

LITTELFUSE INC /DE  
Form 10-Q  
November 01, 2007

**Table of Contents**

**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 29, 2007**  
OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OF 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  
of incorporation or organization)

(I.R.S. Employer  
Identification No.)

**800 East Northwest Highway  
Des Plaines, Illinois**

**60016**

(Address of principal executive offices)

(Zip Code)

**(847) 824-1188**

Registrant's telephone number, including area code:

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 September 29, 2007, 22,363,173 shares of common stock, \$.01 par value, of the Registrant were outstanding.

**TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
<b>PART I FINANCIAL INFORMATION</b>	
<b>Item 1. Financial Statements</b>	
<u>Condensed Consolidated Balance Sheets as of September 29, 2007 and December 30, 2006 (unaudited).</u>	1
<u>Consolidated Statements of Income for the periods ended September 29, 2007 and September 30, 2006 (unaudited).</u>	2
<u>Consolidated Statements of Cash Flows for the periods ended September 29, 2007 and September 30, 2006 (unaudited).</u>	3
<u>Notes to the Condensed Consolidated Financial Statements (unaudited)</u>	4
<b>Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u></b>	14
<b>Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk.</u></b>	18
<b>Item 4. <u>Controls and Procedures.</u></b>	19
<b><u>PART II OTHER INFORMATION</u></b>	
<b>Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds.</u></b>	20
<b>Item 6. <u>Exhibits.</u></b>	20
<u>Section 302 Certification</u>	
<u>Section 302 Certification</u>	
<u>Section 906 Certification</u>	

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**Table of Contents**

**LITTELFUSE, INC.**  
**Condensed Consolidated Balance Sheets**  
(in thousands, unaudited)

	September 29, 2007	December 30, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 57,716	\$ 56,704
Accounts receivable	90,166	83,901
Inventories	59,990	65,961
Deferred income taxes	15,309	12,382
Prepaid expenses and other current assets	14,566	9,821
Total current assets	237,747	228,769
Property, plant, and equipment:		
Land	12,323	10,916
Buildings	47,528	45,518
Equipment	265,428	285,758
	325,279	342,192
Accumulated depreciation	(189,566)	(216,676)
Net property, plant and equipment	135,713	125,516
Intangible assets, net of amortization:		
Patents , licenses and software	9,464	10,118
Distribution network	14,164	15,209
Trademarks and tradenames	1,283	1,321
Goodwill	72,545	67,500
	97,456	94,148
Investments	6,339	5,231
Long-term deferred tax asset	8,661	9,746
Other assets	1,309	1,556
Total assets	\$ 487,225	\$ 464,966
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	\$ 26,815	\$ 23,334
Accrued payroll	16,546	22,468
Accrued expenses	14,173	12,579
Accrued severance	17,949	10,670
Accrued income taxes	4,251	4,656
Current portion of long-term debt	6,565	24,328

Total current liabilities	<b>86,299</b>		98,035
Long-term debt, less current portion	<b>1,355</b>		1,785
Accrued severance	<b>11,191</b>		18,879
Accrued post-retirement benefits	<b>24,074</b>		27,971
Other long-term liabilities	<b>11,294</b>		14,488
Minority interest	<b>143</b>		143
Shareholders' equity	<b>352,869</b>		303,665
Total liabilities and shareholders' equity	<b>\$ 487,225</b>	<b>\$</b>	464,966

Common shares issued and outstanding  
of 22,363,173 and 22,110,674,  
at September 29, 2007, and December 30, 2006, respectively

