

LITTELFUSE INC /DE  
Form 10-Q  
October 31, 2014

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 27, 2014

OR

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 0-20388

**LITTELFUSE, INC.**

(Exact name of registrant as specified in its charter)

**Delaware** **36-3795742**  
(State or other jurisdiction (I.R.S. Employer Identification No.)  
of incorporation or organization)

**8755 W. Higgins Road, Suite 500**  
**Chicago, Illinois** **60631**  
(Address of principal executive offices) (Zip Code)

**(773) 628-1000**

(Registrant's telephone number, including area code)

Edgar Filing: LITTELFUSE INC /DE - Form 10-Q

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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  Accelerated filer  Non-accelerated filer  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  No

As of October 24, 2014, 22,489,432 shares of common stock, \$.01 par value, of the registrant were outstanding.

---

**TABLE OF CONTENTS**

**PART I - FINANCIAL INFORMATION**

|   | <u>Page</u> |
|---|-------------|
| Item 1. Financial Statements.   |             |
| Condensed Consolidated Balance Sheets as of September 27, 2014 (unaudited) and December 28, 2013                            | 1           |
| Consolidated Statements of Net Income for the periods ended September 27, 2014 and September 28, 2013 (unaudited)           | 2           |
| Consolidated Statements of Comprehensive Income for the periods ended September 27, 2014 and September 28, 2013 (unaudited) | 3           |
| Consolidated Statements of Cash Flows for the periods ended September 27, 2014 and September 28, 2013 (unaudited)           | 4           |
| Notes to Condensed Consolidated Financial Statements (unaudited)  | 5           |
| Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.                              | 14          |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk.   | 20          |
| Item 4. Controls and Procedures.  | 21          |

**PART II - OTHER INFORMATION**

|   |    |
|---|----|
| Item 1. Legal Proceedings   | 22 |
| Item 1A. Risk Factors   | 22 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 22 |
| Item 3. Defaults Upon Senior Securities                             | 22 |
| Item 4. Mine Safety Disclosures                                     | 22 |
| Item 5. Other Information   | 22 |
| Item 6. Exhibits  | 23 |
| Signatures  | 24 |



## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## LITTELFUSE, INC.

## Condensed Consolidated Balance Sheets

(In thousands of USD, except share amounts)

|   | <b>September<br/>27, 2014<br/>(unaudited)</b> | December<br>28, 2013 |
|---|---|----------------------|
| <b>Assets</b>                             |   |                      |
| Current assets:                           |   |                      |
| Cash and cash equivalents                 | <b>\$ 378,276</b>                             | \$305,192            |
| Short-term investments                    | <b>38</b>                                     | 6,886                |
| Accounts receivable, less allowances      | <b>134,706</b>                                | 127,887              |
| Inventories                               | <b>99,822</b>                                 | 92,591               |
| Deferred income taxes                     | <b>10,722</b>                                 | 10,463               |
| Prepaid expenses and other current assets | <b>16,570</b>                                 | 17,080               |
| Assets held for sale                      | <b>5,500</b>                                  | 5,500                |
| Total current assets                      | <b>645,634</b>                                | 565,599              |
| Property, plant and equipment:            |   |                      |
| Land                                      | <b>5,969</b>                                  | 4,382                |
| Buildings                                 | <b>66,780</b>                                 | 59,699               |
| Equipment                                 | <b>363,438</b>                                | 354,475              |
|   | <b>436,187</b>                                | 418,556              |
| Accumulated depreciation                  | <b>(278,927 )</b>                             | (268,383 )           |
| Net property, plant and equipment         | <b>157,260</b>                                | 150,173              |
| Intangible assets, net of amortization:   |   |                      |
| Patents, licenses and software            | <b>24,514</b>                                 | 25,166               |
| Distribution network                      | <b>39,604</b>                                 | 42,685               |
| Customer lists, trademarks and tradenames | <b>42,911</b>                                 | 30,506               |
| Goodwill                                  | <b>198,702</b>                                | 186,464              |
| Other investments                         | <b>13,115</b>                                 | 12,286               |
| Deferred income taxes                     | <b>5,325</b>                                  | 5,092                |
| Other assets                              | <b>6,750</b>                                  | 6,402                |
| Total assets                              | <b>\$ 1,133,815</b>                           | \$ 1,024,373         |

**Liabilities and Equity**

|                                      |                     |              |
|--------------------------------------|---------------------|--------------|
| Current liabilities:                 |                     |              |
| Accounts payable                     | <b>\$ 37,062</b>    | \$33,872     |
| Accrued payroll                      | <b>28,022</b>       | 29,437       |
| Accrued expenses                     | <b>13,342</b>       | 13,087       |
| Accrued severance                    | <b>320</b>          | 182          |
| Accrued income taxes                 | <b>15,059</b>       | 5,931        |
| Deferred income taxes                | <b>7</b>            | 229          |
| Current portion of long-term debt    | <b>186,500</b>      | 126,000      |
| Total current liabilities            | <b>280,312</b>      | 208,738      |
| Long-term debt, less current portion | <b>90,000</b>       | 93,750       |
| Deferred income taxes                | <b>10,821</b>       | 11,585       |
| Accrued post-retirement benefits     | <b>225</b>          | 8,528        |
| Other long-term liabilities          | <b>14,558</b>       | 14,856       |
| Total equity                         | <b>737,899</b>      | 686,916      |
| <br>                                 |                     |              |
| Total liabilities and equity         | <b>\$ 1,133,815</b> | \$ 1,024,373 |

Common shares issued and outstanding of 22,541,918 and 22,467,491, at September 27, 2014, and December 28, 2013, respectively.

See accompanying notes.

**LITTELFUSE, INC.****Consolidated Statements of Net Income**

(In thousands of USD, except per share amounts, unaudited)

|   | For the Three Months<br>Ended |                          | For the Nine Months<br>Ended |                          |
|---|-------------------------------|--------------------------|------------------------------|--------------------------|
|   | September<br>27,<br>2014      | September<br>28,<br>2013 | September<br>27,<br>2014     | September<br>28,<br>2013 |
| Net sales   | <b>\$217,608</b>              | \$201,040                | <b>\$645,375</b>             | \$559,724                |
| Cost of sales   | <b>130,228</b>                | 120,080                  | <b>396,506</b>               | 340,601                  |
| Gross profit  | <b>87,380</b>                 | 80,960                   | <b>248,869</b>               | 219,123                  |
| Selling, general and administrative expenses                  | <b>36,647</b>                 | 34,437                   | <b>109,146</b>               | 98,091                   |
| Research and development expenses                             | <b>7,449</b>                  | 6,217                    | <b>22,833</b>                | 17,725                   |
| Amortization of intangibles                                   | <b>3,154</b>                  | 2,747                    | <b>9,451</b>                 | 6,249                    |
|   | <b>47,250</b>                 | 43,401                   | <b>141,430</b>               | 122,065                  |
| Operating income  | <b>40,130</b>                 | 37,559                   | <b>107,439</b>               | 97,058                   |
| Interest expense  | <b>1,292</b>                  | 939                      | <b>3,736</b>                 | 1,959                    |
| Impairment and equity in net loss of unconsolidated affiliate | <b>—</b>                      | —                        | <b>—</b>                     | 10,678                   |
| Foreign exchange (gain) loss                                  | <b>(101 )</b>                 | 1,476                    | <b>2,022</b>                 | (1,929 )                 |
| Other (income) expense, net                                   | <b>(2,261 )</b>               | (1,380 )                 | <b>(4,893 )</b>              | (3,543 )                 |
| Income before income taxes                                    | <b>41,200</b>                 | 36,524                   | <b>106,574</b>               | 89,893                   |
| Income taxes  | <b>11,260</b>                 | 9,534                    | <b>26,667</b>                | 24,767                   |
| Net income  | <b>\$29,940</b>               | \$26,990                 | <b>\$79,907</b>              | \$65,126                 |
| Net income per share (see Note 8):                            |                               |                          |                              |                          |
| Basic   | <b>\$1.33</b>                 | \$1.20                   | <b>\$3.55</b>                | \$2.92                   |
| Diluted   | <b>\$1.32</b>                 | \$1.19                   | <b>\$3.52</b>                | \$2.89                   |
| Weighted average shares and equivalent shares outstanding:    |                               |                          |                              |                          |
| Basic   | <b>22,536</b>                 | 22,428                   | <b>22,536</b>                | 22,274                   |
| Diluted   | <b>22,689</b>                 | 22,625                   | <b>22,722</b>                | 22,497                   |
| Cash dividends paid per common share                          | <b>\$0.25</b>                 | \$0.22                   | <b>\$0.69</b>                | \$0.62                   |

See accompanying notes.

