HUBBELL INC
Form 10-Q
July 28, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10Q

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

For the quarterly period ended June 30, 2008

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

For the transition period from to

Commission File Number 1-2958
HUBBELL INCORPORATED
(Exact name of registrant as specified in its charter)

State of Connecticut	**06-0397030**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
584 Derby Milford Road, Orange, CT	**06477**
(Address of principal executive offices)	(Zip Code)

(203) 799-4100
(Registrant s telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report.)

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 (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares outstanding of the Class A Common Stock and Class B Common Stock as of July 18, 2008 were 7,169,798 and 48,942,111, respectively.

HUBBELL INCORPORATED

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HUBBELL INCORPORATED
Condensed Consolidated Statement of Income
(unaudited)
(in millions, except per share amounts)

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Net sales	$ 689.6	$ 640.8	$ 1,317.5	$ 1,266.5
Cost of goods sold	479.7	453.5	920.2	906.2
Gross profit	209.9	187.3	397.3	360.3
Selling & administrative expenses	114.9	109.3	227.0	218.4
Operating income	95.0	78.0	170.3	141.9
Interest expense, net	(5.5)	(3.9)	(10.1)	(8.0)
Other (expense) income, net	(1.0)	0.9	(2.1)	0.4
Total other expense, net	(6.5)	(3.0)	(12.2)	(7.6)
Income before income taxes	88.5	75.0	158.1	134.3
Provision for income taxes	27.0	21.7	48.2	39.3
Net income	$ 61.5	$ 53.3	$ 109.9	$ 95.0
Earnings per share				
Basic	$ 1.10	$ 0.90	$ 1.96	$ 1.60
Diluted	$ 1.09	$ 0.89	$ 1.94	$ 1.58
Average number of common shares outstanding				
Basic	55.8	59.4	56.2	59.5
Diluted	56.4	60.2	56.7	60.3
Cash dividends per common share	$ 0.35	$ 0.33	$ 0.68	$ 0.66

See notes to unaudited condensed consolidated financial statements.

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HUBBELL INCORPORATED
Condensed Consolidated Balance Sheet
(unaudited)
(in millions)

	June 30, 2008	December 31, 2007
ASSETS		
Current Assets		
Cash and cash equivalents	$ 218.0	$ 77.5
Accounts receivable, net	383.4	332.4
Inventories, net	331.7	322.9
Deferred taxes and other	61.5	55.2
Total current assets	994.6	788.0
Property, Plant, and Equipment, net	332.6	327.1
Other Assets		
Investments	35.2	39.2
Goodwill	532.5	466.6
Intangible assets and other	269.7	242.5
Total Assets	$ 2,164.6	$ 1,863.4
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Short-term debt	$	$ 36.7
Accounts payable	182.8	154.0
Accrued salaries, wages and employee benefits	47.3	58.6
Dividends payable	19.7	19.2
Accrued insurance	53.5	46.7
Other accrued liabilities	107.1	104.3
Total current liabilities	410.4	419.5
Long-Term Debt	497.2	199.4
Other Non-Current Liabilities	174.2	161.9
Total Liabilities	1,081.8	780.8
Shareholders Equity	1,082.8	1,082.6
Total Liabilities and Shareholders Equity	$ 2,164.6	$ 1,863.4

See notes to unaudited condensed consolidated financial statements.

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HUBBELL INCORPORATED
Condensed Consolidated Statement of Cash Flows
(unaudited)
(in millions)

	Six Months Ended June 30	
	2008	**2007**
Cash Flows from Operating Activities		
Net income	$ 109.9	$ 95.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	30.4	29.9
Deferred income taxes	2.5	(1.9)
Stock-based compensation	5.3	5.3
Tax benefit on stock-based awards	(0.7)	(4.4)
Changes in assets and liabilities:		
Increase in accounts receivable	(43.3)	(31.1)
Decrease in inventories		23.4
Increase in current liabilities	26.3	39.7
Changes in other assets and liabilities, net	(5.6)	
Contribution to defined benefit pension plans	(2.3)	(16.8)
Other, net	2.6	0.3
Net cash provided by operating activities	125.1	139.4
Cash Flows from Investing Activities		
Capital expenditures	(24.0)	(33.0)
Acquisition of businesses, net of cash acquired	(103.3)	(2.8)
Purchases of available-for-sale investments	(12.0)	(29.5)
Proceeds of available-for-sale investments	15.8	29.2
Other, net	2.6	3.9
Net cash used in investing activities	(120.9)	(32.2)
Cash Flows from Financing Activities		
Commercial paper borrowings, net	(36.7)	0.9
Payment of short-term debt		(5.1)
Issuance of long-term debt	297.7	
Debt issuance costs	(2.2)	
Payment of dividends	(37.6)	(39.6)
Proceeds from exercise of stock options	7.3	33.7
Tax benefit on stock-based awards	0.7	4.4
Acquisition of common shares	(95.6)	(88.7)
Other, net		0.5
Net cash provided by (used in) financing activities	133.6	(93.9)
Effect of foreign currency exchange rate changes on cash and cash equivalents	2.7	1.2

