29, 2007	**September 27, 2008**	September 29, 2007
Net sales				
Electronics	**$ 95,788**	$ 92,439	**$ 276,147**	$ 260,744
Automotive	**28,878**	33,882	**104,109**	101,418
Electrical	**16,782**	13,894	**44,726**	39,016
Total net sales	**$ 141,448**	$ 140,215	**$ 424,982**	$ 401,178
Operating income (loss)				
Electronics	**$ 4,825**	$ 6,209	**$ 11,955**	$ 17,224
Automotive	**(1,399)**	5,168	**8,994**	14,561
Electrical	**5,130**	3,294	**11,589**	8,938
Other*	**(6,545)**	5,556	**(10,935)**	607
Total operating income	**2,011**	20,227	**21,603**	41,330
Interest expense	**346**	207	**1,048**	1,037
Other expense (income), net	**(3,246)**	195	**(2,890)**	(690)
Income before income taxes	**$ 4,911**	$ 19,825	**$ 23,445**	$ 40,983

* Included in Other Operating income (loss) for the three months ended September 27, 2008 are the Ireland pension settlement charge ($5.7 million) and the Swindon severance charge ($0.8 million), compared to the gain on sale of property in Ireland included

in other operating income for the three months ended September 29, 2007. Included in the total for the nine months ended September 27, 2008 are restructuring charges related to the closure of the Company s Matamoros, Mexico facility.

Export sales to Hong Kong were 22% and 20% of consolidated net sales for the three and nine months ended September 27, 2008, respectively, compared to 20% and 18% in the comparable prior year periods. No other foreign country sales exceeded 10% of consolidated net sales for the three and nine months ended September 27, 2008 or September 29, 2007. Sales to no single customer amounted to 10% or more of the Company s net sales for the three months ended September 27, 2008. Sales to Arrow Pemco Group were 10% of net sales for the nine months ended September 27, 2008. Sales to no single customer amounted to 10% or more of the Company s net sales in the comparable prior year periods.

The Company s net sales and identifiable assets (total assets less intangible assets and investments) by geographical area for the periods ended September 27, 2008 and September 29, 2007 are summarized as follows (in thousands):

	For the Three Months Ended		For the Nine Months Ended	
	September 27, 2008	September 29, 2007	**September 27, 2008**	September 29, 2007
Net sales				
Americas	**$ 51,967**	$ 52,851	**$ 156,749**	$ 155,408
Europe	**28,926**	28,220	**98,079**	88,834
Asia-Pacific	**60,555**	59,144	**170,154**	156,936
Total net sales	**$ 141,448**	$ 140,215	**$ 424,982**	$ 401,178
Identifiable assets				
Americas	**$ 170,622**	$ 206,308		
Europe	**85,441**	134,126		
Asia-Pacific	**187,412**	165,081		
Combined total	**443,475**	505,515		
Eliminations	**(34,430)**	(122,085)		
Consolidated total	**$ 409,045**	$ 383,430		

3. Inventories

The components of inventories are summarized as follows (in thousands):

	September 27, 2008	December 29, 2007
Raw material	**$ 21,680**	$ 19,758
Work in process	**14,489**	11,292
Finished goods	**28,429**	27,795
Total inventories	**$ 64,598**	$ 58,845

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4. Debt

The Company has an unsecured domestic financing arrangement consisting of a credit agreement with banks that provides a $75.0 million revolving credit facility, with a potential increase of up to $125.0 million upon request of the Company and agreement with the lenders, which expires on July 21, 2011. At September 27, 2008, the Company had $37.5 million outstanding and $37.5 million of available borrowing capability under the revolving credit facility at an interest rate of LIBOR plus 0.50% (3.39% as of September 27, 2008). The Company also had $2.8 million available in letters of credit at September 27, 2008. No amounts were outstanding under these letters of credit at September 27, 2008.

The domestic bank credit agreement contains covenants that, among other matters, impose limitations on the incurrence of additional indebtedness, future mergers, sales of assets, payment of dividends, and changes in control, as defined in the agreement. In addition, the Company is required to satisfy certain financial covenants and tests relating to, among other matters, interest coverage, working capital, leverage and net worth. At September 27, 2008, the Company was in compliance with all covenants in this domestic bank credit agreement.

