

LITTELFUSE INC /DE
Form 10-Q
November 04, 2016
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 OCTOBER 1, 2016

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)

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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 28, 2016, 22,532,130 shares of common stock, \$.01 par value, of the registrant were outstanding.

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PART I – FINANCIAL INFORMATION**Item 1. Financial Statements****LITTELFUSE, INC.****Condensed Consolidated Balance Sheets**

(In thousands of USD, except share amounts)

	October 1, 2016 (unaudited)	January 2, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 194,494	\$328,786
Short-term investments	3,961	4,179
Accounts receivable, less allowances	205,211	142,882
Inventories	121,616	98,629
Prepaid income taxes and income taxes receivable	14,344	1,510
Prepaid expenses and other current assets	15,543	7,943
Total current assets	555,169	583,929
Property, plant and equipment:		
Land	10,044	5,236
Buildings	83,441	71,383
Equipment	439,430	382,429
	532,915	459,048
Accumulated depreciation	(309,062)	(296,480)
Net property, plant and equipment	223,853	162,568
Intangible assets, net of amortization:		
Patented and unpatented technologies, licenses and software	88,322	20,221
Distribution network	19,566	16,490
Customer lists, trademarks and tradenames	116,684	54,912
Goodwill	409,527	189,767
Investments	14,974	15,197
Deferred income taxes	17,151	8,333
Other assets	12,857	14,058
Total assets	\$ 1,458,103	\$ 1,065,475

Liabilities and Equity

Current liabilities:

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Accounts payable	\$81,382	\$51,658
Accrued payroll	39,517	32,611
Accrued expenses	48,713	24,145
Accrued severance	3,420	3,798
Accrued income taxes	8,622	11,836
Current portion of long-term debt	6,250	87,000
Total current liabilities	187,904	211,048
Long-term debt, less current portion	434,206	83,753
Deferred income taxes	7,345	8,014
Accrued post-retirement benefits	6,235	5,653
Other long-term liabilities	19,037	17,755
Total equity	803,376	739,252
Total liabilities and equity	\$1,458,103	\$1,065,475

Common shares issued of 22,643,816 and 22,420,785, at October 1, 2016, and January 2, 2016, respectively.

See accompanying notes.

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

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

	For the Three Months Ended		For the Nine Months Ended	
	October 1,	September 26,	October 1,	September 26,
	2016	2015	2016	2015
Net sales	\$280,331	\$ 215,510	\$771,641	\$ 647,844
Cost of sales	166,572	129,328	472,861	400,051
Gross profit	113,759	86,182	298,780	247,793
Selling, general and administrative expenses	56,589	37,002	150,047	112,119
Research and development expenses	10,403	7,479	30,884	22,224
Pension settlement expense	-	30,194	-	30,194
Amortization of intangibles	4,432	2,923	13,384	8,953
Impairment of goodwill and intangible assets	14,809	-	14,809	-
	86,233	77,598	209,124	173,490
Operating income	27,526	8,584	89,656	74,303
Interest expense	2,571	922	6,286	3,021
Foreign exchange (gain) loss	(4,700)	(3,549)	(7,114)	(1,724)
Other (income) expense, net	(778)	(1,430)	(1,040)	(3,758)
Income before income taxes	30,433	12,641	91,524	76,764
Income taxes	(369)	1,317	14,281	16,761
Net income	\$30,802	\$ 11,324	\$77,243	\$ 60,003
Net income per share (see Note 10):				
Basic	\$1.36	\$ 0.50	\$3.43	\$ 2.65
Diluted	\$1.35	\$ 0.50	\$3.41	\$ 2.64
Weighted average shares and equivalent shares outstanding:				
Basic	22,578	22,581	22,515	22,623
Diluted	22,734	22,693	22,675	22,771

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Cash dividends paid per common share	\$0.33	\$0.29	\$0.91	\$0.79
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LITTELFUSE, INC.**Consolidated Statements of Comprehensive Income**

(In thousands of USD, unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September October 1, 2016	26, 2015	September October 1, 2016	26, 2015
Net income	\$30,802	\$ 11,324	\$77,243	\$ 60,003
Other comprehensive income (loss):				
Pension liability adjustments (net of tax of \$30 and \$7 for the three months ended 2016 and 2015, and \$395 and \$49 for the nine months ended 2016 and 2015, respectively)	(138)	(16)	(183)	(140)
Reclassification adjustments to expense, (net of tax of \$0 and \$1,244, for the three months ended 2016 and 2015, and \$0 and \$746 for the nine months ended 2016 and 2015, respectively)	68	(514)	212	1,457
Reclassification of pension settlement costs to expense (net of tax of \$11,742 for the three and nine months ended 2015)	—	21,124	—	21,124
Unrealized (loss) gain on investments	927	(3,354)	(559)	(18)
Foreign currency translation adjustments	(5,771)	(26,377)	(8,951)	(36,530)
Comprehensive income	\$25,888	\$ 2,187	\$67,762	\$ 45,896

See accompanying notes.