2

---



**LITTELFUSE, INC.****Consolidated Statements of Comprehensive Income**

(In thousands of USD, unaudited)

|  | For the Three Months<br>Ended<br><b>September</b><br><b>27,</b> |           | For the Nine Months<br>Ended<br><b>September</b><br><b>27,</b> |           |
|--|---|-----------|--|-----------|
|  | <b>2014</b>   | 2013      | <b>2014</b>  | 2013      |
| Net income   | <b>\$29,940</b>   | \$ 26,990 | <b>\$79,907</b>  | \$ 65,126 |
| Other comprehensive income (loss):   |   |           |  |           |
| Pension liability adjustments (net of tax of \$39 and \$49, for the three months ended 2014 and 2013, and \$178 and \$233 for the nine months ended 2014 and 2013, respectively) | <b>4</b>  | (24 )     | <b>(1 )</b>  | (349 )    |
| Unrealized (loss) gain on investments  | <b>(1,773 )</b>   | (532 )    | <b>1,811</b>   | 546       |
| Foreign currency translation adjustments   | <b>(14,962)</b>   | 10,273    | <b>(15,273)</b>  | (2,998 )  |
| Comprehensive income   | <b>\$13,209</b>   | \$ 36,707 | <b>\$66,444</b>  | \$ 62,325 |

See accompanying notes.

**LITTELFUSE, INC.****Consolidated Statements of Cash Flows**

(In thousands of USD, unaudited)

|   | For the Nine Months<br>Ended  |                       |
|---|-------------------------------|-----------------------|
|   | <b>September<br/>27, 2014</b> | September<br>28, 2013 |
| <b>Operating activities:</b>  |                               |                       |
| Net income  | <b>\$79,907</b>               | \$65,126              |
| Adjustments to reconcile net income to net cash provided by operating activities: |                               |                       |
| Depreciation  | <b>21,736</b>                 | 19,603                |
| Amortization of intangibles   | <b>9,451</b>                  | 6,249                 |
| Stock-based compensation  | <b>7,168</b>                  | 7,030                 |
| Non-cash inventory charge   | <b>2,769</b>                  | 2,069                 |
| Excess tax benefit on share-based compensation                                    | <b>(2,477 )</b>               | (3,763 )              |
| Loss on sale of assets  | <b>673</b>                    | 169                   |
| Impairment and equity in net loss of unconsolidated affiliate                     | <b>—</b>                      | 10,678                |
| Changes in operating assets and liabilities:                                      |                               |                       |
| Accounts receivable   | <b>(9,728 )</b>               | (16,348 )             |
| Inventories   | <b>(4,118 )</b>               | (4,537 )              |
| Accounts payable  | <b>3,024</b>                  | 6,659                 |
| Accrued expenses (including post-retirement)                                      | <b>(7,080 )</b>               | (11,743 )             |
| Accrued payroll and severance   | <b>(1,198 )</b>               | 5,492                 |
| Accrued taxes   | <b>5,756</b>                  | (2,167 )              |
| Prepaid expenses and other  | <b>(2,052 )</b>               | 1,294                 |
| Net cash provided by operating activities   | <b>103,831</b>                | 85,811                |
| <b>Investing activities:</b>  |                               |                       |
| Purchases of property, plant, and equipment                                       | <b>(19,422 )</b>              | (25,328 )             |
| Acquisition of businesses, net of cash acquired                                   | <b>(52,768 )</b>              | (145,000)             |
| Purchase of short-term investments  | <b>—</b>                      | (8,478 )              |
| Proceeds from maturities of short-term investments                                | <b>6,770</b>                  | —                     |
| Proceeds from sale of assets  | <b>72</b>                     | 158                   |
| Net cash used in investing activities   | <b>(65,348 )</b>              | (178,648)             |
| <b>FINANCING activities:</b>  |                               |                       |
| Proceeds from term loan   | <b>—</b>                      | 100,000               |
| Proceeds from revolving credit facility   | <b>97,500</b>                 | 160,500               |
| Payments of term loan   | <b>(3,750 )</b>               | —                     |
| Payments of revolving credit facility   | <b>(37,000 )</b>              | (116,000)             |
| Debt issuance costs paid  | <b>(108 )</b>                 | (809 )                |
| Cash dividends paid   | <b>(15,543 )</b>              | (13,789 )             |
| Purchases of common stock   | <b>(14,283 )</b>              | —                     |

Edgar Filing: LITTELFUSE INC /DE - Form 10-Q

|  |                  |           |
|--|------------------|-----------|
| Proceeds from exercise of stock options                      | <b>12,170</b>    | 19,335    |
| Excess tax benefit on share-based compensation               | <b>2,477</b>     | 3,763     |
| Net cash provided by financing activities                    | <b>41,463</b>    | 153,000   |
| Effect of exchange rate changes on cash and cash equivalents | <b>(6,862 )</b>  | (2,631 )  |
| Increase in cash and cash equivalents                        | <b>73,084</b>    | 57,532    |
| Cash and cash equivalents at beginning of period             | <b>305,192</b>   | 235,404   |
| Cash and cash equivalents at end of period                   | <b>\$378,276</b> | \$292,936 |

See accompanying notes.

## Notes to CONDENSED Consolidated Financial Statements (Unaudited)

### 1. Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of Littelfuse, Inc. and its subsidiaries (the “company”) have been prepared in accordance with U.S. *Generally Accepted Accounting Principles* (GAAP) for interim financial information, the instructions to Form 10-Q and Article 10 of Regulations S-X. Accordingly, certain information and disclosures normally included in the consolidated balance sheet, statements of net income and comprehensive income and cash flows prepared in conformity with U.S. GAAP have been condensed or omitted as permitted by such rules and regulations. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the period ended September 27, 2014 are not necessarily indicative of the results that may be expected for the year ending December 27, 2014. 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 28, 2013. The company evaluated subsequent events through the date of its financial statements when filed with the Securities and Exchange Commission (“SEC”).

### 2. Acquisition of Businesses

The company accounts for acquisitions using the purchase method in accordance with ASC 805, “Business Combinations.” The results of operations of each acquisition have been included in the accompanying consolidated financial statements as of the dates of the acquisition.

#### *SymCom, Inc.*

On January 3, 2014, the company acquired 100% of SymCom, Inc. (“SymCom”) for \$52.8 million net of cash acquired. Headquartered in Rapid City, South Dakota, SymCom provides overload relays and pump controllers primarily to the industrial market. The acquisition allows the company to strengthen its position in the relay products market by adding new products and new customers within its Electrical business unit segment. SymCom is based in Rapid City, South Dakota. The company funded the acquisition with available cash and proceeds from credit facilities.

The following table sets forth the preliminary purchase price allocation for SymCom acquisition-date net assets, in accordance with the purchase method of accounting with adjustments to record the acquired net assets at their estimated fair values.

SymCom preliminary purchase price  
allocation (in thousands):

|                               |          |
|-------------------------------|----------|
| Cash                          | \$325    |
| Current assets, net           | 9,154    |
| Property, plant and equipment | 11,193   |
| Goodwill                      | 15,063   |
| Trademarks                    | 17,020   |
| Patents                       | 1,500    |
| Other non-current assets      | 20       |
| Current liabilities           | (1,182 ) |
|                               | \$53,093 |

All SymCom goodwill and other assets and liabilities were recorded in the Electrical business unit segment and reflected in the Americas geographical area. The trademarks are being amortized over 15 to 20 years. The patents are being amortized over 16 to 17 years. The goodwill resulting from this acquisition consists largely of the company's expected future product sales and synergies from combining SymCom's products with the company's existing electrical product offerings. Goodwill for the above acquisition is expected to be deductible for tax purposes.

As required by purchase accounting rules, the company initially recorded a \$2.6 million step-up of inventory to its fair value as of the acquisition date based on the preliminary valuation. During the first quarter of 2014, as a portion of this inventory was sold, cost of goods sold included a \$1.4 million non-cash charge for this step-up.

**Notes to CONDENSED Consolidated Financial Statements (Unaudited)****2. Acquisition of Businesses, continued**

During the second quarter of 2014, the inventory step-up valuation was finalized at \$2.8 million which resulted in an additional \$1.4 million non-cash charge to cost of goods sold for the second quarter of 2014.

Pro forma financial information is not presented for the SymCom acquisition due to amounts not being materially different than actual results.

*Hamlin, Inc.*

On May 31, 2013, the company acquired 100% of Hamlin, Inc. (“Hamlin”) from Key Safety Systems, for \$144.4 million (net of cash acquired). Hamlin is a manufacturer of sensor technology providing standard products and custom solutions for leading global manufacturers in the automotive and electronic industries. The acquisition allows the company to expand its automotive and electronics product offerings in the global sensor market in both the Automotive and Electronics business segments. Hamlin has manufacturing, engineering and sales offices in the U.S., Mexico, Europe and Asia. Hamlin operations are being integrated into the Electronics and Automotive segments of Littelfuse. The company funded the acquisition with available cash raised from borrowings on the company’s new credit arrangement. (See Note 6).

