LITTELFUSE INC /DE
Form 10-Q
May 06, 2008

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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 MARCH 29, 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 definitions of accelerated filer , large 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

As of March 29, 2008, 21,669,718 shares of common stock, $.01 par value, of the Registrant were outstanding.

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

	March 29, 2008	December 29, 2007
Assets		
Current assets:		
Cash and cash equivalents	**$ 53,434**	$ 64,943
Accounts receivable	**91,199**	85,607
Inventories	**64,064**	58,845
Deferred income taxes	**11,110**	10,986
Prepaid expenses and other current assets	**18,780**	14,789
Total current assets	**238,587**	235,170
Property, plant and equipment:		
Land	**11,656**	12,573
Buildings	**47,473**	49,321
Equipment	**296,591**	282,416
	355,720	344,310
Accumulated depreciation	**(208,093)**	(199,748)
Net property, plant and equipment	**147,627**	144,562
Intangible assets, net of amortization:		
Patents, licenses and software	**9,210**	9,231
Distribution network	**14,096**	13,823
Customer lists, trademarks and tradenames	**3,549**	1,192
Goodwill	**83,041**	73,462
	109,896	97,708
Investments	**7,070**	6,544
Deferred income taxes	**6,411**	6,141
Other assets	**1,033**	1,240
Total Assets	**$ 510,624**	$ 491,365
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	**$ 22,537**	$ 27,889
Accrued payroll	**17,030**	19,441
Accrued expenses	**12,315**	11,595
Accrued severance	**23,908**	21,092
Accrued income taxes	**1,221**	4,484
Current portion of long-term debt	**27,133**	12,086

Total current liabilities		**104,144**		96,587
Long-term debt, less current portion		**1,165**		1,223
Accrued severance		**10,550**		8,912
Accrued post-retirement benefits		**19,708**		18,371
Other long-term liabilities		**12,890**		12,715
Minority interest		**143**		143
Total shareholders equity		**362,024**		353,414
Total Liabilities and Shareholders Equity	**$**	**510,624**	$	491,365

Common shares issued and outstanding of 21,669,718 and 21,869,824, at March 29, 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	
	March 29, 2008	March 31, 2007
Net sales	**$ 133,708**	$ 131,814
Cost of sales	**95,227**	90,493
Gross profit	**38,481**	41,321
Selling, general and administrative expenses	**25,678**	25,886
Research and development expenses	**5,623**	5,287
Amortization of intangibles	**892**	657
Operating income	**6,288**	9,491
Interest expense	**334**	462
Other expense (income), net	**313**	(340)
Income before income taxes	**5,641**	9,369
Income taxes	**1,529**	3,148
Net income	**$ 4,112**	$ 6,221
Net income per share:		
Basic	**$ 0.19**	$ 0.28
Diluted	**$ 0.19**	$ 0.28
Weighted average shares and equivalent shares outstanding:		
Basic	**21,782**	22,163
Diluted	**21,898**	22,338

See accompanying notes.

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

	For the Three Months Ended	
	March 29, 2008	March 31, 2007
Operating activities:		
Net income	**$ 4,112**	$ 6,221
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	**6,643**	5,752
Amortization of intangibles	**892**	657
Stock-based compensation	**1,003**	1,410
Changes in operating assets and liabilities:		
Accounts receivable	**(4,057)**	(210)
Inventories	**(4,246)**	416
Accounts payable and accrued expenses	**(5,988)**	(915)
Accrued payroll and severance	**1,669**	(6,905)
Accrued income taxes	**1,896**	(2,627)
Prepaid expenses and other	**(2,925)**	(2,798)
Net cash (used in) provided by operating activities	**(1,001)**	1,001
Investing activities:		
Purchases of property, plant, and equipment	**(11,455)**	(5,125)
Purchase of businesses, net of cash acquired	**(9,280)**	
Net cash used in investing activities	**(20,735)**	(5,125)
Financing activities:		
Proceeds from debt	**31,500**	18,000
Payments of debt	**(16,646)**	(14,886)
Proceeds from exercise of stock options	**439**	2,689
Purchases of common stock	**(6,623)**	
Net cash provided by financing activities	**8,670**	5,803
Effect of exchange rate changes on cash	**1,557**	695
(Decrease) increase in cash and cash equivalents	**(11,509)**	2,374
Cash and cash equivalents at beginning of period	**64,943**	56,704
Cash and cash equivalents at end of period	**$ 53,434**	$ 59,078

See accompanying notes.