Increase in cash and cash equivalents	140.5	14.5
Cash and cash equivalents		
Beginning of period	77.5	45.3
End of period	$ 218.0	$ 59.8

See notes to unaudited condensed consolidated financial statements.

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HUBBELL INCORPORATED
Notes to Condensed Consolidated Financial Statements
(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Hubbell Incorporated (Hubbell , the Company , registrant , we , our or us , which references shall include its divisions and subsidiaries) have been prep in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (U.S.) for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair statement of the results of the periods presented have been included. Operating results for the six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

The balance sheet at December 31, 2007 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Hubbell Current Report on Form 8-K dated May 28, 2008.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 141(R) Business Combinations , which replaces SFAS No. 141. SFAS No. 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is to be applied prospectively to business combinations for which the acquisition date is on or after an entity s fiscal year that begins after December 15, 2008. The Company is currently evaluating the requirements of SFAS No. 141(R) and the impact that this standard will have on its financial statements.

In December 2007, the FASB issued SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements an amendment to ARB No. 51 . SFAS No. 160 establishes accounting and reporting standards that require the ownership interest in subsidiaries held by parties other than the parent be clearly identified and presented in the consolidated balance sheet within equity, but separate from the parent s equity; the amount of consolidated net income attributable to the parent and the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of earnings; and changes in a parent s ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. This statement will be applicable to the Company on January 1, 2009. The Company is currently evaluating the impact that this standard will have on its financial statements.

In March 2008, the FASB issued SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities an amendment of SFAS 133 . SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performance, and cash flows. This statement will be applicable to the Company on January 1, 2009. The Company is currently evaluating the impact that this standard will have on its financial statements.

In April 2008, the FASB issued FASB Staff Position (FSP) 142-3 Determination of the Useful Life of Intangible Assets . FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a

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recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets . FSP 142-3 will be applicable to the Company on January 1, 2009. The Company is currently evaluating the impact that FSP 142-3 will have on its financial statements.

In May 2008, the FASB issued SFAS No. 162 The Hierarchy of Generally Accepted Accounting Principles . SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles. SFAS No. 162 is effective 60 days following the Securities and Exchange Commission s approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, *The Meaning of* Present Fairly in Conformity with Generally Accepted Accounting Principles. This statement will not have an impact on the Company s financial statements.

In May 2008, the FASB issued SFAS No. 163 Accounting for Financial Guarantee Insurance Contracts an interpretation of FASB Statement No. 60 . SFAS No. 163 requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. SFAS No. 163 also clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition of measurement to be used to account for premium revenue and claim liabilities. This statement will be applicable to the Company on January 1, 2009. The Company does not anticipate this standard will have a material impact on its financial statements.

In June 2008, the FASB issued FSP Emerging Issues Task Force (EITF) 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities . FSP EITF 03-6-1 clarified that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. Awards of this nature are considered participating securities and the two-class method of computing basic and diluted earnings per share must be applied. FSP EITF 03-6-1 will be applicable to the Company on January 1, 2009. The Company is currently evaluating the impact that FSP EITF 03-6-1 will have on its financial statements.

2. Segment Information

During the first quarter of 2008, the Company realigned its internal organization and operating segments. This reorganization included combining the electrical products business (included in the Electrical segment) and the industrial technology business (previously its own reporting segment) into one operating segment. This combined operating segment is part of the Electrical reporting segment. Effective for the first quarter of 2008, the Company s reporting segments consist of the Electrical segment and the Power segment. Previously reported data has been restated to reflect this change.