The following table sets forth the final purchase price allocation, as of May 31, 2014, for Hamlin acquisition-date net assets, in accordance with the purchase method of accounting with adjustments to record the acquired net assets at their estimated fair values.

Hamlin final purchase price allocation (in thousands):

|                               |           |
|-------------------------------|-----------|
| Cash                          | \$ 15,984 |
| Current assets, net           | 27,811    |
| Property, plant and equipment | 24,728    |
| Goodwill                      | 51,218    |
| Distribution network          | 35,327    |
| Patents and licenses          | 16,276    |
| Trademarks                    | 6,522     |

|                         |           |
|-------------------------|-----------|
| Non-current assets      | 2,452     |
| Current liabilities     | (7,734 )  |
| Non-current liabilities | (12,217 ) |
|                         | \$160,367 |

All Hamlin goodwill and other assets and liabilities were recorded in the Automotive and Electronics business unit segments and reflected in the Americas, Europe and Asia-Pacific geographical areas. The distribution network, trademarks and patents and licenses are all being amortized over 10 years. The goodwill resulting from this acquisition consists largely of the company's expected future product sales and synergies from combining Hamlin's products with the company's existing product offerings. A portion of the goodwill for the acquisition is not expected to be deductible for tax purposes.

As required by purchase accounting rules, the company recorded a \$2.1 million step-up of inventory to its fair value as of the acquisition date. During the second quarter of 2013, as a portion of this inventory was sold, cost of goods sold included \$1.7 million of non-cash charges for this step-up.

**Notes to CONDENSED Consolidated Financial Statements (Unaudited)****2. Acquisition of Businesses, continued**

The following unaudited pro forma results are provided below for the company's acquisition of Hamlin and assume that the acquisition of Hamlin had been completed as of the beginning of fiscal year 2012.

|  | (In thousands except for per share amounts) |                |                           |                              |
|--|---|----------------|---------------------------|------------------------------|
|  | For the Three Months Ended                  |                | For the Nine Months Ended |                              |
|  | Sept. 27, 2014                              | Sept. 28, 2013 | Sept. 27, 2014            | Sept. 28, 2013               |
|  | (Unaudited)                                 | (Unaudited)    | (Unaudited)               | (As restated)<br>(Unaudited) |
| Revenues   | \$217,608                                   | \$ 201,040     | \$645,375                 | \$ 591,095                   |
| Net income   | \$29,940                                    | \$ 26,990      | \$79,907                  | \$ 65,425                    |
| Net income per share:                                      |   |                |                           |                              |
| Basic  | \$1.33                                      | \$ 1.20        | \$3.55                    | \$ 2.94                      |
| Diluted  | \$1.32                                      | \$ 1.19        | \$3.52                    | \$ 2.91                      |
| Weighted-average shares and equivalent shares outstanding: |   |                |                           |                              |
| Basic  | 22,536                                      | 22,428         | 22,536                    | 22,274                       |
| Diluted  | 22,689                                      | 22,625         | 22,722                    | 22,497                       |

**3. Inventories**

The components of inventories at September 27, 2014 and December 28, 2013 are as follows (in thousands):

|                   | September 27, 2014 | December 28, 2013 |
|-------------------|--------------------|-------------------|
| Raw material      | \$ 31,549          | \$ 28,228         |
| Work in process   | 16,810             | 17,576            |
| Finished goods    | 51,463             | 46,787            |
| Total inventories | \$ 99,822          | \$ 92,591         |

**4. Other Investments**



The company's other investments represent shares of Polytronics Technology Corporation Ltd. ("Polytronics"), a Taiwanese company. The Polytronics investment was acquired as part of the Heinrich Companies acquisition in 2004. The fair value of the Polytronics investment was €10.2 million (approximately \$13.1 million) at September 27, 2014 and €9.0 million (approximately \$12.3 million) at December 28, 2013. Included in 2014 other comprehensive income is an unrealized gain of \$1.8 million, due to the increase in fair market value of the Polytronics investment. The remaining movement was due to the impact of changes in exchange rates.

## **5. Impairment of Investment in Unconsolidated Affiliate**

During the first quarter of 2013, the company fully impaired its investment in and loan receivable from Shocking Technologies, Inc. owing to their filing for Chapter 7 bankruptcy on March 12, 2013. The impairment charge of approximately \$10.7 million consisted of the remaining equity method investment of \$8.7 million and a \$2.0 million loan receivable, and reduced the carrying value of both the investment and loan receivable to zero at March 30, 2013.

The loss was recorded as a component of impairment and equity loss of unconsolidated affiliate in the Consolidated Statements of Net Income for the nine months ended September 28, 2013.

**Notes to CONDENSED Consolidated Financial Statements (Unaudited)****6. Debt**

The carrying amounts of long-term debt at September 27, 2014 and December 28, 2013 are as follows (in thousands):

|                           | <b>September<br/>27, 2014</b> | December<br>28, 2013 |
|---------------------------|-------------------------------|----------------------|
| Term loan                 | <b>\$ 95,000</b>              | \$98,750             |
| Revolving credit facility | <b>181,500</b>                | 121,000              |
| Total debt                | <b>276,500</b>                | 219,750              |
| Less: Current maturities  | <b>186,500</b>                | 126,000              |
| Total long-term debt      | <b>\$ 90,000</b>              | \$93,750             |

On May 31, 2013, the company entered into a new credit agreement with J.P Morgan Securities LLC for up to \$325.0 million which consisted of an unsecured revolving credit facility of \$225.0 million and an unsecured term loan of \$100.0 million. The new credit agreement is for a five year period. On January 30, 2014, the company increased the unsecured revolving credit facility entered into on May 31, 2013, by \$50.0 million thereby increasing the total revolver borrowing capacity from \$225.0 million to \$275.0 million. The company incurred debt issuance costs of \$0.1 million which will be amortized over the life of the existing credit agreement. As of September 27, 2014, the company had available \$92.9 million of borrowing capacity under the revolving credit agreement at an interest rate of LIBOR plus 1.50% (1.65% as of September 27, 2014). At September 27, 2014, the company was in compliance with all covenants under the revolving credit facility.

**7. Fair Value of Assets and Liabilities**

In determining fair value, the company uses various valuation approaches within the fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

Applicable accounting literature establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Applicable accounting literature defines levels within the hierarchy based on the reliability of inputs as follows:

Level 1—Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;

Level 2—Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and

Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

Following is a description of the valuation methodologies used for instruments measured at fair value and their classification in the valuation hierarchy.

*Investment in Polytronics*

The company holds an investment in the equity securities of Polytronics as described in Note 4. Equity securities listed on a national market or exchange are valued at the last sales price. Such securities are classified within Level 1 of the valuation hierarchy.

There were no changes during the nine months ended September 27, 2014 to the company's valuation techniques used to measure asset and liability fair values on a recurring basis. As of September 27, 2014 and December 28, 2013 the company held no non-financial assets or liabilities that are required to be measured at fair value on a recurring basis.

## Notes to CONDENSED Consolidated Financial Statements (Unaudited)

## 7. Fair Value of Assets and Liabilities, continued

The following table presents assets and liabilities measured at fair value by classification within the fair value hierarchy as of September 27, 2014 (in thousands):

|                           | Fair Value Measurements Using |             |              |           |
|---------------------------|-------------------------------|-------------|--------------|-----------|
|                           | Quoted                        |             |              |           |
|                           | Prices                        |             |              |           |
|                           | in                            |             |              |           |
|                           | Active                        |             |              |           |
|                           | Markets                       |             |              |           |
|                           | for                           |             |              |           |
|                           | Identical                     |             |              |           |
|                           | Assets                        |             |              |           |
|                           | (Level                        |             |              |           |
|                           | 1)                            |             |              |           |
|                           | Significant                   | Significant | Significant  | Total     |
|                           | Other                         | Other       | Unobservable |           |
|                           | Observable                    | Observable  | Inputs       |           |
|                           | Inputs                        | Inputs      | (Level 3)    |           |
|                           | (Level 2)                     | (Level 2)   | (Level 3)    |           |
| Investment in Polytronics | \$ 13,115                     | \$ —        | \$ —         | \$ 13,115 |
| Total                     | \$ 13,115                     | \$ —        | \$ —         | \$ 13,115 |