1

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**Table of Contents**

**LITTELFUSE, INC.**  
**Consolidated Statements of Income**  
(in thousands, except per share data, unaudited)

	For the Three Months		For the Nine Months	
	Ended		Ended	
	<b>Sept 29, 2007</b>	Sept 30, 2006	<b>Sept 29, 2007</b>	Sept 30, 2006
Net sales	<b>\$ 140,215</b>	\$ 143,471	<b>\$ 401,178</b>	\$ 407,023
Cost of sales	<b>93,926</b>	96,386	<b>272,297</b>	283,849
Gross profit	<b>46,289</b>	47,085	<b>128,881</b>	123,174
Selling, general and administrative expenses	<b>27,578</b>	29,174	<b>76,938</b>	83,595
Research and development expenses	<b>5,644</b>	4,634	<b>16,237</b>	14,099
Gain on sale of Ireland property	<b>(8,037)</b>		<b>(8,037)</b>	
Amortization of intangibles	<b>877</b>	909	<b>2,413</b>	2,020
Operating income	<b>20,227</b>	12,368	<b>41,330</b>	23,460
Interest expense	<b>207</b>	480	<b>1,037</b>	1,252
Other expense (income), net	<b>195</b>	(117)	<b>(690)</b>	(1,627)
Earnings from continuing operations before income taxes and income taxes.	<b>19,825</b>	12,005	<b>40,983</b>	23,835
Income taxes	<b>5,531</b>	2,645	<b>12,086</b>	5,243
Earnings from continuing operations	<b>14,294</b>	9,360	<b>28,897</b>	18,592
Discontinued operations (net of tax).				588
Net income	<b>\$ 14,294</b>	\$ 9,360	<b>\$ 28,897</b>	\$ 19,180
Net income per share:				
Basic:				
Continuing operations	<b>\$ 0.64</b>	\$ 0.42	<b>\$ 1.30</b>	\$ 0.83
Discontinued operations	<b>\$</b>	<b>\$</b>	<b>\$</b>	\$ 0.03
Net income	<b>\$ 0.64</b>	\$ 0.42	<b>\$ 1.30</b>	\$ 0.86

Diluted:				
Continuing operations	\$ 0.64	\$ 0.42	\$ 1.29	\$ 0.82
Discontinued operations	\$	\$	\$	\$ 0.03
Net income	\$ 0.64	\$ 0.42	\$ 1.29	\$ 0.85

Weighted average shares and equivalent shares  
outstanding:

Basic	22,359	22,347	22,272	22,308
Diluted	22,499	22,504	22,445	22,440

2

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**Table of Contents**

**LITTELFUSE, INC.**  
**Consolidated Statements of Cash Flows**  
(in thousands, unaudited)

	For the Nine Months Ended	
	Sept 29, 2007	Sept 30, 2006
Operating activities:		
Net income	\$ 28,897	\$ 19,180
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	18,503	23,199
Amortization of intangibles	2,413	2,020
Stock-based compensation	3,795	3,903
Gain on sale of Ireland property	(8,037)	
Changes in operating assets and liabilities:		
Accounts receivable	(5,356)	(13,914)
Inventories	7,182	392
Accounts payable and accrued expenses	(7,350)	24,975
Accrued taxes	(4,373)	(6,289)
Prepaid expenses and other	(4,400)	900
Net cash provided by operating activities	31,274	54,366
Investing activities:		
Purchases of property, plant, and equipment	(26,215)	(14,116)
Purchases of businesses, net of cash acquired	(4,507)	(37,642)
Sale of business and property, plant and equipment	8,593	11,574
Net cash used in investing activities	(22,129)	(40,184)
Financing activities:		
Proceeds from debt	41,700	35,273
Payments of debt	(59,866)	(35,935)
Notes receivable, common stock		7
Proceeds from exercise of stock options	6,205	5,984
Excess tax benefit on share-based compensation	1,005	408
Purchase of treasury stock		(652)
Net cash (used in) provided by financing activities	(10,956)	5,085
Effect of exchange rate changes on cash	2,823	1,675
Increase in cash and cash equivalents	1,012	20,942
Cash and cash equivalents at beginning of period	56,704	21,947
Cash and cash equivalents at end of period	\$ 57,716	\$ 42,889





**Table of Contents**

**Notes to Condensed Consolidated Financial Statements  
(Unaudited)  
September 29, 2007**

**1. Basis of Presentation**

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, Des Plaines and Elk Grove, Illinois, Irving, Texas, Ireland and Heinrich severance, accrued employee-related costs pursuant to contractual obligations, the gain recognized related to the sale of property in Ireland, pension related expense associated with the U.K. pension plan and income tax reserve reclassifications required under FIN 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109, *Accounting for Income Taxes*, considered necessary for a fair presentation have been included. The December 30, 2006 balance of \$8.0 million for uncertain income tax positions has been reclassified from accrued income taxes to other long-term liabilities on the Consolidated Balance Sheets. Operating results for the three and nine months ended September 29, 2007 are not necessarily indicative of the results that may be expected for the year ending December 29, 2007. 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 30, 2006.