The following table sets forth financial information by business segment (in millions):

	Net Sales		**Operating Income**		**Operating Income as a % of Net Sales**	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Three Months Ended June 30,						
Electrical	$ 506.8	$ 484.0	$ 63.9	$ 53.7	12.6%	11.1%
Power	182.8	156.8	31.1	24.3	17.0%	15.5%
Total	$ 689.6	$ 640.8	$ 95.0	$ 78.0	13.8%	12.2%
Six Months Ended June 30,						
Electrical	$ 977.1	$ 945.8	$ 113.9	$ 92.4	11.7%	9.8%
Power	340.4	320.7	56.4	49.5	16.6%	15.4%
Total	$ 1,317.5	$ 1,266.5	$ 170.3	$ 141.9	12.9%	11.2%

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3. Business Acquisitions

In January 2008, the Company purchased all of the outstanding common stock of Kurt Versen, Inc. (Kurt Versen) for $100.2 million in cash. Located in Westwood, New Jersey, Kurt Versen manufactures specification-grade lighting fixtures for a full range of office, commercial, retail, government, entertainment, hospitality and institution applications. The acquisition enhances the Company s position in the key spec-grade downlighting market. Kurt Versen has been added to the lighting business within the Electrical segment and the results of operations after January 11, 2008 are included in the Consolidated Financial Statements.

The Company is in the process of finalizing the determination of fair values of the underlying assets and liabilities and, as a result, the allocations of purchase price related to the acquisition discussed above are preliminary. The following table summarizes the preliminary allocation of the purchase price to estimated fair values of the assets acquired and liabilities assumed as of January 11, 2008, (in millions):

Total purchase price including transaction expenses, net of cash acquired	$ 100.2
Fair value assigned to assets acquired	$ 16.9
Fair value of liabilities assumed	(5.4)
Amounts assigned to intangible assets	31.7
Amount allocated to goodwill	57.0
Total allocation	$ 100.2

The fair value assigned to net assets acquired primarily relates to accounts receivable, inventory and fixed assets. Intangible assets identified primarily consist of tradenames and agent relationships. The tradenames are being amortized over a period of 30 years and the agent relationships are being amortized over a period of 15 years. The excess of purchase price over the fair values of assets acquired, liabilities assumed and identifiable intangible assets has been allocated to goodwill. Approximately one quarter of the goodwill will be deductible for tax purposes. The Kurt Versen acquisition is not expected to have a material impact on the Company s financial statements.

In March 2008, the Company purchased a product line which manufactures rough-in electrical products for approximately $3.1 million. This acquisition has been added to the electrical products business within the Electrical segment.

In March 2007, the Company purchased a small Brazilian manufacturing business for $2.1 million. This acquisition has been added to the Power segment and has been integrated into the Company s Brazilian operations.

In October 2007, the Company purchased all of the outstanding common stock of PCORE Electric Company, Inc. (PCORE) for $50.1 million in cash. PCORE was added to the Power segment and the results of operations after October 1, 2007 are included in the Consolidated Financial Statements. PCORE, located in LeRoy, New York, is a leading manufacturer of high voltage condenser bushings. These products are used in the electric utility infrastructure.

The following table summarizes the final fair values of the assets acquired and liabilities assumed as of the purchase date for PCORE, (in millions):

Total purchase price including transaction expenses, net of cash acquired	$ 50.1
Fair value assigned to assets acquired	$ 16.2
Fair value of liabilities assumed	(9.6)
Amounts assigned to intangible assets	15.1
Amount allocated to goodwill	28.4
Total allocation	$ 50.1

The fair value assigned to net assets acquired primarily relates to accounts receivable, inventory, fixed assets and deferred taxes. Intangible assets identified primarily consist of tradenames and customer lists. The tradenames are

being amortized over a period of 30 years and customer lists are being amortized over a period of 20 years. The excess of purchase price over the fair values of assets acquired, liabilities assumed and identifiable intangible assets has been allocated to goodwill. Approximately one quarter of the goodwill will be deductible for tax purposes. The PCORE acquisition is not expected to have a material impact on the Company s financial statements.

4. Inventories

Inventories are comprised of the following (in millions):

	June 30, 2008	December 31, 2007
Raw material	$ 110.2	$ 106.6
Work-in-process	71.5	62.2
Finished goods	232.4	227.7
	414.1	396.5
Excess of FIFO over LIFO cost basis	(82.4)	(73.6)
Total	$ 331.7	$ 322.9

5. Goodwill and Other Intangible Assets

Changes in the carrying amounts of goodwill for the six months ended June 30, 2008, by segment, were as follows (in millions):

	Segment		
	Electrical	Power	Total
Balance December 31, 2007	$ 256.4	$ 210.2	$ 466.6
Acquisitions	57.0	6.4	63.4
Translation adjustments	1.1	1.4	2.5
Balance June 30, 2008	$ 314.5	$ 218.0	$ 532.5

The acquisition amounts relate to the purchase of Kurt Versen in January 2008 in the Electrical segment and the purchase of PCORE in October 2007 in the Power segment.