The following table presents assets measured at fair value by classification within the fair value hierarchy as of December 28, 2013 (in thousands):

|                           | Fair Value Measurements Using |             |              |           |
|---------------------------|-------------------------------|-------------|--------------|-----------|
|                           | Quoted                        |             |              |           |
|                           | Prices                        |             |              |           |
|                           | in                            |             |              |           |
|                           | Active                        |             |              |           |
|                           | Markets                       |             |              |           |
|                           | for                           |             |              |           |
|                           | Identical                     |             |              |           |
|                           | Assets                        |             |              |           |
|                           | (Level                        |             |              |           |
|                           | 1)                            |             |              |           |
|                           | Significant                   | Significant | Significant  | Total     |
|                           | Other                         | Other       | Unobservable |           |
|                           | Observable                    | Observable  | Inputs       |           |
|                           | Inputs                        | Inputs      | (Level 3)    |           |
|                           | (Level 2)                     | (Level 2)   | (Level 3)    |           |
| Investment in Polytronics | \$ 12,286                     | \$ —        | \$ —         | \$ 12,286 |
| Total                     | \$ 12,286                     | \$ —        | \$ —         | \$ 12,286 |

The company's other financial instruments include cash and cash equivalents, short-term investments, accounts receivable, accounts payable and debt. The carrying amounts of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and debt approximate their fair values. The company's debt fair value approximates book value at September 27, 2014 and December 28, 2013, respectively, as the variable interest rates fluctuate along with market interest rates.

## **8. Earnings Per Share**

In 2013, the company calculated its earnings per share using the two-class method which included an earnings allocation formula that determined earnings per share for each class of common stock according to dividends declared and undistributed earnings for the period. Previously, the company's reported net earnings were reduced by the amount allocated to participating securities to arrive at the earnings allocated to common stock shareholders for purposes of calculating earnings per share under the two-class method. As of January, 2014, the company no longer has "participating securities" as defined under ASC 260. As such, the company now calculates its earnings per share using the treasury method. All of the previous participating securities that resulted in the company using the two-class method have become fully vested or have otherwise expired.

Under the previous two-class method calculation, the dilutive effect of participating securities was calculated using the more dilutive of the treasury stock or the two-class method. The company previously determined the two-class method to be the more dilutive. As such, the earnings allocated to common stock shareholders in the basic earnings per share calculation was adjusted for the reallocation of undistributed earnings to participating securities to arrive at the earnings allocated to common stock shareholders for calculating the diluted earnings per share.

## Notes to CONDENSED Consolidated Financial Statements (Unaudited)

## 8. Earnings Per Share, continued

The following table sets forth the computation of basic and diluted earnings per share under the treasury share method as of September 27, 2014 and the two-class method as of September 28, 2013.

| (in thousands except per share amounts)                                 | For the Three<br>Months Ended |                      | For the Nine<br>Months Ended |                      |
|---|-------------------------------|----------------------|------------------------------|----------------------|
|   | Sept.<br>27,<br>2014          | Sept.<br>28,<br>2013 | Sept.<br>27,<br>2014         | Sept.<br>28,<br>2013 |
| Net income as reported  | \$29,940                      | \$26,990             | \$79,907                     | \$65,126             |
| Less: Distributed earnings available to participating securities        | —                             | (3 )                 | —                            | (21 )                |
| Less: Undistributed earnings available to participating securities      | —                             | —                    | —                            | (16 )                |
| Numerator for basic earnings per share —                                |                               |                      |                              |                      |
| Undistributed and distributed earnings available to common shareholders | \$29,940                      | \$26,987             | \$79,907                     | \$65,089             |
| Add: Undistributed earnings allocated to participating securities       | —                             | —                    | —                            | 16                   |
| Less: Undistributed earnings reallocated to participating securities    | —                             | —                    | —                            | (16 )                |
| Numerator for diluted earnings per share —                              |                               |                      |                              |                      |
| Undistributed and distributed earnings available to common shareholders | \$29,940                      | \$26,987             | \$79,907                     | \$65,089             |
| Denominator for basic earnings per share —                              |                               |                      |                              |                      |
| Weighted-average shares   | 22,536                        | 22,428               | 22,536                       | 22,274               |
| Effect of dilutive securities:  |                               |                      |                              |                      |
| Common stock equivalents  | 153                           | 197                  | 186                          | 223                  |
| Denominator for diluted earnings per share —                            |                               |                      |                              |                      |
| Adjusted for weighted-average shares & assumed conversions              | 22,689                        | 22,625               | 22,722                       | 22,497               |
| Basic earnings per share  | \$1.33                        | \$1.20               | \$3.55                       | \$2.92               |
| Diluted earnings per share  | \$1.32                        | \$1.19               | \$3.52                       | \$2.89               |

## 9. Income Taxes

The effective tax rate for the third quarter of 2014 was 27.3% compared to an effective tax rate of 26.1% in the third quarter of 2013 reflecting more income earned in higher tax jurisdictions in the third quarter of 2014. The effective tax rate for the nine months ended September 27, 2014 was 25.0% as compared to an effective tax rate of 27.6% for the nine months ended September 28, 2013. The higher tax rate for the nine months ended September 28, 2013 was primarily the result of certain non-recurring tax items.



## Notes to CONDENSED Consolidated Financial Statements (Unaudited)

## 10. Pensions

The components of net periodic benefit cost for the three and nine months ended September 27, 2014, compared with the three and nine months ended September 28, 2013, were (in thousands):

|   | U.S. Pension Benefits |                |                   |                | Foreign Plans      |                |                   |                |
|---|-----------------------|----------------|-------------------|----------------|--------------------|----------------|-------------------|----------------|
|   | Three Months Ended    |                | Nine Months Ended |                | Three Months Ended |                | Nine Months Ended |                |
|   | Sept. 27, 2014        | Sept. 28, 2013 | Sept. 27, 2014    | Sept. 28, 2013 | Sept. 27, 2014     | Sept. 28, 2013 | Sept. 27, 2014    | Sept. 28, 2013 |
| Service cost                              | \$150                 | \$150          | \$450             | \$450          | \$311              | \$290          | \$933             | \$813          |
| Interest cost                             | 971                   | 891            | 2,913             | 2,674          | 591                | 532            | 1,774             | 1,014          |
| Expected return on plan assets            | (1,412)               | (1,340)        | (4,234)           | (4,020)        | (572)              | (446)          | (1,718)           | (717)          |
| Amortization of net loss                  | 137                   | 235            | 411               | 706            | 47                 | 39             | 142               | 116            |
| Total (credit) cost of the plan           | (154)                 | (64)           | (460)             | (190)          | 377                | 415            | 1,131             | 1,226          |
| Expected plan participants' contribution  | -                     | -              | -                 | -              | -                  | -              | -                 | -              |
| <b>Net periodic benefit (credit) cost</b> | <b>\$(154)</b>        | <b>\$(64)</b>  | <b>\$(460)</b>    | <b>\$(190)</b> | <b>\$377</b>       | <b>\$415</b>   | <b>\$1,131</b>    | <b>\$1,226</b> |

The expected rate of return assumption on domestic pension assets is approximately 6.75% in 2014 and 2013. The expected return on foreign pension assets is approximately 5.14% and 3.00% in 2014 and 2013, respectively.

On July 31, 2014, the company terminated the Littelfuse, Inc. Retirement Plan (the "Pension Plan"), a plan that was previously offered to all full-time Company employees but frozen as to new participants and benefit accruals as of April 1, 2009. Distribution of plan assets resulting from the Pension Plan termination will not be made until the Internal Revenue Service and the Pension Benefit Guaranty Corporation determine that the termination satisfies applicable regulatory requirements. As a result of the termination of the Pension Plan, each participant will become fully vested in his or her benefits under the Pension Plan without regard to age and years of service. All participants will have a choice of receiving a lump sum payment or an annuity in full payment of their benefits accrued under the Pension Plan.

## 11. Business Unit Segment Information



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

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 is the company’s President and Chief Executive Officer (“CEO”).