**2. Business Segment Information**

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, establishes annual and interim reporting standards for an enterprise's operating segments and related disclosures about its products, services, geographic areas and major customers. 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 has historically evaluated the operations and reported the enterprise by geography segment for the purpose of SFAS No. 131. Over the last several quarters, the Company has made a number of organizational changes that have changed the information the CODM receives and how the CODM evaluates the Company's operations. These structural changes have increased the importance of the Company's reliance on business unit performance compared to geographic. As such, the Company determined in the third quarter of 2007 that business units now represent operating segments, as defined in SFAS No. 131, and therefore have reported these business units as separate segments. In accordance with SFAS No. 131, the Company has also provided this business unit segment information for all comparable prior periods.

The Company's operating segments include the electronics business, the automotive business, and the electrical business. Each of the operating segments is directly responsible for sales, marketing and research & development. Manufacturing, purchasing, logistics, customer service, finance, information technology and human resources are shared functions which are allocated back to the three operating segments.

The Chief Operating Decision Maker, as defined by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS No. 131), is the Company's President and Chief Executive Officer (CEO). The CODM allocates resources to and assesses the performance of each operating segment using information about its revenue and operating income (loss) before interest and taxes.

The Company reports the financial results of the following operating segments:

*Electronics Business.* Provides circuit protection components and expertise to leading global manufacturers of a wide range of electronic products including mobile phones, computers, LCD TV's, telecommunications equipment, medical devices, lighting products and white goods. The Electronics Business has the broadest product offering in the industry including fuses, PTC's, varistors, diodes, thyristors, gas discharge tubes and polymer ESD protectors

*Automotive Business.* Provides circuit protection products to the worldwide passenger vehicle, off-road truck & bus and automotive aftermarket segments. Products include blade fuses, high current fuses, battery cable



**Table of Contents**

protectors and varistors

*Electrical Business.* Provides circuit protection products, hazard assessments, and safety services for industrial and commercial customers. Products include power fuses and other circuit protection devices that are used in commercial and industrial buildings and large equipment such as HVAC systems, elevators and machine tools. Sales, marketing and research & 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 CODM does not evaluate operating segments using discrete asset information. 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 CODM uses operating income 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 Littelfuse as a whole.

Export sales to Hong Kong were 20.1% and 17.9% of consolidated sales for the three and nine months ended September 29, 2007, respectively. No other foreign country sales exceeded 10% for the three and nine months ended September 29, 2007. Export sales to Hong Kong were 18.5% and 15.5% of consolidated sales for the three and nine months ended September 30, 2006, respectively. No other foreign country sales exceeded 10% for the three and nine months ended September 30, 2006. Sales to no single customer amounted to 10% or more of the Company's total revenues for the three and nine months ended September 29, 2007. Sales to Arrow Pemco Group were 8.9% and 10.7% of consolidated sales for the three and nine months ended September 30, 2006, respectively. Sales to no other single customer amounted to 10% or more of the Company's total revenues for the three and nine months ended September 30, 2006.

Segment information is summarized as follows:

	Three Months Ended Sept 29, 2007	Three Months Ended Sept 30, 2006	Nine Months Ended Sept 29, 2007	Nine months Ended Sept 30, 2006
<b>Net sales</b>				
Electronic	\$ 92,439	\$ 101,118	\$ 260,744	\$ 279,858
Automotive	33,882	30,225	101,416	92,810
Electrical	13,894	12,128	39,018	34,355
<b>Total net revenue</b>	<b>\$ 140,215</b>	<b>\$ 143,471</b>	<b>\$ 401,178</b>	<b>\$ 407,023</b>
<b>Operating income (loss)</b>				
Electronic	\$ 6,277	\$ 11,172	\$ 17,248	\$ 31,020
Automotive	5,168	2,353	14,561	10,955
Electrical	3,294	2,734	8,938	7,274
Other	5,488	(3,891)	583	(25,789)
<b>Total operating income</b>	<b>\$ 20,227</b>	<b>\$ 12,368</b>	<b>\$ 41,330</b>	<b>\$ 23,460</b>
Interest expense	\$ 207	\$ 480	\$ 1,037	\$ 1,252
Other (income) expense	\$ 195	\$ (117)	\$ (690)	\$ (1,627)

