MOLEX INC
Form 10-Q
November 13, 2001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from

Commission File Number 0-7491

MOLEX INCORPORATED
(Exact name of registrant as specified in its charter)

Delaware	36-2369491
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2222 Wellington Court, Lisle, Illinois	60532
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 630-969-4550

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 X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (applicable only to corporate registrants). At September 30, 2001:

Common Stock	99,250,681 shares
Class A Common Stock	95,504,621 shares
Class B Common Stock	94,255 shares

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MOLEX INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited - In Thousands)

ASSETS	Sept. 30, 2001	June 30, 2001
CURRENT ASSETS:		
Cash and cash equivalents	$ 193,044	$ 138,438
Marketable securities	20,638	69,394
Accounts receivable - net	392,255	415,798
Inventories	208,767	213,637
Other current assets	59,669	54,598
Total current assets	874,373	891,865
PROPERTY, PLANT AND EQUIPMENT - NET	1,111,338	1,092,567

GOODWILL	157,025	156,697
OTHER ASSETS	76,913	72,498
	$2,219,649	$2,213,627
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 159,512	$ 178,035
Accrued expenses	123,012	148,934
Other current liabilities	36,617	47,137
Total current liabilities	319,141	374,106
DEFERRED ITEMS	6,997	8,398
ACCRUED POSTRETIREMENT BENEFITS	45,122	37,660
LONG-TERM DEBT	15,791	19,351
OBLIGATIONS UNDER CAPITAL LEASES	10,158	6,114
MINORITY INTEREST	2,734	2,358
SHAREHOLDERS' EQUITY		
Common stock	10,604	10,597
Paid-in capital	292,272	289,683
Retained earnings	1,900,319	1,880,450
Treasury stock	(296,861)	(281,469)
Deferred unearned compensation	(25,633)	(28,407)
Cumulative translation and other adjustments	(60,995)	(105,214)
Total shareholders' equity	1,819,706	1,765,640
	$2,219,649	$2,213,627

The accompanying notes are an integral part of these condensed consolidated financial statements.

MOLEX INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited - In Thousands Except per Share Data)

	THREE MONTHS ENDED	
	Sept. 30, 2001	Sept. 30, 2000
NET REVENUE	$430,453	$625,925
COST OF SALES	293,149	381,235
Gross Profit	137,304	244,690
OPERATING EXPENSES:		
Selling	37,309	50,474
Administrative	65,758	100,414
Total Operating Expenses	103,067	150,888
Income from Operations	34,237	93,802
OTHER INCOME (EXPENSE):		
Impairment charge	-	(2,763)
Foreign currency transaction gain/(loss)	(5)	728
Interest income, net	2,043	1,870
Other income/(loss)	(1,146)	-

Total Other Income/(Expense), Net	892	(165)
INCOME BEFORE INCOME TAXES	35,129	93,637
INCOME TAXES	9,933	29,115
NET INCOME	$25,196	$64,522
EARNINGS PER COMMON SHARE:		
BASIC	$0.13	$0.33
DILUTED	$0.13	$0.33
CASH DIVIDENDS PER COMMON SHARE	$0.025	$0.025
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING DURING THE PERIOD: BASIC	195,204	195,638
DILUTED	196,798	198,142

The accompanying notes are an integral part of these condensed consolidated financial statements.

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MOLEX INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited - In Thousands)

	THREE MONTHS ENDED	
	Sept. 30, 2001	Sept. 30, 2000
CASH AND CASH EQUIVALENTS, Beginning of Period	$138,438	$164,288
CASH AND CASH EQUIVALENTS PROVIDED FROM (USED FOR):		
Operations:		
Net income	25,196	64,522
Add (deduct) non-cash items included in net income:		
Depreciation and amortization	55,166	50,458
Amortization of deferred unearned compensation	2,484	2,540
Impairment charge	-	2,763
Other charges to net income	1,047	1,405
Changes in working capital:		
Accounts receivable	36,014	(33,993)
Inventories	9,124	(28,147)
Other current assets	(4,691)	(4,812)
Accounts payable	(23,566)	(15,787)
Accrued expenses	(18,278)	23,657
Other current liabilities	(17,435)	(9,550)
NET CASH PROVIDED FROM OPERATIONS	65,061	53,056
Investments:		
Purchases of property, plant and equipment	(45,064)	(104,435)
Proceeds from sale of property, plant and equipment	1,155	888
Proceeds from sale of marketable securities	1,079,420	1,421,196
Purchases of marketable securities	(1,030,664)	(1,382,775)
Increase (decrease) in other assets	2,399	(10,268)
NET CASH PROVIDED FROM (USED FOR)		

INVESTING ACTIVITIES	7,246	(75,394)
Financing:		
Increase (decrease) in short-term loans	1,563	(1,207)
Increase in long-term debt	970	284
Decrease in long-term debt	(4,530)	(591)
Cash dividends paid	(4,885)	(4,892)
Purchase of treasury stock	(14,997)	(12,489)
Reissuance of treasury stock	39	728
Exercise of stock options	869	1,433
NET CASH USED FOR FINANCING ACTIVITIES	(20,971)	(16,734)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	3,270	(3,240)
CASH AND CASH EQUIVALENTS, End of Period	$193,044	$121,976

The accompanying notes are an integral part of these condensed consolidated financial statements.