## Notes to CONDENSED Consolidated Financial Statements (Unaudited)

## 11. Business Unit Segment Information, continued

Business unit segment information for the three and nine months ended September 27, 2014 and September 28, 2013 are summarized as follows (in thousands):

|   | For the Three<br>Months Ended |                   | For the Nine Months<br>Ended |                   |
|---|-------------------------------|-------------------|------------------------------|-------------------|
|   | Sept. 27,<br>2014             | Sept. 28,<br>2013 | Sept. 27,<br>2014            | Sept. 28,<br>2013 |
| <b>Net sales</b>  |                               |                   |                              |                   |
| Electronics   | \$107,754                     | \$101,013         | \$313,726                    | \$271,878         |
| Automotive  | 80,639                        | 70,386            | 245,083                      | 194,319           |
| Electrical  | 29,215                        | 29,641            | 86,566                       | 93,527            |
| Total net sales   | \$217,608                     | \$201,040         | \$645,375                    | \$559,724         |
| <b>Depreciation and amortization</b>  |                               |                   |                              |                   |
| Electronics   | \$5,582                       | \$5,784           | \$16,482                     | \$15,776          |
| Automotive  | 3,435                         | 2,880             | 10,609                       | 7,183             |
| Electrical  | 1,414                         | 937               | 4,096                        | 2,893             |
| Total depreciation and amortization   | \$10,431                      | \$9,601           | \$31,187                     | \$25,852          |
| <b>Operating income (loss)</b>  |                               |                   |                              |                   |
| Electronics   | \$25,800                      | \$20,362          | \$70,805                     | \$52,284          |
| Automotive  | 12,227                        | 11,135            | 35,158                       | 29,531            |
| Electrical  | 3,224                         | 6,687             | 7,541                        | 18,801            |
| Other <sup>(1)</sup>  | (1,121 )                      | (625 )            | (6,065 )                     | (3,558 )          |
| Total operating income  | 40,130                        | 37,559            | 107,439                      | 97,058            |
| Interest expense  | 1,292                         | 939               | 3,736                        | 1,959             |
| Impairment, loan loss and equity in net loss of unconsolidated affiliate <sup>(2)</sup> | —                             | —                 | —                            | 10,678            |
| Foreign exchange (gain) loss  | (101 )                        | 1,476             | 2,022                        | (1,929 )          |
| Other (income) expense, net   | (2,261 )                      | (1,380 )          | (4,893 )                     | (3,543 )          |
| Income before income taxes  | \$41,200                      | \$36,524          | \$106,574                    | \$89,893          |

(1) "Other" consists of acquisition related costs, severance charges and restructuring costs. (2) During the first quarter of 2013, the company recorded an impairment of its investment in Shocking Technologies. (See Note 5).

The company's significant net sales by country for the three and nine months ended September 27, 2014 and September 28, 2013 are summarized as follows (in thousands):

|                 | For the Three<br>Months Ended <sup>(a)</sup> |                   | For the Nine Months<br>Ended <sup>(a)</sup> |                   |
|-----------------|--|-------------------|---|-------------------|
|                 | Sept. 27,<br>2014                            | Sept. 28,<br>2013 | Sept. 27,<br>2014                           | Sept. 28,<br>2013 |
| United States   | <b>\$85,326</b>                              | \$76,183          | <b>\$243,979</b>                            | \$202,731         |
| China           | <b>45,905</b>                                | 43,644            | <b>134,166</b>                              | 114,952           |
| Other countries | <b>86,377</b>                                | 81,213            | <b>267,230</b>                              | 242,041           |
| Total           | <b>\$217,608</b>                             | \$201,040         | <b>\$645,375</b>                            | \$559,724         |

(a) Sales by country represent sales to customer or distributor locations.

The company's significant long-lived assets by country as of September 27, 2014 and December 28, 2013 are summarized as follows (in thousands):

|                 | Long-lived assets <sup>(b)</sup> |                      |
|-----------------|----------------------------------|----------------------|
|                 | September<br>27, 2014            | December<br>28, 2013 |
| United States   | <b>\$38,964</b>                  | \$27,294             |
| China           | <b>40,015</b>                    | 45,843               |
| Canada          | <b>13,621</b>                    | 14,429               |
| Other countries | <b>64,660</b>                    | 62,607               |
| Total           | <b>\$157,260</b>                 | \$150,173            |

(b) Long-lived assets consist of net property, plant and equipment.

## Notes to CONDENSED Consolidated Financial Statements (Unaudited)

## 12. Accumulated Other Comprehensive Income (Loss) (AOCI)

The following table sets forth the changes in the components of AOCI by component (in thousands):

| AOCI component                                | Balance<br>at<br>December<br>28, 2013 | Other<br>comprehensive<br>income (loss)<br>activity | Reclassification<br>adjustment for<br>expense<br>included<br>in net income | Balance at<br>September<br>27, 2014 |
|---|---------------------------------------|---|--|-------------------------------------|
| Pension liability adjustment <sup>(a)</sup>   | \$ (17,140 )                          | \$ (243 )   | \$ 242   | \$ (17,141 )                        |
| Unrealized gain on investments <sup>(b)</sup> | 9,393                                 | 1,811   | —  | 11,204                              |
| Foreign currency translation adjustment       | 28,164                                | (15,273 )   | —  | 12,891                              |
| AOCI income (loss)                            | \$ 20,417                             | \$ (13,705 )  | \$ 242   | \$ 6,954                            |

(a) Balances are net of tax of \$6,549 and \$6,549 for 2014 and 2013, respectively.

(b) Balances are net of tax of \$0 and \$0 for 2014 and 2013, respectively.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

### **Littelfuse Overview**

Littelfuse, Inc. and its subsidiaries (the "company" or "Littelfuse") is the worldwide leader in circuit protection offering the industry's broadest and deepest portfolio of circuit protection products and solutions. The company's devices protect products in virtually every market that uses electrical energy, from consumer electronics to automobiles to industrial equipment. The company's worldwide revenue in 2013 was \$757.9 million and net earnings were \$88.8 million. The company conducts its business through three reportable segments, which are defined by markets and consist of Electronics, Automotive, and Electrical. The company's customer base includes original equipment manufacturers, tier one automotive suppliers and distributors.

In addition to protecting and growing its core circuit protection business, Littelfuse has been investing in power control and sensing technologies. These newer platforms combined with the company's strong balance sheet and operating cash flow, provide opportunities for increased organic and acquisition growth. The company has set a target to grow 15% per year, 5% organically and 10% through acquisitions.

To maximize shareholder value, the company's primary strategic goals are to:

Grow organically faster than its markets;

Double the pace of acquisitions;

Sustain high-teens operating margins;

Improve return on investment; and

Return excess cash to shareholders.

The company serves markets that are directly impacted by global economic trends with significant exposures to the consumer electronics, automotive, industrial and mining end markets. The company's results will be impacted positively or negatively by changes in these end markets.

### **Electronics Segment**

The Electronics segment sells passive and semiconductor components and modules primarily into the global consumer electronics, general industrial and telecommunications markets. The core electronics markets are characterized by significant Asia competition and price erosion. As a result the company is focusing additional efforts on higher growth, less price sensitive niche markets and higher-power industrial applications. The Hamlin acquisition in 2013 expands the company's product offering into reed switches which are used in a wide variety of electronic products and go through the same channels as the company's core electronics products.

### **Automotive Segment**

The Automotive segment is comprised of passenger vehicle circuit protection, commercial vehicle products and sensors. The primary growth drivers for these businesses are increasing global demand for passenger and commercial vehicles and increasing content per vehicle for both circuit protection and sensing products. The move away from internal combustion engines to hybrid and electric drive systems that require more circuit protection is expected to be an additional growth driver. The Hamlin acquisition in 2013 significantly expands the company's position in automotive sensors.

### **Electrical Segment**

The Electrical segment derives its revenues from power fuses, protection relays and custom products selling primarily into the industrial, mining, solar and oil and gas markets. Custom products sales, after several years of strong growth, have declined due to several large Canadian potash mining projects nearing completion. The company intends to expand this business by moving into new markets such as non-potash mining and oil and gas. Protection relay sales have also slowed due to the general slowdown in the global mining market.

The following table is a summary of the company's net sales by business unit and geography:

**Net Sales by Business Unit and Geography (in thousands, unaudited)**

|                                | Third Quarter    |                  |             | Year-to-Date     |                  |             |          |
|--------------------------------|------------------|------------------|-------------|------------------|------------------|-------------|----------|
|                                | 2014             | 2013             | %<br>Change | 2014             | 2013             | %<br>Change | %        |
| <b>Business Unit</b>           |                  |                  |             |                  |                  |             |          |
| Electronics                    | \$107,754        | \$101,013        | 7 %         | \$313,726        | \$271,878        | 15 %        | %        |
| Automotive                     | 80,639           | 70,386           | 15 %        | 245,083          | 194,319          | 26 %        | %        |
| Electrical                     | 29,215           | 29,641           | (1 %)       | 86,566           | 93,527           | (7 %)       | %        |
| <b>Total</b>                   | <b>\$217,608</b> | <b>\$201,040</b> | <b>8 %</b>  | <b>\$645,375</b> | <b>\$559,724</b> | <b>15 %</b> | <b>%</b> |
|                                |                  |                  |             |                  |                  |             |          |
|                                | Third Quarter    |                  |             | Year-to-Date     |                  |             |          |
|                                | 2014             | 2013             | %<br>Change | 2014             | 2013             | %<br>Change | %        |
| <b>Geography<sup>(a)</sup></b> |                  |                  |             |                  |                  |             |          |
| Americas                       | \$97,903         | \$89,682         | 9 %         | \$282,928        | \$254,037        | 11 %        | %        |
| Europe                         | 39,568           | 35,490           | 11 %        | 127,791          | 100,360          | 27 %        | %        |
| Asia-Pacific                   | 80,137           | 75,868           | 6 %         | 234,656          | 205,327          | 14 %        | %        |
| <b>Total</b>                   | <b>\$217,608</b> | <b>\$201,040</b> | <b>8 %</b>  | <b>\$645,375</b> | <b>\$559,724</b> | <b>15 %</b> | <b>%</b> |

(a) Sales by geography represent sales to customer or distributor locations.