The Company s policy is to perform its annual goodwill impairment testing in the second quarter of each year unless circumstances dictate the need for more frequent assessments. In the second quarter of 2008, this testing resulted in implied fair values for each reporting unit which exceeded the reporting units carrying value, including goodwill. Consequently, there were no impairments of goodwill.

The carrying value of other intangible assets included in Intangible assets and other in the Condensed Consolidated Balance Sheet, is as follows (in millions):

	June 30, 2008		December 31, 2007	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Definite-lived:				
Tradenames and other	$ 74.8	$ (6.0)	$ 44.3	$ (4.6)
Relationships and other	42.5	(10.3)	39.0	(8.6)

Total	117.3		(16.3)	83.3		(13.2)
Indefinite-lived:						
Tradenames	20.6			20.6		
Total	$ 137.9	$	(16.3)	$ 103.9	$	(13.2)

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Amortization expense associated with these intangible assets in the first six months of 2008 was $2.9 million. Amortization expense associated with these assets for the full year is expected to be $6.1 million in 2008, $6.4 million in 2009, $6.2 million for 2010 and 2011, and $6.0 million for the year thereafter.

6. Debt

During the second quarter, the Company completed the sale of $300 million of long-term, senior, unsecured notes maturing in 2018 and bearing interest at the rate of 5.95%. The proceeds, net of discount, from the note issuance were used to pay down commercial paper borrowings and for general corporate purposes. In connection with the issuance of the notes, the Company entered into a forward interest rate lock to hedge its exposure to fluctuations in treasury rates, which resulted in a gain of approximately $1.2 million during the quarter. This amount has been recorded, net of tax, in other comprehensive income and will be amortized over the life of the notes.

In October 2007, the Company entered into a revised five year, $250 million revolving credit facility to replace the previous $200 million facility which was scheduled to expire in October 2009. In the first quarter of 2008, the Company exercised its option to expand the revolving credit facility from $250 million to $350 million. At June 30, 2008 the $350 million committed bank credit facility had not been drawn against as it remains a backup to the Company s commercial paper program which is the Company s principal source of short-term borrowings. The interest rate applicable to borrowings under the credit agreement is either the prime rate or a surcharge over LIBOR. The expiration date of this credit agreement is October 31, 2012. The covenants of this facility require that shareholders equity be greater than $675 million and that total debt not exceed 55% of total capitalization (defined as total debt plus total shareholders equity). The Company is in compliance with all debt covenants at June 30, 2008. Annual commitment fee requirements to support availability of the credit facility are not material.

7. Shareholders Equity

Shareholders equity is comprised of the following (in millions, except per share amounts):

	June 30, 2008	December 31, 2007
Common stock, $.01 par value:		
Class A authorized 50.0 shares; issued and outstanding 7.2 and 7.4 shares	$ 0.1	$ 0.1
Class B authorized 150.0 shares; issued and outstanding 48.9 and 50.5 shares	0.5	0.5
Additional paid-in capital	10.9	93.3
Retained earnings	1,034.5	962.7
Accumulated other comprehensive income:		
Pension and post retirement benefit plan adjustment, net of tax	6.7	6.1
Cumulative translation adjustment	29.5	21.1
Unrealized gain on investment, net of tax	0.1	0.2
Cash flow hedge gain (loss), net of tax	0.5	(1.4)
Total Accumulated other comprehensive income	36.8	26.0
Total Shareholders equity	$ 1,082.8	$ 1,082.6

Additional paid-in capital has been reduced by $95.6 million in connection with the acquisition of common shares, offset by increases of $8.0 million of stock option activity, including tax benefits, and $5.3 million of stock-based compensation.

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8. Comprehensive Income

Total comprehensive income and its components are as follows (in millions):

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Net income	$ 61.5	$ 53.3	$ 109.9	$ 95.0
Foreign currency translation adjustments	4.0	8.4	8.4	10.1
Amortization of net prior service costs and net actuarial losses, net of tax	0.3	0.4	0.6	0.9
Change in unrealized gain on investments, net of tax	(0.3)	(0.1)	(0.1)	(0.1)
Change in unrealized losses (gains) on cash flow hedges, net of tax	0.6	(0.9)	1.9	(0.9)
Comprehensive income	$ 66.1	$ 61.1	$ 120.7	$ 105.0

9. Earnings Per Share

The following table sets forth the computation of earnings per share for the three and six months ended June 30, 2008 and 2007 (in millions, except per share amounts):

Three Months Ended June 30		Six Months Ended June 30
2008	2007	200