BELDEN INC.
Form 10-Q
November 07, 2008

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 28, 2008
Commission File No. 001-12561

BELDEN INC.
(Exact name of registrant as specified in its charter)

Delaware	**36-3601505**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

7733 Forsyth Boulevard, Suite 800
St. Louis, Missouri 63105
(Address of principal executive offices)
(314) 854-8000
Registrant s telephone number, including area code

The registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Act during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.
The registrant is not a shell company.
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 (Do not check if a smaller reporting company)	Smaller reporting company o

Following is the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding at October 31, 2008
Common Stock, $0.01 Par Value	46,489,324

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PART I FINANCIAL INFORMATION
Item 1. Financial Statements
BELDEN INC.
CONSOLIDATED BALANCE SHEETS

	September 28, 2008 (Unaudited)	December 31, 2007
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 215,439	$ 159,964
Receivables, net	383,527	373,108
Inventories, net	264,851	257,540
Deferred income taxes	21,578	28,578
Other current assets	25,459	17,392
Total current assets	910,854	836,582
Property, plant and equipment, less accumulated depreciation	334,114	369,803
Goodwill	780,558	648,882
Intangible assets, less accumulated amortization	179,194	154,786
Other long-lived assets	60,139	58,796
	$ 2,264,859	$ 2,068,849
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 220,830	$ 190,018
Accrued liabilities	166,698	160,029
Current maturities of long-term debt		110,000
Total current liabilities	387,528	460,047
Long-term debt	590,000	350,000
Postretirement benefits	100,869	98,084
Deferred income taxes	51,444	78,140
Other long-term liabilities	14,877	9,915
Stockholders equity:		
Preferred stock		
Common stock	503	503
Additional paid-in capital	581,202	638,690
Retained earnings	559,059	478,776
Accumulated other comprehensive income	112,133	93,198
Treasury stock	(132,756)	(138,504)
Total stockholders equity	1,120,141	1,072,663

	$ 2,264,859	$ 2,068,849

The accompanying notes are an integral part of these Consolidated Financial Statements

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BELDEN INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 28, 2008	September 23, 2007	September 28, 2008	September 23, 2007
	(In thousands, except per share data)			
Revenues	$ 520,494	$ 561,611	$ 1,588,623	$ 1,448,257
Cost of sales	(366,842)	(403,914)	(1,122,681)	(1,048,671)
Gross profit	153,652	157,697	465,942	399,586
Selling, general and administrative expenses	(85,149)	(85,567)	(267,225)	(224,095)
Research and development	(15,887)	(5,504)	(36,051)	(10,776)
Amortization of intangibles	(4,125)	(2,685)	(9,286)	(8,535)
Gain (loss) on sale of assets		8,556	(884)	8,556
Asset impairment	(753)		(12,302)	(3,262)
Operating income	47,738	72,497	140,194	161,474
Interest expense	(8,671)	(7,561)	(27,018)	(18,769)
Interest income	1,226	803	4,058	5,286
Other income (expense)	813	581	3,967	(864)
Income before taxes	41,106	66,320	121,201	147,127
Income tax expense	(9,453)	(16,904)	(34,178)	(45,593)
Net income	$ 31,653	$ 49,416	$ 87,023	$ 101,534
Weighted average number of common shares and equivalents:				
Basic	44,571	45,084	44,072	44,887
Diluted	47,082	50,131	47,643	50,893
Basic income per share	$ 0.71	$ 1.10	$ 1.97	$ 2.26
Diluted income per share	$ 0.67	$ 0.99	$ 1.83	$ 2.01
Dividends declared per share	$ 0.05	$ 0.05	$ 0.15	$ 0.15

The accompanying notes are an integral part of these Consolidated Financial Statements

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BELDEN INC.
CONSOLIDATED CASH FLOW STATEMENTS
(Unaudited)

	Nine Months Ended	
	September 28, 2008	September 23, 2007
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 87,023	$ 101,534
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	42,394	38,701
Asset impairment	12,302	3,262
Pension funding in excess of pension expense	(1,114)	(1,724)
Share-based compensation	10,614	7,516
Provision for inventory obsolescence	6,495	5,731
Loss (gain) on disposal of tangible assets	884	(8,556)
Excess tax benefits related to share-based compensation	(1,297)	(7,041)
Changes in operating assets and liabilities, net of the effects of currency exchange rate changes and acquired businesses:		
Receivables	(9,297)	(41,887)
Inventories	(7,440)	10,161
Deferred cost of sales	(3,300)	
Accounts payable	21,148	15,493
Accrued liabilities	(33,154)	33,729
Deferred revenue	8,721	
Accrued taxes	(5,441)	24,090
Other assets	(1,987)	(3,309)
Other liabilities	1,316	(9,384)
Net cash provided by operating activities	127,867	168,316
Cash flows from investing activities:		
Cash used to invest in and acquire businesses	(144,625)	(588,426)
Proceeds from disposal of tangible assets	40,488	24,056
Capital expenditures	(32,421)	(41,483)
Net cash used for investing activities	(136,558)	(605,853)
Cash flows from financing activities:		
Proceeds from exercise of stock options	5,957	29,132
Excess tax benefits related to share-based compensation	1,297	7,041
Payments under share repurchase program	(68,336)	(10,626)
Cash dividends paid	(6,616)	(6,750)
Debt issuance costs		(10,212)
Borrowings under credit arrangements	240,000	546,000
Payments under borrowing arrangements	(110,000)	(258,000)