*Results of Operations – Third Quarter, 2014 compared to 2013*

The following table summarizes the company's consolidated results of operations for the periods presented. The results include incremental activity from the company's business acquisitions as described, where applicable, in the below analysis. There was an additional \$2.8 million in 2014 year-to-date for the write-off of stepped-up inventory valuation related to the SymCom acquisition as described in Note 2. The company incurred \$2.0 million of severance charges in 2014 year-to date resulting from restructuring at the Hamlin-Mexico plant. The company also incurred \$1.1million of charges during the third quarter of 2014 related to its internal organization restructuring to optimize its ability to use cash. There was \$0.1 million of foreign exchange gains during the third quarter of 2014 (\$2.0 million of losses in 2014 year-to-date) due primarily to balance sheet remeasurement in the Philippines.

Edgar Filing: LITTELFUSE INC /DE - Form 10-Q

| (In thousands, unaudited)   | Third Quarter |           |          | Year-to-Date |           |          |
|-----------------------------|---------------|-----------|----------|--------------|-----------|----------|
|                             | 2014          | 2013      | % Change | 2014         | 2013      | % Change |
| Sales                       | \$217,608     | \$201,040 | 8 %      | \$645,375    | \$559,724 | 15 %     |
| Gross Profit                | 87,380        | 80,960    | 8 %      | 248,869      | 219,123   | 14 %     |
| Operating expense           | 47,250        | 43,401    | 9 %      | 141,430      | 122,065   | 16 %     |
| Operating income            | 40,130        | 37,559    | 7 %      | 107,439      | 97,058    | 11 %     |
| Other (income) expense, net | (1,070 )      | 1,035     | (203 %)  | 865          | 7,165     | (88 %)   |
| Income before income taxes  | 41,200        | 36,524    | 13 %     | 106,574      | 89,893    | 19 %     |
| Net income                  | \$29,940      | \$26,990  | 11 %     | \$79,907     | \$65,126  | 23 %     |

Net sales increased \$16.6 million or 8% to \$217.6 million in the third quarter of 2014 compared to \$201.0 million in the third quarter of 2013 due primarily to strong organic growth in automotive and electronics and an incremental \$5.5 million from the SymCom acquisition, partially offset by lower electrical sales. The company also experienced \$0.3 million in favorable foreign currency effects in the third quarter of 2014 as compared to the third quarter of 2013. Excluding incremental sales from SymCom and currency effects, net sales increased \$10.8 million or 5% year-over-year.

Electronics sales increased \$6.7 million or 7% to \$107.8 million in the third quarter of 2014 compared to \$101.0 million in the third quarter of 2013 due primarily to strong growth for both semiconductor and passive components. The electronics segment experienced \$0.2 million in favorable currency effects in the third quarter of 2014 primarily from sales denominated in Korean won. Excluding the impact of currency effects, sales increased \$6.6 million or 6% year-over-year.



Automotive sales increased \$10.3 million or 15% to \$80.6 million in the third quarter of 2014 compared to \$70.4 million in the third quarter of 2013 due to strong organic growth for passenger car fuses, commercial vehicle products and sensors. The automotive segment experienced \$0.2 million in favorable currency effects in the third quarter of 2014 primarily due to sales denominated in Korean won. Excluding currency effects, net sales increased \$10.1 million or 14% year-over-year.

Electrical sales decreased \$0.4 million or 1% to \$29.2 million in the third quarter of 2014 compared to \$29.6 million in the third quarter of 2013 primarily from declines in custom and relay sales into the mining market and power fuses into the industrial market. These declines more than offset incremental sales of \$5.5 million from the SymCom acquisition. The electrical segment experienced \$0.1 million in unfavorable currency effects in the third quarter of 2014 primarily from sales denominated in Canadian dollars. Excluding incremental sales from SymCom and currency effects, net sales decreased \$5.8 million or 20% year-over-year.

On a geographic basis, sales in the Americas increased \$8.2 million or 9% to \$97.9 million in the third quarter of 2014 compared to \$89.7 million in the third quarter of 2013 due primarily to incremental sales of \$5.5 million from SymCom offset by \$0.1 million in unfavorable currency effects from sales denominated in Canadian dollars. Excluding incremental sales from acquisitions and currency effects, the Americas sales increased \$2.9 million or 3% due to the increase in automotive and electronics sales partially offset by decreased electrical sales.

Europe sales increased \$4.1 million or 11% to \$39.6 million in the third quarter of 2014 compared to \$35.5 million in the third quarter of 2013 mainly due to strong demand for electronics and automotive products and \$0.2 million in favorable currency effects.

Asia-Pacific sales increased \$4.3 million or 6% to \$80.1 million in the third quarter of 2014 compared to \$75.9 million in the third quarter of 2013 primarily due to strong demand for automotive and electronics products and \$0.2 million in favorable currency effects primarily from sales denominated in Korean won. Excluding currency effects, net sales increased \$4.1 million or 5% year-over-year.

Gross profit was \$87.4 million or 40% of net sales for the third quarter of 2014 compared to \$81.0 million or 40% of net sales in the same quarter last year. Gross profit for the third quarter of 2013 included a \$0.4 million non-cash charge to cost of goods sold for inventory that was stepped-up to fair value as a result of the Hamlin acquisition.

Total operating expense was \$47.3 million or 22% of net sales for the third quarter of 2014 compared to \$43.4 million or 22% of net sales for the same quarter in 2013. The increase in operating expenses primarily reflects incremental operating expenses of \$2.3 million from the SymCom acquisition and \$1.1 million of expenses to effect changes in the company's legal structure that will enable the up-streaming of cash to the U.S.

Operating income for the third quarter of 2014 was approximately \$40.1 million compared to operating income of \$37.6 million for the same quarter in 2013 primarily due to higher sales partially offset by higher operating expenses as described above.

Interest expense was \$1.3 million in the third quarter of 2014 compared to \$0.9 million in the third quarter of 2013 and is primarily related to the company's revolving credit facility.

Foreign exchange loss (gain), reflecting net gains and losses from balance sheet revaluation, was approximately \$0.1 million of income for the third quarter of 2014 and \$1.5 million of expense for the third quarter of 2013 and primarily reflects fluctuations in the Philippine peso against the U.S. dollar.

Other (income) expense, net, consisting of interest income, royalties and non-operating income and expense was approximately \$2.3 million of income for the third quarter of 2014 compared to \$1.4 million of income in the third quarter of 2013.

Income before income taxes was \$41.2 million for the third quarter of 2014 compared to income before income taxes of \$36.5 million for the third quarter of 2013. Income tax expense was \$11.3 million with an effective tax rate of 27.3% for the third quarter of 2014 compared to income tax expense of \$9.5 million with an effective tax rate of 26.1% in the third quarter of 2013. The higher effective tax rate in the third quarter of 2014 was primarily due to more income earned in high tax jurisdictions.

Net income for the third quarter of 2014 was \$29.9 million or \$1.32 per diluted share compared to net income of \$27.0 million or \$1.19 per diluted share for the same quarter of 2013.

*Results of Operations – Nine Months, 2014 compared to 2013*

Net sales increased \$85.7 million or 15% to \$645.4 million in the first nine months of 2014 compared to \$559.7 million in the first nine months of 2013 due primarily to an incremental \$51.8 million from business acquisitions. The company also experienced \$4.0 million in favorable foreign currency effects in the first nine months of 2014 as compared to 2013. The favorable foreign currency impact primarily resulted from sales denominated in euros. Excluding incremental sales from acquisitions and currency effects, net sales increased \$29.9 million or 5% year-over-year.

Electronics sales increased \$41.8 million or 15% to \$313.7 million in the first nine months of 2014 compared to \$271.9 million in the first nine months of 2013 due primarily to strong organic growth in fuse products and incremental sales of \$16.3 million from the Hamlin acquisition. The electronics segment experienced \$1.5 million in favorable currency effects in the first nine months of 2014 primarily from sales denominated in euros. Excluding incremental sales from Hamlin and currency effects, net sales increased \$24.1 million or 9% year-over-year.