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Earnings from continuing operations before taxes	\$ 19,825	\$ 12,005	\$ 40,983	\$ 23,835
Income taxes	\$ 5,531	\$ 2,645	\$ 12,086	\$ 5,243
Earnings from continuing operations	\$ 14,294	\$ 9,360	\$ 28,897	\$ 18,592
Discontinued operations (net of tax)	\$	\$	\$	\$ 588
<b>Net income</b>	\$ 14,294	\$ 9,360	\$ 28,897	\$ 19,180
<b>Net sales</b>				
Americas	\$ 51,828	\$ 54,574	\$ 152,305	\$ 166,404
Europe	28,312	27,777	88,499	85,254
Asia-Pacific	60,075	61,120	160,374	155,365
Consolidated total	\$ 140,215	\$ 143,471	\$ 401,178	\$ 407,023

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**Table of Contents****Identifiable assets**

	September 29, 2007	December 30, 2006
Americas	\$ 206,308	\$ 227,322
Europe	134,126	159,639
Asia-Pacific	165,081	148,526
Combined total	505,515	535,487
Eliminations	(122,085)	(169,900)
Consolidated total	\$ 383,430	\$ 365,587

**3. Inventories**

The components of inventories are as follows (in thousands):

	September 29, 2007	December 30, 2006
Raw material	\$ 17,309	\$ 15,043
Work in process	13,480	15,838
Finished goods	29,201	35,080
Total	\$ 59,990	\$ 65,961

**4. Debt Obligations**

The Company has an unsecured domestic financing arrangement consisting of a credit agreement with banks that provides a \$75.0 million revolving credit facility, with a potential increase of up to \$125.0 million upon request of the Company and agreement with the lenders, that expires on July 21, 2011. At September 29, 2007, the Company had \$6.0 million outstanding on the revolving credit facility, leaving \$69.0 million of borrowing capability available under the revolving credit facility at an interest rate of LIBOR plus 0.50% (6.06% as of September 29, 2007). The Company also had \$6.3 million in letters of credit outstanding at September 29, 2007.

The Company has an unsecured bank line of credit in Japan that provides a Yen 0.9 billion (an equivalent of \$7.8 million) revolving credit facility at an interest rate of TIBOR plus 0.625% (1.651% as of September 29, 2007). The revolving line of credit balance becomes due on July 21, 2011. At September 29, 2007, the Company had no outstanding borrowings on the Yen facility.

The Company has an unsecured bank line of credit that provides a Taiwanese Dollar 35.0 million (equivalent to \$1.1 million) revolving credit facility at an interest rate of two-years Time Deposit plus 0.145% (2.3% as of September 29, 2007). The revolving line of credit becomes due on August 18, 2009. At September 29, 2007, the Company had the equivalent of \$0.7 million of outstanding borrowings on the Taiwanese Dollar facility.

The Company has various other foreign fixed rate loans outstanding at September 29, 2007, totaling \$1.2 million with maturity dates through August 2013.

The domestic bank credit agreement 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 addition, the Company is required to satisfy certain financial covenants and tests relating to, among other matters, interest coverage, working capital, leverage and net worth. At September 29, 2007, the Company was in compliance with these covenants.



**Table of Contents**

**5. Per Share Data**

Net income per share amounts for the three and nine months ended September 29, 2007, and September 30, 2006, are based on the weighted average number of common and common equivalent shares outstanding during the periods as follows (in thousands, except per share data):

Three months ended		Nine months ended
Sept	Sept 30,	Sept
29,		29,