Net cash provided by financing activities	62,302		296,585
Effect of foreign currency exchange rate changes on cash and cash equivalents	1,864		7,125
Increase (decrease) in cash and cash equivalents	55,475		(133,827)
Cash and cash equivalents, beginning of period	159,964		254,151
Cash and cash equivalents, end of period	$ 215,439	$	120,324

The accompanying notes are an integral part of these Consolidated Financial Statements

BELDEN INC.
CONSOLIDATED STOCKHOLDERS EQUITY STATEMENT
NINE MONTHS ENDED SEPTEMBER 28, 2008
(Unaudited)

	Common Stock				Treasury Stock		Accumulated Other Comprehensive Income (Loss)		
	Shares	Amount	Paid-In Capital	Retained Earnings	Shares	Amount	Translation Component of Equity	Pension and Postretirement Liability	Total
					(in thousands)				
Balance at December 31, 2007	50,335	$ 503	$ 638,690	$ 478,776	(5,742)	$ (138,504)	$ 108,720	$ (15,522)	$ 1,072,663
Net income				87,023					87,023
Foreign currency translation							18,935		18,935
Comprehensive income									105,958
Exercise of stock options, net of tax withholding forfeitures			1,250		228	4,683			5,933
Release of restricted stock, net of tax withholding forfeitures			(2,158)		67	894			(1,264)
Share-based compensation			11,904						11,904
Conversion of convertible subordinated debentures			(68,507)		3,344	68,507			
Share repurchase program					(1,754)	(68,336)			(68,336)
Dividends ($0.15 per share)			23	(6,740)					(6,717)
Balance at September 28, 2008	50,335	$ 503	$ 581,202	$ 559,059	(3,857)	$ (132,756)	$ 127,655	$ (15,522)	$ 1,120,141

The accompanying notes are an integral part of these Consolidated Financial Statements

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BELDEN INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Note 1: Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Consolidated Financial Statements include Belden Inc. and all of its subsidiaries (the Company, us, we, or our). We eliminate all significant affiliate accounts and transactions in consolidation.

The accompanying Consolidated Financial Statements presented as of any date other than December 31, 2007:

- Are prepared from the books and records without audit, and
- Are prepared in accordance with the instructions to Form 10-Q and do not include all of the information required by accounting principles generally accepted in the United States for complete statements, but
- Include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial statements.

These Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Supplementary Data contained in our 2007 Annual Report on Form 10-K.

Business Description

We design, manufacture, and market signal transmission solutions, including cable, connectivity and active components for mission-critical applications in markets ranging from industrial automation to data centers, broadcast studios, and aerospace.

Reporting Periods

Our fiscal year and fiscal fourth quarter both end on December 31. Typically, our fiscal first, second and third quarter each end on the last Sunday falling on or before their respective calendar quarter-end. The nine months ended September 28, 2008 and September 23, 2007 include 272 and 266 calendar days, respectively.

Reclassifications

We have made certain reclassifications to the 2007 Consolidated Financial Statements with no impact to reported net income in order to conform to the 2008 presentation.

Contingent Liabilities

We have established liabilities for environmental and legal contingencies that are probable of occurrence and reasonably estimable. We accrue environmental remediation costs, on an undiscounted basis, based on estimates of known environmental remediation exposures developed in consultation with our environmental consultants and legal counsel. We are, from time to time, subject to routine litigation incidental to our business. These lawsuits primarily involve claims for damages arising out of the use of our products, allegations of patent or trademark infringement, and litigation and administrative proceedings involving employment matters and commercial disputes. Based on facts currently available,

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we believe the disposition of the claims that are pending or asserted will not have a materially adverse effect on our financial position, results of operations or cash flow.

At September 28, 2008, we were party to bank guaranties, standby letters of credit, and surety bonds totaling $8.0 million, $5.9 million, and $2.6 million, respectively.