Automotive sales increased \$50.8 million or 26% to \$245.1 million in the first nine months of 2014 compared to \$194.3 million in the first nine months of 2013 due primarily to incremental sales of \$20.2 million from Hamlin and strong growth in all product categories. The automotive segment experienced \$3.1 million in favorable currency effects in the first nine months of 2014 primarily due to sales denominated in euros. Excluding incremental sales from acquisitions and currency effects, net sales increased \$27.5 million or 14% year-over-year.

Electrical sales decreased \$7.0 million or 7% to \$86.6 million in the first nine months of 2014 compared to \$93.5 million in the first nine months of 2013 due primarily to slowing demand for custom and relay products as a result of a slow-down in the mining industry. This more than offset incremental sales of \$15.3 million from the SymCom acquisition. The electrical segment experienced \$0.6 million in unfavorable currency effects in the first nine months of 2014 primarily from sales denominated in Canadian dollars. Excluding incremental sales from SymCom and currency effects, net sales decreased \$21.6 million or 23% year-over-year.

On a geographic basis, sales in the Americas increased \$28.9 million or 11% to \$282.9 million in the first nine months of 2014 compared to \$254.0 million in the first nine months of 2013 due to incremental sales from business acquisitions of \$32.0 million, offset by weaker custom and relay sales and \$0.8 million in unfavorable currency effects from sales denominated in Canadian dollars. Excluding incremental sales from acquisitions and currency effects, net sales decreased \$2.3 million or 1% year-over-year.

Europe sales increased \$27.4 million or 27% to \$127.8 million in the first nine months of 2014 compared to \$100.4 million in the first nine months of 2013 mainly due to strong demand for both automotive and electronics products, incremental sales of \$9.4 million from Hamlin and \$4.3 million in favorable currency effects. Excluding incremental sales from acquisitions and currency effects, Europe sales increased \$13.7 million or 14% year-over-year.

Asia-Pacific sales increased \$29.3 million or 14% to \$234.7 million in the first nine months of 2014 compared to \$205.3 million in the first nine months of 2013 primarily due to higher demand for automotive and electronics products, incremental sales from Hamlin of \$10.4 million and \$0.5 million in favorable currency effects primarily from sales denominated in Korean won. Excluding incremental sales from Hamlin and currency effects, net sales increased \$18.4 million or 9% year-over-year.

Gross profit was \$248.9 million or 39% of net sales in the first nine months of 2014 compared to \$219.1 million or 39% of net sales in the first nine months of 2013. Gross profit for the nine months of 2014 included a \$2.8 million non-cash charge to cost of goods sold for inventory that was stepped up to fair value as a result of the SymCom acquisition and \$2.0 million of severance charges resulting from restructuring at the Hamlin-Mexico plant. Gross profit for the first nine months of 2013 included a \$2.1 million non-cash charge to cost of goods sold for inventory that was stepped-up to fair value as a result of the Hamlin acquisition. Excluding the impact of these charges, gross profit was 39% for the first nine months of 2014 and 40% for the first nine months of 2013. The decline in gross margin is primarily attributable to lower sales in the Electrical market.

Total operating expense was \$141.4 million or 22% of net sales for the first nine months of 2014 compared to \$122.1 million or 22% of net sales for the first nine months in 2013. The increase in operating expenses primarily reflects incremental operating expenses of \$12.0 million from business acquisitions.

Operating income for the first nine months of 2014 was \$107.4 million compared to operating income of \$97.1 million for the first nine months in 2013 primarily due to higher sales partially offset by higher operating expenses as described above.

Interest expense was \$3.7 million for the first nine months of 2014 and \$2.0 million for the first nine months of 2013 and is primarily related to the company's revolving credit facility.

Foreign exchange loss (gain), reflecting net gains and losses resulting from the effect of exchange rate changes on various foreign currency transactions worldwide, was approximately \$2.0 million of expense for the first nine months of 2014 and \$1.9 million of income for the first nine months of 2013 and primarily reflects fluctuations in the Philippine peso against the U.S. dollar.

Other (income) expense, net, consisting of interest income, royalties and non-operating income and expense was \$4.9 million of income for the first nine months of 2014 compared to \$3.5 million of income for the first nine months of 2013.

Income before income taxes was \$106.6 million for the first nine months of 2014 compared to \$89.9 million for the first nine months of 2013. Income tax expense was \$26.7 million with an effective tax rate of 25.0% for the first nine months of 2014 compared to income tax expense of \$24.8 million with an effective tax rate of 27.6% for the first nine months of 2013. The effective tax rates for both the first nine months of 2014 and 2013 are lower than the U.S. statutory tax rate primarily due to income earned in countries with lower tax rates than the U.S.

Net income for the first nine months of 2014 was \$79.9 million or \$3.52 per diluted share compared to net income of \$65.1 million or \$2.89 per diluted share for the same nine months of 2013.

#### *Liquidity and Capital Resources*

As of September 27, 2014, \$365.3 million of the \$378.3 million of the company's cash and cash equivalents was held by foreign subsidiaries. Of the \$365.3 million held by foreign subsidiaries, approximately \$17.7 million could be repatriated with minimal tax consequences as of September 27, 2014.

In the fourth quarter of 2014, in conjunction with the post-merger integration of Hamlin, the company expects to repatriate over \$90.0 million of cash to the U.S. from various overseas subsidiaries. The company expects to maintain its foreign cash balances (other than the aforementioned \$90.0 million) for local operating requirements, to provide funds for future capital expenditures and for potential acquisitions. The company does not expect to repatriate these funds to the U.S. in the foreseeable future. The company is also in the process of reviewing and revising its internal legal structure to optimize its ability to use cash.

The company historically has financed capital expenditures through cash flows from operations. Management expects that cash flows from operations and available lines of credit will be sufficient to support both the company's operations and its debt obligations for the foreseeable future.

### *Revolving Credit Facilities*

On May 31, 2013, the company entered into a new credit agreement with J.P. Morgan Securities LLC for up to \$325.0 million which consisted of a revolving credit facility of \$225.0 million and an unsecured term loan of \$100.0 million. The new credit agreement is for a five year period. On January 30, 2014, the company increased the unsecured revolving credit facility entered into on May 31, 2013, by \$50.0 million thereby increasing the total revolver borrowing capacity from \$225.0 million to \$275.0 million. At September 27, 2014, the company had available \$92.9 million of borrowing capacity under the revolving credit agreement at an interest rate of LIBOR plus 1.50% (1.65% as of September 27, 2014). The credit agreement replaces the company's previous credit agreement dated June 13, 2011 which was terminated on May 31, 2013.

This arrangement 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 and leverage. At September 27, 2014, the company was in compliance with all covenants under the revolving credit facility.

The company also had \$0.8 million outstanding in letters of credit at September 27, 2014. No amounts were drawn under these letters of credit at September 27, 2014.

### *Cash Flow*

The company started 2014 with \$305.2 million of cash and cash equivalents. Net cash provided by operating activities was approximately \$103.8 million for the first nine months of 2014 reflecting \$79.9 million in net income and \$39.3 million in non-cash adjustments (primarily \$31.2 million in depreciation and amortization) offset by \$15.4 million in net changes to various operating assets and liabilities.

Changes in operating assets and liabilities for the first nine months of 2014 (including short-term and long-term items) that impacted cash flows negatively consisted of increases in accounts receivables (\$9.7 million), inventory (\$4.1 million) and prepaid and other assets (\$2.1 million), decreases in accrued expenses (including post-retirement) (\$7.1 million) and accrued payroll and severance (\$1.2 million). The increase in accounts receivables was due to increased sales in the first nine months. The increase in inventory resulted from higher stock levels to meet increased demand. The decrease in accrued expenses was due primarily to \$9.9 million in pension contributions made during the first quarter. Changes having a positive impact on cash flows were increases in accounts payable (\$3.0 million) and accrued and deferred taxes (\$5.8 million).

Net cash used in investing activities was approximately \$65.3 million and included \$19.4 million in capital spending and \$52.8 million for the acquisition of SymCom offset by \$6.8 million in proceeds from sales of short-term investments.

Net cash provided by financing activities was approximately \$41.5 million and included \$56.8 million in net proceeds from borrowing and \$14.6 million from the exercise of stock options, including tax benefits, partially offset by debt issuance costs of \$0.1 million, cash dividends paid of \$15.5 million and the repurchase of common stock for \$14.3 million. The effects of exchange rate changes decreased cash and cash equivalents by \$6.9 million. The net cash provided by operating activities combined with the effects of exchange rate changes less net cash used in investing and financing activities resulted in a \$73.1 million increase in cash, which left the company with a cash and cash equivalents balance of \$378.3 million at September 27, 2014.