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

(In thousands of USD, unaudited)

	For the Nine Months Ended	
	October 1, 2016	September 26, 2015
Operating activities:		
Net income	\$77,243	\$ 60,003
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	24,841	22,154
Amortization of intangibles	13,384	8,952
Impairment of goodwill and intangible assets	14,809	—
Loss on sale of product line	1,391	—
Stock-based compensation	9,166	7,997
Non-cash inventory charge	7,456	—
Net loss on pension settlement, net of tax	—	19,472
Excess tax benefit on share-based compensation	(2,272)	(1,500)
Loss on sale of property, plant and equipment	440	308
Changes in operating assets and liabilities:		
Accounts receivable	(24,862)	(18,274)
Inventories	4,505	(4,203)
Accounts payable	7,845	4,216
Accrued expenses (including post-retirement)	6,497	6,577
Accrued payroll and severance	1,388	3,598
Accrued taxes	(23,613)	4,006
Prepaid expenses and other	(18,203)	277
Net cash provided by operating activities	100,015	113,583
Investing activities:		
Purchases of property, plant, and equipment	(34,501)	(35,016)
Acquisition of businesses, net of cash acquired	(468,636)	—
Proceeds from maturities of short term investments	345	—
Decrease in entrusted loan receivable	4,056	5,930
Proceeds from sale of assets	255	38
Net cash used in investing activities	(498,481)	(29,048)
FINANCING activities:		
Proceeds of revolving credit facility	258,000	49,000
Proceeds of term loan	234,000	—
Payments of revolving credit facility	(97,500)	(25,000)
Payments of term loan	(119,125)	(3,750)
Payments of entrusted loan	(4,056)	(5,930)

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Debt issuance costs	(1,701)	(42)
Cash dividends paid	(20,405)	(17,864)
Proceeds from exercise of stock options	14,581	6,186
Excess tax benefit on share-based compensation	2,272	1,500
Purchases of common stock	(3,685)	(31,252)
Net cash (used in) provided by financing activities	262,381	(27,152)
Effect of exchange rate changes on cash and cash equivalents	1,793	(18,314)
Increase (decrease) in cash and cash equivalents	(134,292)	39,069
Cash and cash equivalents at beginning of period	328,786	297,571
Cash and cash equivalents at end of period	\$194,494	\$ 336,640

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 Regulation 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, although the company believes that the disclosures made are adequate to make the information not misleading. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the periods ended October 1, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. 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 January 2, 2016.

The company's unaudited consolidated statement of income for the three and nine months ended October 1, 2016 include the operating results of PolySwitch business purchased from TE Connectivity Ltd and the TVS Diode/Thyristor/IGBT business purchased from ON Semiconductor Corporation since the acquisition dates of these businesses of March 25, 2016 and August 29, 2016, respectively.

2. Correction of immaterial errors

In the second quarter of 2016, management determined that the company may incur additional income taxes and interest in a foreign jurisdiction with respect to the 2011 through 2015 fiscal years. The cumulative adjustment for this income tax (including interest of \$1.5 million) as of January 2, 2016, is approximately \$4.9 million. The adjustment applicable to 2015, 2014, 2013, 2012 and 2011 was \$1.6 million, \$1.3 million, \$1.0 million, \$0.9 million and \$0.1 million, respectively.

Pursuant to the guidance of Staff Accounting Bulletin ("SAB") No. 99, Materiality, the company concluded that the errors were not material to any of its applicable prior period annual and quarterly financial statements. Although the errors were immaterial to prior periods, the prior period annual and interim financial statements were revised, in accordance with SAB No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, due to the significance of the out-of-period correction. The adjustment for each year has been treated as applicable to the fourth quarter of each year.

A reconciliation of the effects of the adjustments to the previously reported balance sheet at January 2, 2016 follows (\$ in thousands):

	January 2, 2016		
	Previously	Adjustment	As
	Reported		Revised
Other long-term liabilities	\$12,809	\$ 4,946	\$17,755
Total equity	744,198	(4,946)	739,252

A reconciliation of the effects of the adjustments to the previously reported statements of net income for the years ended January 2, 2016 and December 27, 2014 follows (\$ in thousands, except per share amounts):

	Year Ended January 2, 2016			Year Ended December 27, 2014		
	Previously Reported	Adjustment	As Revised	Previously Reported	Adjustment	As Revised
Income taxes	\$24,482	\$ 1,600	\$26,082	\$32,228	\$ 1,318	\$33,546
Net income	82,466	(1,600)	80,866	99,418	(1,318)	98,100
Net income per share - Basic	\$3.65	\$ (0.07)	\$3.58	\$4.41	\$ (0.06	