Revenue Recognition

We recognize revenue when all of the following circumstances are satisfied: (1) persuasive evidence of an arrangement exists, (2) price is fixed or determinable, (3) collectibility is reasonably assured, and (4) delivery has occurred. Delivery occurs in the period in which the customer takes title and assumes the risks and rewards of ownership of the products specified in the customer s purchase order or sales agreement. We record revenue net of estimated rebates, price allowances, invoicing adjustments, and product returns. We charge revisions to these estimates back to revenue in the period in which the facts that give rise to each revision become known.

Our Wireless segment accounts for revenue in accordance with Statement of Position No. 97-2, *Software Revenue Recognition,* and all related amendments and interpretations (SOP 97-2). Sales from our Wireless segment often involve multiple elements, principally hardware, software, hardware and software maintenance and other support services. When a sale involves multiple elements, we allocate the entire fee from the arrangement to each respective element based on its Vendor Specific Objective Evidence (VSOE) of fair value and recognize revenue when each element s revenue recognition criteria are met. VSOE of fair value for each element is established based on the price charged when the same element is sold separately. If VSOE of fair value cannot be established for the undelivered element of an agreement and the only undelivered element is support, the entire amount of revenue from the arrangement is deferred and recognized ratably over the period that the support is delivered. Through September 28, 2008, our Wireless segment did not establish VSOE of fair value of post-contract customer support. As a result, the entire fee and related cost of sales from revenue transactions involving multiple-element arrangements were deferred and recognized ratably over the contractual post-contract customer support period, ranging from one to three years. As of September 28, 2008, total deferred revenue and deferred cost of sales were $10.7 million and $3.5 million, respectively. Of the total deferred revenue, $9.8 million is included in accrued liabilities, and $0.9 million is included in other long-term liabilities. Of the total deferred cost of sales, $3.1 million is included in other current assets and $0.4 million is included in other long-lived assets.

Current-Year Adoption of Accounting Pronouncements

On January 1, 2008, we adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. This Statement establishes a framework for measuring fair value within generally accepted accounting principles, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements. This Statement does not require any new fair value measurements following generally accepted accounting principles. However, the definition of fair value in SFAS No. 157 may affect assumptions used by companies in determining fair value. Adoption of SFAS No. 157 did not have a material impact on our operating results, cash flows or financial condition.

On January 1, 2008, we adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value in an effort to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently. Adoption of SFAS No. 159 did not have a material impact on our operating results,

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cash flows or financial condition as we elected not to use the fair value measurement option on our financial instruments and other applicable items.

Pending Adoption of Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141(R), *Business Combinations*, which replaces SFAS No. 141 and retains the fundamental requirements in SFAS No. 141, including that the purchase method be used for all business combinations and for an acquirer to be identified for each business combination. This standard defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control instead of the date that the consideration is transferred. SFAS No. 141(R) requires an acquirer in a business combination to recognize the assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. It also requires the recognition of assets acquired and liabilities assumed arising from certain contractual contingencies as of the acquisition date, measured at their acquisition-date fair values. SFAS No. 141(R) becomes effective for us for any business combination with an acquisition date on or after January 1, 2009. We are currently evaluating the potential impact of SFAS No. 141(R) on our operating results, cash flows and financial condition.

In May 2008, the FASB issued FASB Staff Position (FSP) APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*, which is effective for us on January 1, 2009. The FSP requires retrospective application to all periods presented and does not grandfather existing debt instruments. The FSP changes the accounting for our $110.0 million aggregate principal convertible subordinated debentures in that it requires that we bifurcate the proceeds from the debt issuance between debt and equity components. The equity component would reflect the value of the conversion feature of the debentures. We are currently evaluating the potential impact of FSP APB 14-1 on our operating results, cash flows and financial condition. On August 29, 2008, we completed the redemption of our convertible subordinated debentures. See Note 8.

Note 2: Acquisitions

On July 16, 2008, we acquired Trapeze Networks, Inc. (Trapeze) for cash of $136.0 million, including transaction costs. We financed the total purchase price with borrowings under our revolving credit facility. California-based Trapeze is a provider of wireless local area networking equipment. The acquisition of Trapeze improves our ability to provide a full complement of signal transmission solutions including wireless systems. The results of operations of Trapeze have been included in our results of operations from July 16, 2008. Trapeze is reported as a separate operating segment disclosed as the Wireless segment. The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed (in thousands).

Current assets	$ 16,304
Property, plant and equipment	2,171
Goodwill	81,796
Intangible assets	39,375
Other assets	216
Assets acquired	139,862
Liabilities assumed	3,834
Net assets acquired	$ 136,028

The above purchase price allocation is subject to revision as more detailed analyses are completed and additional information about the fair value of individual assets and liabilities becomes available. Any change in the fair value of the acquired net assets and resolution of income tax uncertainties will change the amount of the purchase price allocable to goodwill.

The following table reflects the pro forma operating results of the Company as if the Trapeze acquisition had been completed as of the beginning of each respective period. The pro forma effect on the three-month period ended September 28, 2008 was not material.