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Notes to Consolidated Financial Statements
(Unaudited)
March 29, 2008

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements of Littelfuse, Inc. and its subsidiaries (the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, Matamoros severance, and accrued employee-related costs pursuant to contractual obligations, considered necessary for a fair presentation have been included. Operating results for the period ended March 29, 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.

Note 2. Business Unit 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).

The CEO historically has evaluated the Company s operations and reported the enterprise s operating segments by geography for the purpose of SFAS No. 131. Over the last several quarters, the Company has made a number of organizational changes that have changed the information the CODM receives and how the CEO evaluates the Company s operations. These organizational changes have increased the importance of the Company s reliance on business unit performance compared to geographic performance. As such, the Company determined in the third quarter of 2007 that business units now represent operating segments, as defined by SFAS No. 131, and therefore reports these business units as separate segments.

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 CODM 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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Business unit segment information for the three months ended March 29, 2008 and March 31, 2007 is summarized as follows (in thousands):

	March 29, 2008	March 31, 2007
Net sales		
Electronics	$ 84,841	$ 86,082
Automotive	36,283	33,718
Electrical	12,584	12,014
Total net sales	$ 133,708	$ 131,814
Operating income (loss)		
Electronics	$ 2,152	$ 6,019
Automotive	6,024	4,912
Electrical	2,504	2,674
Other*	(4,392)	(4,114)
Total operating income	6,288	9,491
Interest expense	334	462
Other expense (income), net	313	(340)
Income before income taxes	$ 5,641	$ 9,369

* Included in Other Operating income (loss) are nonrecurring items such as restructuring charges.

Export sales to Hong Kong were 16.7% of net sales for both the first quarter of 2008 and 2007. No other foreign country sales exceeded 10% for the first quarter of 2008 or 2007. Sales to Arrow Pemco Group were 10.9% and 10.1% of net sales for the first quarter of 2008 and 2007, respectively. No other single customer amounted to 10% or more of the Company s total revenues for the first quarter of 2008 or 2007.

The Company s revenues and identifiable assets (total assets less intangible assets and investments) by geographical area for the periods ended March 29, 2008 and March 31, 2007 are summarized as follows (in thousands):

	March 29, 2008	March 31, 2007
Net sales		
Americas	$ 49,721	$ 51,457
Europe	33,333	31,196
Asia-Pacific	50,654	49,161
Total net sales	$ 133,708	$ 131,814

Identifiable assets				
Americas	**$**	**170,312**	$	165,074
Europe		**102,758**		136,881
Asia-Pacific		**173,499**		164,730
Combined total		**446,569**		466,685
Eliminations		**(52,911)**		(79,572)
Consolidated total	**$**	**393,658**	$	387,113

Note 3. Inventories

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

		March 29, 2008		December 29, 2007
Raw material	**$**	**21,491**	$	19,758
Work in process		**13,893**		11,292
Finished goods		**28,680**		27,795
Total inventories	**$**	**64,064**	$	58,845

Note 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 March 29, 2008, the Company had available $48.5 million of borrowing capability under the revolving credit facility at an interest rate of LIBOR plus 0.50% (3.93% as of March 29, 2008). The Company also had $2.8 million available in letters of credit at March 29, 2008. No amounts were outstanding under these letters of credit at March 29, 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 March 29, 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 Yen 700 million (an equivalent of $7.0 million) revolving credit facility at an interest rate of TIBOR plus 0.625% (1.54% as of March 29, 2008). The revolving line of credit becomes due on July 21, 2011. The Company had no outstanding borrowings on the Yen facility at March 29, 2008.

The Company has an unsecured bank line of credit in Taiwan that provides a 35.0 million Taiwanese Dollar (equivalent to $1.2 million) revolving credit facility at an interest rate of two-years Time Deposit plus 0.145% (2.88% as of March 29, 2008). The revolving line of credit becomes due on August 18, 2009. The Company had the equivalent of $0.6 million outstanding on the Taiwanese Dollar facility at March 29, 2008. The Company also has a foreign fixed rate mortgage loan outstanding at March 29, 2008, totaling 35.1 million Taiwanese Dollar (equivalent to $1.2 million) with maturity dates through August 2013.