MOLEX INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Condensed Consolidated Financial Statements

The condensed consolidated financial statements have been prepared from the Company's books and records without audit and are subject to year-end adjustments. The interim financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of information for the interim periods presented. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Molex Incorporated 2001 Annual Report to Shareholders and the 2001 Annual Report on Form 10-K. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year. Certain reclassifications have been made to the prior year's financial statements to conform to the fiscal year 2002 classifications.

(2) Earnings per Common Share

The reconciliation of common shares outstanding to dilutive common shares outstanding is as follows:

	Three Months Ended September 30, 2001	2000
Weighted average shares outstanding - basic	195,204	195,638
Dilutive effect of stock options	1,594	2,504
Weighted average shares outstanding - diluted	196,798	198,142

(3) Comprehensive Income

Comprehensive income includes all non-shareowner changes in equity and consists of net income, foreign currency translation adjustments and unrealized gains and losses on available-for-sale securities. Total comprehensive income, in thousands of dollars, is as follows:

	Three Months Ended September 30, 2001	2000
Net income	$25,196	$64,522
Currency translation and other adjustments	44,219	(35,297)
Total comprehensive income	$69,415	$29,225

4) Inventories

Inventories are valued at the lower of first-in, first-out cost or market.

Inventories, in thousands of dollars, consist of the following:

	Sept. 30, 2001	June 30, 2001
Raw Materials	$ 30,736	$ 33,729
Work in Process	91,127	87,776
Finished Goods	86,904	92,132
	$208,767	$213,637

5) Segment and Related Information

The Company and its subsidiaries operate in one product segment: the manufacture and sale of electrical components. Management operates the business by geographic segments. Information by geographic area is summarized in the following table:

	Customer Revenue	Inter-company Revenue	Total Revenue	Net Income	Identifiable Assets
September 30, 2001:					
United States	$160,311	$ 21,658	$181,969	$ 5,393	$ 990,911
Americas (Non-US)	11,471	343	11,814	139	49,151
Far East North	90,154	31,824	121,978	9,954	510,143
Far East South	94,680	12,097	106,777	10,639	357,500
Europe	73,830	6,774	80,604	1,099	417,269
Corporate and Other	7	-	7	(2,028)	127,303
Eliminations	-	(72,696)	(72,696)	-	(232,628)
Total	$430,453	-	$430,453	$ 25,196	$2,219,649
September 30, 2000:					
United States	$259,303	$ 30,478	$289,781	$ 31,672	$1,006,563
Americas (Non-US)	19,856	4,393	24,249	(43)	57,903
Far East North	141,757	52,820	194,577	26,512	595,142
Far East South	114,648	15,437	130,085	15,687	345,066
Europe	90,328	17,043	107,371	6,423	391,875
Corporate and Other	33	-	33	(15,729)	115,520
Eliminations	-	(120,171)	(120,171)	-	(257,554)
Total	$625,925	-	$625,925	$ 64,522	$2,254,515

6) Other items

During the fourth quarter of fiscal 2001, the Company recorded a charge to reflect costs associated with a reduction in the global work force of approximately 950 people, write-off of slow-moving and excess inventories and asset write-offs related to operations being closed.

Pretax charges recorded in the fourth quarter of fiscal 2001 totaled $43.5 million of which $16.4 million were recorded in cost of sales and $27.1 million in selling, general and administrative expenses.

The major components of the fiscal 2001 fourth quarter charge and the remaining accrual balance as of September 30, 2001 were as follows:

(In thousands)	Total Charge	Cash Payments Made	Assets Disposed and Other	Accrued Balance at September 30, 2001
Severance and other benefits	$27,690	$10,890	$ 1,845	$14,955
Inventory write-offs	12,714	-	11,887	827
Asset write-offs	3,043	-	2,274	769
Total	$43,447	$10,890	$16,006	$16,551

7) New accounting pronouncements

The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" as of July 1, 2001. This statement requires the use of the purchase method of accounting for all business combinations, thereby eliminating use of the pooling-of-interests method. The Company has always used the purchase method when accounting for past business combinations and thus no change in procedures is required going forward.