The Company has an unsecured bank line of credit in Japan that provides a 700 million yen (an equivalent of $6.6 million) revolving credit facility at an interest rate of TIBOR plus 0.625% (1.57% as of September 27, 2008). The revolving line of credit becomes due on July 21, 2011. The Company had no outstanding borrowings on the yen facility at September 27, 2008.

The Company had an unsecured bank line of credit in Taiwan that provided a 35.0 million Taiwanese dollar revolving credit facility at an interest rate of two-years time deposit plus 0.145%. The revolving line of credit was due on August 18, 2009. The Company also had a foreign fixed rate mortgage loan outstanding totaling approximately 32.0 million Taiwanese dollar with maturity dates through August 2013. The Company chose to repay the outstanding balances on both debt instruments in June 2008 resulting in uses of cash totaling the equivalent of $1.7 million. As a result, the line of credit was closed on June 28, 2008.

5. Per Share Data

Net income per share amounts for the three and nine months ended September 27, 2008, and September 29, 2007, are based on the weighted average number of common and common equivalent shares outstanding during the periods as follows (in thousands, except per share data):

	For the Three Months Ended		For the Nine Months Ended	
	September 27, 2008	September 29, 2007	**September 27, 2008**	September 29, 2007
Net income	**$ 3,988**	$ 14,294	**$ 17,241**	$ 28,897
Average shares outstanding Basic	**21,703**	22,359	**21,724**	22,272
Net effect of dilutive stock options and restricted shares	**152**	140	**147**	173
Average shares outstanding Diluted	**21,855**	22,499	**21,871**	22,445
Net income per share				
Basic	**$ 0.18**	$ 0.64	**$ 0.79**	$ 1.30
Diluted	**$ 0.18**	$ 0.64	**$ 0.79**	$ 1.29

Potential shares of common stock relating to stock options excluded from the earnings per share calculation because their effect would be anti-dilutive were 1,282,868 and 1,185,317 for the three and nine months ended September 27, 2008, respectively, and 1,200,127 and 840,917 for the three and nine months ended September 29, 2007, respectively. The Company started the 2008 year with 21,869,824 common shares outstanding. During the nine months ended September 27, 2008, the Company repurchased 218,000 shares, 53,161 stock options were exercised and 7,032 shares of common stock were granted, which left the Company with 21,712,017 common shares outstanding at September 27, 2008.

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6. Acquisitions

In June 2006, the Company announced that it had signed a definitive agreement to acquire the assets of Song Long Electronics Co., Ltd. (Song Long). On July 31, 2007, the Company acquired the assets of Song Long for approximately $5.5 million and acquisition costs of approximately $0.5 million, of which approximately $0.8 million was paid in 2006. The Company funded the acquisition with cash and has continued to operate Song Long s electronics business subsequent to the acquisition. The Song Long acquisition strengthens the Company s position in the circuit protection industry, moving operations closer to customers in the Asia-Pacific region while lowering production costs.
The acquisition was accounted for using the purchase method of accounting and the operations of Song Long are included in the Company s consolidated results from the date of the acquisition. At the acquisition date, the purchase price allocations were based on preliminary estimates. These estimates were subject to revision after the Company completed final negotiation of working capital adjustments to the purchase price and fair value analysis. During the fourth quarter of 2007, the Company completed the final negotiation, which resulted in an addition to the purchase price of approximately $0.3 million of acquisition costs, the assumption of $1.5 million of accounts payable and the holdback of $1.0 million subject to the fulfillment of certain contractual obligations by the seller. These obligations were fulfilled and payments totaling $1.0 million were made during the first quarter of 2008.
At June 28, 2008, the Company completed its final purchase price allocations and determined that no material value was obtained from other identifiable intangible assets. All Song Long goodwill and assets are recorded in the electronics business unit segment and reflected in the Asia-Pacific geographical area. Pro forma financial information is not presented due to amounts not being materially different than actual results. Goodwill for the acquisition is expected to be deductible for tax purposes. The following table sets forth the purchase price allocation for the acquisition of Song Long in accordance with the purchase method of accounting with adjustments to record the acquired assets and liabilities of Song Long at their estimated fair market or net realizable values.

Purchase price allocation (in thousands)	
Inventory	$ 1,186
Property, plant and equipment	1,290
Goodwill	5,311
Current liabilities	(1,500)
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