Note 5. Per Share Data

Net income per share amounts for the three months ended March 29, 2008, and March 31, 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):

	Three Months Ended	
	March 29, 2008	March 31, 2007
Net income	**$ 4,112**	$ 6,221
Average shares outstanding Basic	**21,782**	22,163
Net effect of dilutive stock options and restricted shares	**116**	175
Average shares outstanding Diluted	**21,898**	22,338
Net income per share:		
Basic	**$ 0.19**	$ 0.28
Diluted	**$ 0.19**	$ 0.28

Potential shares of common stock relating to stock options excluded from the EPS calculation because their effect would be anti-dilutive were 1,248,415 and 861,978 for the three months ended March 29, 2008 and March 31, 2007, respectively.

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Note 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. 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. The following table sets forth the purchase price allocations for Song Long s assets in accordance with the purchase method of accounting with adjustments to record the acquired assets 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)
	$ 6,287

All Song Long goodwill and assets are reflected in the Asia-Pacific geographical area at estimated fair values as adjusted during the fourth quarter of 2007 and first quarter of 2008. The fair values are estimates and subject to revision as the Company completes its fair value analysis, which may result in an allocation to identifiable intangible assets. Pro forma financial information is not presented due to amounts not being materially different than actual results.

On February 29, 2008, the Company acquired Shock Block Corporation (Shock Block), a leading manufacturer in ground fault technology located in Dallas, Texas, for $9.2 million less a holdback of $0.9 million subject to the fulfillment of certain contractual obligations by the seller. The Company primarily acquired certain intellectual property rights including customer lists, trademarks and tradenames. The Company funded the acquisition with cash and has continued to operate Shock Block s electrical business subsequent to the acquisition. The Shock Block acquisition expands the Company s portfolio of protection products for commercial and industrial applications and strengthens the Company s position in the circuit protection industry.

The acquisition was accounted for using the purchase method of accounting and the operations of Shock Block were included in the Company s consolidated results from the date of the acquisition. The following table sets forth the purchase price allocations for Shock Block s assets in accordance with the purchase method of accounting with adjustments to record the acquired assets at their estimated fair market or net realizable values.

Purchase price allocation (in thousands)	
Goodwill	$ 7,595
Customer lists	2,442
Other assets, net	91
Deferred tax liability	(928)

$ 9,200

All Shock Block goodwill and other assets were recorded in the Americas geographical area based on preliminary estimates of fair values during the first quarter of 2008. These estimates are subject to revision after the Company completes final negotiation of working capital adjustments to the purchase price and fair value analysis, which may result in an allocation to identifiable intangible assets. Pro forma financial information is not presented due to amounts not being materially different than actual results.

Note 7. Investments

SFAS No. 157, Fair Value Measurements (SFAS 157), establishes a framework for measuring fair value by providing a standard definition of fair value as it applies to assets and liabilities. SFAS 157, which does not require any new fair value measurements, clarifies the application of other accounting pronouncements that require or permit fair value measurements. SFAS 157 must be applied prospectively beginning January 1, 2008.

Included in the Company s investments are shares of Polytronics Technology Corporation Ltd. (Polytronics), a Taiwanese company whose shares are traded on the Taiwan Stock Exchange. The investment in Polytronics was acquired as part of the Heinrich Industrie AG acquisition (Heinrich). The Company s shares held represent approximately 8.2% of total Polytronics shares outstanding at March 29, 2008 and December 29, 2007. The fair value of this investment is $7.1 million at March 29, 2008 and $6.5 million at December 29, 2007, based on the quoted market price at the close of business corresponding to each date. Unrealized gains (losses), net of taxes related to this investment are included in other comprehensive income. The remaining movement in the fair value of this investment is due to the impact of changes in exchange rates, which is included as a component of the currency translation adjustments of other comprehensive income. The Polytronics investment represents the only significant item that is remeasured at fair market value each balance sheet date.

Note 8. Restructuring

During 2006, the Company announced the closure of its Ireland facility, resulting in restructuring charges of $17.1 million, consisting of $20.0 million of accrued severance less a statutory rebate of $2.9 million recorded as a current asset, that were recorded as part of cost of sales. This restructuring, which impacts approximately 131 employees, is part of the Company s strategy to expand operations in Asia-Pacific in order to be closer to current and potential customers and take advantage of lower manufacturing costs. Restructuring charges are based upon each associate s current salary and length of service with the Company. The additions in 2008 and 2007 primarily relate to retention costs that will be incurred over the remaining transition period. These costs will be paid through 2009. All charges related to the closure of the Ireland facility are recorded in Other Operating Income (Loss) for business unit segment reporting purposes. A summary of activity of this liability is as follows:

Ireland restructuring (in thousands)	
Balance at December 30, 2006	$ 22,608
Additions	977
Payments	(3,801)
Exchange rate impact	1,977
Balance at December 29, 2007	21,761
Additions	217
Payments	(2,189)
Exchange rate impact	1,537
Balance at March 29, 2008	$ 21,326

During 2006, the Company recorded a $5.0 million charge related to the downsizing of the Heinrich operations. Manufacturing related charges of $2.3 million were recorded as part of cost of sales and non-manufacturing related charges of $2.7 million were recorded as part of selling, general and administrative expenses. These charges were primarily for redundancy costs and will be paid through 2008. The additions in 2008 and 2007 primarily relate to retention costs that will be incurred over the remaining transition period. All charges related to this downsizing are recorded in Other Operating Income (Loss) for business unit segment reporting purposes. This restructuring impacts approximately 52 associates in various technical, production, administrative and support roles. A summary of activity of this liability is as follows:

Heinrich restructuring (in thousands)	
Balance at December 30, 2006	$ 4,363
Additions	850
Payments	(4,733)
Balance at December 29, 2007	480
Additions	54
Payments	(110)
Balance at March 29, 2008	$ 424

During 2006, the Company announced the closure of its Irving, Texas facility and the transfer of its semiconductor wafer manufacturing from Irving, Texas to Wuxi, China in a phased transition from 2007 to 2010. A liability of $1.9 million was recorded related to redundancy costs for the manufacturing operation associated with this downsizing. This charge was recorded as part of cost of sales and is included in Other Operating Income (Loss) for business unit segment reporting purposes. The total cost expected to be incurred through 2010 is $6.5 million. The amounts not yet recognized primarily relate to retention costs that will be incurred over the remaining closure period. This restructuring impacts approximately 180 associates in various production and support related roles and will be paid through 2010. A summary of activity of this liability is as follows:

Irving, Texas restructuring (in thousands)	
Balance at December 30, 2006	$ 1,890
Additions	1,446
Payments	(362)
Balance at December 29, 2007	2,974
Additions	686
Payments	(145)
Balance at March 29, 2008	$ 3,515

During March 2007, the Company announced the closure of its Des Plaines and Elk Grove, Illinois facilities and the transfer of its manufacturing from Des Plaines, Illinois to the Philippines and Mexico in a phased transition from 2007 to 2009. A liability of $3.5 million was recorded related to redundancy costs for the manufacturing and distribution operations associated with this downsizing. Manufacturing related charges of $3.0 million were recorded as part of cost of sales and non-manufacturing related charges of $0.5 million were recorded as part of selling, general and administrative expenses. All charges related to this downsizing are recorded in Other Operating Income (Loss) for business unit segment reporting purposes. The total cost expected to be incurred through 2009 is $7.1 million. The amounts not yet recognized primarily relate to retention costs that will be incurred over the remaining closure period. This restructuring impacts approximately 307 associates in various production and support related roles and will be paid through 2009. A summary of activity of this liability is as follows:

Des Plaines and Elk Grove, Illinois (in thousands)	
Balance at December 30, 2006	$ 102
Additions	4,963
Payments	(355)
Balance at December 29, 2007	4,710

Additions	374
Payments	(12)
Balance at March 29, 2008	$ 5,072

In March 2008, the Company announced the closure of its Matamoros, Mexico facility and the transfer of its semiconductor assembly and test operation from Matamoros, Mexico to Wuxi, China in a phased transition over two years. A liability of $4.4 million was recorded related to redundancy costs for the manufacturing operation associated with this downsizing. This charge was recorded as part of cost of sales and is included in Other Operating Income (Loss) for business unit segment reporting purposes. The total cost expected to be incurred through 2009 is $6.3 million. The amounts not yet recognized primarily relate to retention costs that will be incurred over the remaining closure period. This restructuring impacts approximately 950 associates in various production and support related roles and will be paid through 2009.

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Note 9. Income Taxes

The effective tax rate for the first quarter of 2008 was 27.1% compared to an effective tax rate of 33.6% in the first quarter of 2007. The current quarter effective tax rate was favorably impacted by the mix of income earned in lower tax jurisdictions and less taxes due on the repatriation of cash from lower tax jurisdictions.

Note 10. Pensions

The components of net periodic benefit cost for the three months ended March 29, 2008, compared with the three months ended March 31, 2007, were (in thousands):

	U.S. Pension Benefits	Foreign Plans
	Three Months Ended	Three Months Ended