	Nine Months Ended September 28, 2008	Nine Months Ended September 23, 2007	Three Months Ended September 23, 2007
	(In thousands, except per share data)		
Revenues	$1,612,400	$ 1,486,538	$ 574,662
Net income	68,271	76,970	40,260
Net income per diluted share	1.43	1.53	0.80

For purposes of the pro forma disclosures, each respective period includes $2.1 million ($1.4 million after tax) of nonrecurring expenses from the effects of purchase accounting, including in-process research and development charges of $1.5 million, amortization of the sales backlog intangible of $0.4 million, and inventory cost step-up of $0.2 million. The pro forma information above also reflects interest expense assuming borrowings at the beginning of each respective period of $136.0 million at 3.8% interest under our senior secured credit agreement to finance the acquisition.

The above unaudited pro forma financial information is presented for informational purposes only and does not purport to represent what our results of operations would have been had we completed the acquisition on the dates assumed, nor is it necessarily indicative of the results that may be expected in future periods. Pro forma adjustments exclude cost savings from any synergies resulting from the acquisition.

During 2007, we completed three acquisitions. We acquired Hirschmann Automation and Control GmbH (Hirschmann) on March 26, 2007 for $258.0 million. Hirschmann has its headquarters in Germany and is a leading supplier of industrial ethernet solutions and industrial connectivity. The acquisition of Hirschmann enables us to deliver connectivity and networking solutions for demanding industrial environments and large-scale infrastructure projects worldwide. On March 27, 2007, we acquired LTK Wiring Co. Ltd. (LTK), a Hong Kong company, for $214.4 million. LTK is one of the largest manufacturers of electronic cable for the China market. LTK gives us a strong presence in China among OEM customers, including consumer electronics manufacturers. On April 30, 2007, we purchased the assets of Lumberg Automation Components (Lumberg Automation) for $117.6 million. Lumberg Automation has its headquarters in Germany and is a leading supplier of industrial connectors, high performance cord-sets and fieldbus communication components for factory automation machinery. Lumberg Automation complements the industrial connectivity portfolio of Hirschmann as well as our expertise in signal transmission. The results of operations of each acquisition have been included in our results of operations from their respective acquisition dates. Hirschmann and Lumberg Automation are included in the Europe, Middle East and Africa (EMEA) segment, and LTK is included in the Asia Pacific segment.

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All three 2007 acquisitions were cash transactions and were valued in total at $590.0 million, including transaction costs. The following table summarizes the fair values of the assets acquired and liabilities assumed in 2007 (in thousands).

Current assets	$ 235,092
Property, plant and equipment	94,239
Goodwill	378,355
Intangible assets	88,629
Other assets	29,014
Assets acquired	825,329
Liabilities assumed	235,352
Net assets acquired	$ 589,977

The allocation above differs from our preliminary allocation as of December 31, 2007 primarily due to the following adjustments that we recorded in the first and second quarters of 2008:

- a $15.9 million decrease in the estimated fair value of property, plant and equipment;
- a $23.9 million accrual for restructuring costs related to finalizing certain plans to realign portions of the acquired businesses;
- a $4.3 million accrual for unfavorable lease agreements and service provider contracts; and
- a $4.5 million increase to current deferred tax assets, and a $10.2 million decrease to long-term deferred tax liabilities related to the adjustments described above.

Note 3: Operating Segments

We conduct our operations through five reported operating segments Belden Americas, Specialty Products, Wireless, EMEA, and Asia Pacific.

Finance and administration costs reflected in the column entitled F&A in the following tables primarily represent corporate headquarters operating expenses. Amounts reflected in the column entitled Eliminations represent the eliminations of affiliate revenues and affiliate cost of sales.

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	Belden Americas	Specialty Products	Wireless	EMEA	Asia Pacific	F&A	Eliminations	Total
				(In thousands)				
Three Months Ended September 28, 2008								
Total assets	$ 382,470	$ 190,994	$ 143,992	$ 920,518	$ 392,190	$ 234,695	$	$ 2,264,859
External customer revenues	202,565	56,536	7,792	164,352	89,249			520,494
Affiliate revenues	17,558	15,855	38	4,587			(38,038)	
Operating income (loss)	46,318	7,107	(8,784)	12,976	8,843	(10,824)	(7,898)	47,738
Three Months Ended September 23, 2007								
Total assets	$ 417,027	$ 212,279	$	$ 872,277	$ 365,560	$ 236,609	$	$ 2,103,752
External customer revenues	231,625	60,575		171,828	97,583			561,611
Affiliate revenues	18,069	26,459		7,271			(51,799)	
Operating income (loss)	44,929	14,557		23,627	10,276	(10,680)	(10,212)	72,497
Nine Months Ended September 28, 2008								