The Company has also adopted SFAS No. 142, "Goodwill and Other Intangible Assets" as of July 1, 2001. This statement changes the accounting for intangible assets and goodwill, which are no longer amortized unless, in the case of intangible assets, the asset has a finite life. Goodwill and intangible assets with indefinite lives are now subject to an annual impairment test. Upon adoption an initial testing of impairment is required. The required initial benchmark evaluation was performed as of July 1, 2001 resulting in no impairment in the value of the Company's goodwill.

Comparative information on prior periods as if goodwill had not been amortized is as follows:

(In thousands except for EPS amounts)	For the Quarter Ended September 30, 2001	2000
Reported net income	$25,196	$64,522
Add back: Goodwill amortization		2,300
Adjusted net income	$25,196	$66,822

Basic and diluted earnings per share:		
Reported net income	$ 0.13	$ 0.33
Goodwill amortization		0.01
Adjusted net income	$ 0.13	$ 0.34

On August 16, 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations". This pronouncement addresses the recognition and remeasurement of obligations associated with the retirement of tangible long-lived assets. On October 3, 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which addresses accounting and reporting for the impairment or disposal of long-lived assets, including discontinued operations. It establishes a single accounting model for long-lived assets to be disposed of by sale. Both statements will be effective for the Company's fiscal year beginning July 1, 2002. The Company is evaluating SFAS No. 143 and SFAS No. 144 to determine their impact on the consolidated financial statements.

8) Subsequent event

As a result of continuing weak demand, the Company plans further reductions in employment to be implemented in the fiscal second quarter ending December 31, 2001. The Company will reduce employment by an additional 800-900 full time personnel and record a pretax charge of approximately $20 million for this reduction. The Company will also record a pretax charge of approximately $10 million to reflect the lower current value of investments in other companies.

MOLEX INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Consolidated net revenues were $430.5 million for the quarter ended September 30, 2001, decreasing 31.2 percent in US dollars and 28.3 percent in local currencies over the prior year period. The strengthening of the US dollar compared with other currencies caused net revenues to decline $18.0 million for the quarter.

Net revenue in the Americas region was down 38.5 percent in both US dollars and local currencies compared with a very strong prior year quarter. The economic slowdown in the United States has impacted all major markets.

Quarterly net revenue in the Far East North declined 37.3 percent in US dollars and 28.3 percent in local currencies compared with last year due to substantial downturns in the data, telecom and industrial markets.

Far East South net revenue for the quarter decreased 17.3 percent in US dollars and 14.7 percent in local currencies over the prior year quarter due to general weakening in the personal computer and computer-peripheral product markets.

In Europe, net revenue was down 24.1 percent in local currencies and 26.0 percent in US dollars compared with the same period last year. Reduced demand in the fiber optic and telecommunications markets was the major cause of the decline.

For the three months ended September 30, 2001, 62.8 percent of Molex's worldwide net revenue was generated from its international operations. International operations are subject to currency fluctuations and government actions. Molex monitors its currency exposure in each country and continues to implement defensive strategies to respond to changing economic environments. Due to the uncertainty of the foreign exchange markets, Molex cannot reasonably predict future trends related to foreign currency fluctuations. Foreign currency fluctuations have impacted results in the past and may impact results in the future.

Gross profit as a percent of net revenue was 31.9 percent for the quarter ended September 30, 2001 compared with 39.1 percent last year due mainly to higher depreciation expenses and under utilization of factory capacity in light of reduced demand.

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Selling and administrative expenses were $103.1 million for the first quarter of fiscal 2002 compared with $150.9 million in the prior year period. As a percent of net revenue, selling and administrative expenses were 23.9 percent compared with 24.1 percent for the same period last year. Employment reductions as well as successful efforts to control costs benefited the current quarter. Also included in selling and administrative expenses are research and development expenditures, which for the three months ended September 30, 2001, increased as a percent of net revenue to 6.7 percent from 5.8 percent in the prior year period.

The Company recorded an impairment charge on certain available-for-sale securities during the first quarter of fiscal 2001 based on depressed market values over the holding period, which are expected to be permanent.

Interest income, net of interest expense, was $2.0 million in the quarter ended September 30, 2001 compared with $1.9 million in the prior year.

The effective tax rate was 28.0 percent for the first quarter compared with 31.0 percent in the prior year period as a result of a change in the mix of the Company's pretax earnings from higher rate jurisdictions in which the Company operates to lower rate jurisdictions, principally in the Far East South, as well as the ongoing global effort to reduce its income tax burden through a disciplined repatriation strategy and better planning.