The ratio of current assets to current liabilities was 2.3 at the end of the third quarter of 2014 compared to 2.5 at the end of the third quarter of 2013 and 2.7 at year-end 2013. Days sales outstanding in accounts receivable was approximately 56 days at the end of the third quarter of 2014 compared to 58 days at the end of the third quarter of 2013 and 59 days at year-end 2013. Days inventory outstanding was approximately 70 days at the end of the third quarter of 2014 as well as at the end of the third quarter of 2013 and at year-end 2013.



*Outlook*

Sales for the fourth quarter are expected to follow normal seasonal patterns which will call for slightly softer Automotive sales and a moderate decline in Electronics sales compared to the third quarter of 2014. The Electrical segment is expected to remain weak due primarily to continued softness in the mining market. The company issued the following guidance for the fourth quarter of 2014:

Sales for the fourth quarter are expected to be in the range of \$201.0 million to \$211.0 million which represents 4% year-over-year growth at the midpoint.

Earnings for the fourth quarter are expected to be in the range of \$1.05 to \$1.19 per diluted share, excluding any special items.

Capital expenditures are expected to increase to approximately \$11.0 million for the fourth quarter of 2014 due to spending on a new building at the company's Philippines site and several large equipment purchases.

The company also made the following comments regarding 2015:

After a relatively strong first half of 2014, electronics market growth has slowed. We see a continuation of modest growth in 2015.

Global car build rates have moderated after several years of above-trend growth. We see this slower growth environment continuing through 2015. However, our program wins for fuses and sensors give us confidence that we can continue to grow our automotive sales faster than the market.

The overall electrical business is expected to have moderate growth in 2015 driven primarily by the beginnings of a recovery for custom products and the ramp up of new products at SymCom.

*Cautionary Statement Regarding Forward-Looking Statements Under the Private Securities Litigation Reform Act of 1995 ("PSLRA").*

The statements in this section and the other sections of this report that are not historical facts are intended to constitute "forward-looking statements" entitled to the safe-harbor provisions of the PSLRA. These statements may involve risks and uncertainties, including, but not limited to, risks relating to product demand and market acceptance, economic conditions, the impact of competitive products and pricing, product quality problems or product recalls, capacity and supply difficulties or constraints, coal mining exposures reserves, failure of an indemnification for environmental liability, exchange rate fluctuations, commodity price fluctuations, the effect of the company's accounting policies, labor disputes, restructuring costs in excess of expectations, pension plan asset returns less than assumed, integration of acquisitions and other risks which may be detailed in the company's other Securities and Exchange Commission filings. Should one or more of these risks or uncertainties materialize or should the underlying assumptions prove incorrect, actual results and outcomes may differ materially from those indicated or implied in the forward-looking statements. This report should be read in conjunction with information provided in the financial statements appearing

in the company's Annual Report on Form 10-K for the year ended December 28, 2013. For a further discussion of the risk factors of the company, please see Item 1A. "Risk Factors" to the company's Annual Report on Form 10-K for the year ended December 28, 2013.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

The company is exposed to market risk from changes in interest rates, foreign exchange rates and commodity prices.

#### *Interest Rates*

The company had \$276.5 million in debt outstanding at September 27, 2014 at variable interest rates. While 100% of this debt has variable interest rates, the company's interest expense is not materially sensitive to changes in interest rate levels since debt levels and potential interest expense increases are small relative to earnings.

#### *Foreign Exchange Rates*

The majority of the company's operations consist of manufacturing and sales activities in foreign countries. The company has manufacturing facilities in the U.S., Mexico, Canada, Denmark, China, Lithuania and the Philippines. During the first nine months of 2014, sales to customers outside the U.S. were 62.2% of total net sales. Substantially all sales in Europe are denominated in euros and substantially all sales in the Asia-Pacific region are denominated in U.S. dollars, Japanese yen, Korean won, Chinese yuan or Taiwanese dollars.

The company's foreign exchange exposures result primarily from sale of products in foreign currencies, foreign currency denominated purchases, employee-related and other costs of running operations in foreign countries and translation of balance sheet accounts denominated in foreign currencies. The company's most significant long exposure is to the euro, with lesser long exposures to the Canadian dollar, Japanese yen and Korean won. The company's most significant short exposures are to the Chinese yuan, Mexican peso and Philippine peso. Changes in foreign exchange rates could affect the company's sales, costs, balance sheet values and earnings. The company uses netting and offsetting intercompany account management techniques to reduce known foreign currency exposures where possible. From time to time, the company has utilized derivative instruments to hedge certain foreign currency exposures.

### *Commodity Prices*

The company uses various metals in the manufacturing of its products, including copper, zinc, tin, gold and silver. Prices of these commodities can and do fluctuate significantly, which can impact the company's earnings. The most significant of these exposures is to copper, zinc, silver, and gold where at current prices and volumes, a 10% price change would affect annual pre-tax profit by approximately \$1.2 million for copper, \$0.9 million for zinc, \$0.8 million for silver and \$0.3 million for gold. From time to time, the company has utilized derivative instruments to hedge certain commodity exposures deemed to be material.

### **Item 4. Controls and Procedures.**

With the participation of our management, including the company's principal executive officer and principal financial officer, the company has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(c) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation and the fact that the company is in the process of remediating the material weakness, which is expected to be completed by the fourth quarter of 2014, the company's principal executive officer and principal financial officer concluded that the company's disclosure controls and procedures were not effective as of the end of the period ended September 27, 2014.

The errors resulted from the 2013 year-end treatment of tax deductions related to the company's write-off of its investment in Shocking Technologies, Inc. The tax deductions were determined to be a capital loss for tax purposes, instead of an ordinary loss as the company had previously determined in consultation with a third party expert.

### **Material Weakness and Related Remediation Initiatives**

On February 4, 2014, the company concluded there was a material weakness in internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act as it relates to deferred tax valuation allowance accounting at March 30, 2013. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statement will not be prevented or detected on a timely basis.

The material weakness in internal control over financial reporting relates to the company's evaluation of the income tax considerations, including deferred tax valuation allowances relating to the write-off of its investment in Shocking Technologies, Inc. during the first quarter of 2013. Management has commenced steps to remediate the material

weakness associated with this misstatement and has begun the process of implementing an enhanced process to review and approve the income tax accounting treatment for any material items that are of an unusual or complex nature. In accordance with the company's internal control over financial reporting compliance program, however, the material weakness designation cannot be remediated fully until the remediation processes have been operational for a period of time and successfully tested. Such remediation is anticipated to be completed in the fourth quarter of 2014.

### **Changes in Internal Control Over Financial Reporting**

Except as has been described above, there has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period ended September 27, 2014, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Reference is made to Exhibits 31.1 and 31.2 for the Certification statements issued by the company's Chief Executive Officer and Chief Financial Officer, regarding the company's disclosure controls and procedures, and internal control over financial reporting, as of September 27, 2014.

PART II - OTHER INFORMATION

**Item 1. Legal Proceedings**

None.

**Item 1A. Risk Factors.**

A detailed description of risks that could have a negative impact on our business, revenues and performance results can be found under the caption "Risk Factors" in our most recent Form 10-K, filed with the SEC on February 25, 2014. There have been no material changes from risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 28, 2013 in response to Item 1A to Part 1 of Form 10-K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

The company's Board of Directors authorized the repurchase of up to 1,000,000 shares of the company's common stock under a program for the period May 1, 2014 to April 30, 2015. The company repurchased 161,751 shares of its common stock during the first nine months of fiscal 2014, and 838,249 shares may yet be purchased under the program as of September 27, 2014. No shares were repurchased during the third quarter of 2014. The company withheld 16,518 shares of stock in lieu of withholding taxes on behalf of employees who became vested in restricted stock units during the first nine months of 2014.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

None.

**Item 5. Other Information.**

None.

22

---

**Item 6. Exhibits.**

Exhibit Description

3.1 Bylaws, as amended to date

10.1 Termination of Amendment to the Littelfuse, Inc. Retirement Plan.

31.1 Certification of Gordon Hunter, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Philip G. Franklin, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INSXBRL Instance Document

101.SCHXBRL Taxonomy Extension Schema Document

101.CALXBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PREXBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Quarterly Report on Form 10-Q for the quarter ended September 27, 2014, to be signed on its behalf by the undersigned thereunto duly authorized.

**Littelfuse, Inc.**

Date: October 31, 2014

By

/s/ Philip G. Franklin  
Philip G. Franklin  
Senior Vice President and  
Chief Financial Officer  
(As duly authorized officer and as  
the principal financial and accounting  
officer)