Net income for the quarter was $25.2 million or 13 cents per basic and diluted share, a 60.9 percent decrease compared with $64.5 million or 33 cents per basic and diluted share for the same quarter last fiscal year.

The change in comprehensive income in Note 3 is almost entirely due to foreign currency translation adjustments due to the stronger US dollar versus the

Japanese yen and most European currencies during the quarter ended September 30, 2001. During the prior year quarter, June 30, 2000 to September 30, 2000, the US dollar was generally weakening versus these currencies.

LIQUIDITY AND CAPITAL RESOURCES

Molex's balance sheet continues to be strong. Working capital at September 30, 2001 was $555.2 million compared with $517.8 million at June 30, 2001.

During the three months ended September 30, 2001, the Company purchased an aggregate of 570,000 shares of treasury stock at an aggregate cost of $15.0 million. This is in accordance with authorization by the Board of Directors allowing for the purchase of up to $100 million of Company stock during the current fiscal year.

Management believes that the Company's current liquidity and financial flexibility are adequate to support its current and future growth.

OUTLOOK

The outlook for fiscal 2002 remains challenging based on the uncertainty of the current worldwide economic conditions. Molex is actively managing its costs and has significantly improved its overall cost structure. New product development also remains a high priority this fiscal year.

Due to the uncertainty of the foreign currency exchange markets, Molex cannot reasonably predict future trends related to foreign currency fluctuations. Foreign currency fluctuations have impacted the Company's results in the past and may impact results in the future.

Molex plans to invest approximately $250 million in capital expenditures and approximately $140 million in research and development during the fiscal year ending June 30, 2002.

Molex's global team has considerable experience in managing through difficult market conditions and is focused on maintaining profitability while developing the new products necessary to expand its market share. The Company continues to emphasize expansion in rapidly growing industry segments, product lines and geographic regions. Molex remains committed to providing high quality products and a full range of services to its customers worldwide.

FORWARD LOOKING STATEMENT

This document contains various forward looking statements. Statements that are not historical are forward looking statements and are subject to various risks and uncertainties which could cause actual results to vary materially from those stated. Such risks and uncertainties include: economic conditions in various regions, product and price competition, raw material prices, foreign currency exchange rates, technology changes, patent issues, litigation results,

legal and regulatory developments, and other risks and uncertainties described in documents filed with the Securities and Exchange Commission.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is subject to market risk associated with changes in foreign currency exchange rates, interest rates and certain commodity prices. The Company mitigates its foreign currency exchange rate risk principally through the establishment of local production facilities in the markets it serves and invoicing of customers in the same currency as the source of the products. Molex also monitors its foreign currency exposure in each country and implements strategies to respond to changing economic and political environments. Examples of these strategies include the prompt payment of intercompany balances utilizing a global netting system, the establishment of contra-currency accounts in several international subsidiaries, development of natural hedges and occasional use of foreign exchange contracts.

A formalized treasury risk management policy has been implemented by the Company which describes the procedures and controls over derivative financial and commodity instruments. Under the policy, the Company does not use derivative financial or commodity instruments for trading purposes and the use of such instruments are subject to strict approval levels by senior officers. Typically, the use of such derivative instruments is limited to hedging activities related to specific foreign currency cash flows. The Company's exposure related to such transactions is, in the aggregate, not material to the Company's financial position, results of operations and cash flows.

Interest rate exposure is principally limited to the $20.6 million of marketable securities owned by the Company and the Company's $15.8 million of long-term debt. The securities are debt instruments which generate interest income for the Company on temporary excess cash balances. The Company does not actively manage the risk of interest rate fluctuations on the marketable securities. However, such risk is mitigated by the relatively short term, less than twelve months, nature of these investments. The Company's long-term debt is generally at fixed rates and primarily consists of bank loans and mortgages. The Company does not enter into derivative transactions (i.e. interest rate swaps) with respect to its long-term debt as the current interest expense on this debt is not deemed material to operations.

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Part II - Other Information

Items 1-3. Not Applicable

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Annual Meeting of Stockholders held on October 26, 2001, the following directors were elected to hold office for their respective terms according to their class: Frederick A. Krehbiel, Masahisa Naitoh, Michael J. Birck and Martin P. Slark. No candidate for director received less than 79,348,795 votes in favor of their election nor more than 10,247,029 votes withheld.

Item 5-6. Not applicable

S I G N A T U R E S

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

MOLEX INCORPORATED

(Registrant)

Date November 13, 2001

/s/ ROBERT B. MAHONEY

Robert B. Mahoney
Corporate Vice President,
Treasurer and
Chief Financial Officer

Date November 13, 2001	/s/ LOUIS A. HECHT
	Louis A. Hecht Corporate Secretary and General Counsel