LITTELFUSE INC /DE
Form 10-Q
May 03, 2012

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

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2012

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 of incorporation or organization)	(I.R.S. Employer Identification No.)
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)

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 [X] 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 [X] 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 [X] 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 [X]

As of April 27, 2012, 23,208,336 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)

	March 31, 2012 (unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$178,692	$164,016
Short-term investments	19,022	13,997
Accounts receivable, less allowances	106,985	92,088
Inventories	77,729	75,575
Deferred income taxes	12,815	11,895
Prepaid expenses and other current assets	14,797	14,219
Assets held for sale	6,658	6,592
Total current assets	416,698	378,382
Property, plant and equipment:		
Land	5,075	4,888
Buildings	53,577	52,730
Equipment	285,711	281,521
	344,363	339,139
Accumulated depreciation	(227,704)	(220,255)
Net property, plant and equipment	116,659	118,884
Intangible assets, net of amortization:		
Patents, licenses and software	10,500	10,753
Distribution network	18,998	19,307
Customer lists, trademarks and tradenames	14,505	14,523
Goodwill	116,693	115,697
Investments	16,918	14,867
Deferred income taxes	3,761	4,191
Other assets	1,852	1,820
Total assets	$716,584	$678,424
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$28,650	$19,934
Accrued payroll	15,534	23,048
Accrued expenses	8,772	8,861
Accrued severance	1,743	1,843
Accrued income taxes	13,214	10,591
Current portion of long-term debt	96,500	85,000
Total current liabilities	164,413	149,277
Accrued post-retirement benefits	10,544	15,292

Other long-term liabilities	12,270	12,752
Total equity	529,357	501,103
Total liabilities and equity	$716,584	$678,424

Common shares issued and outstanding of 21,668,819 and 21,552,529, at March 31, 2012, and December 31, 2011, respectively.

See accompanying notes.

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LITTELFUSE, INC.

Consolidated Statements of Comprehensive Income
(In thousands of USD, except per share amounts, unaudited)

	For the Three Months Ended	
	March 31, 2012	April 2, 2011
Net sales	$160,578	$167,160
Cost of sales	99,716	102,457
Gross profit	60,862	64,703
Selling, general and administrative expenses	28,409	27,395
Research and development expenses	5,161	4,795
Amortization of intangibles	1,468	1,595
	35,038	33,785
Operating income	25,824	30,918
Interest expense	423	336
Other (income) expense, net	101	(26)
Income before income taxes	25,300	30,608
Income taxes	7,411	9,030
Net income	$17,889	$21,578
Net income per share (see note 9):		
Basic	$0.83	$0.98
Diluted	$0.81	$0.96
Weighted average shares and equivalent shares outstanding:		
Basic	21,608	21,878
Diluted	21,929	22,328
Comprehensive income (see note 14)	$27,031	$32,885

See accompanying notes.

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LITTELFUSE, INC.

Consolidated Statements of Cash Flows
(In thousands of USD, unaudited)

	For the Three Months Ended	
	March 31, 2012	April 2, 2011
OPERATING ACTIVITIES:		
Net income	$17,889	$21,578
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,481	5,995
Amortization of intangibles	1,468	1,595
Stock-based compensation	1,365	1,182
Non-cash inventory charge	205	3,678
Excess tax benefit on share-based compensation	(475)	(975)
Loss (gain) on sale of assets	7	(167)
Changes in operating assets and liabilities:		
Accounts receivable	(14,017)	(11,279)
Inventories	(1,713)	675
Accounts payable	8,552	3,904
Accrued expenses (including post-retirement)	(5,543)	(557)
Accrued payroll and severance	(7,728)	(10,124)
Accrued taxes	1,474	771
Prepaid expenses and other	(101)	(2,559)
Net cash provided by operating activities	7,864	13,717
INVESTING ACTIVITIES:		
Purchases of property, plant, and equipment	(3,244)	(4,614)
Purchase of short-term investments	(4,616)	—
Proceeds from sale of assets	21	167
Net cash used in investing activities	(7,839)	(4,447)
FINANCING ACTIVITIES:		
Proceeds from debt	17,000	15,000
Payments of term debt	—	(2,000)
Payments of revolving credit facility	(5,500)	(12,000)
Cash dividends paid	(3,888)	(3,284)
Proceeds from exercise of stock options	4,217	9,998
Excess tax benefit on share-based compensation	475	975
Net cash provided by financing activities	12,304	8,689
Effect of exchange rate changes on cash and cash equivalents	2,347	3,854
Increase in cash and cash equivalents	14,676	21,813
Cash and cash equivalents at beginning of period	164,016	109,720
Cash and cash equivalents at end of period	$178,692	$131,533

See accompanying notes.

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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. Accordingly, certain information and disclosures normally included in the statement of financial information, results of operations 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 March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 29, 2012. 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 31, 2011. The company evaluated subsequent events through the date of its financial statements when filed with the Securities and Exchange Commission ("SEC").

2. Reclassifications

Certain items in the company's 2011 financial statements have been reclassified to conform to the company's 2012 presentation. These reclassifications had no impact on net income or sharehholder's equity for any period.

3. Acquisition of Businesses

On December 17, 2010, the company acquired the Cole Hersee Company ("Cole Hersee"), a leading manufacturer of power management products and heavy duty electromechanical and solid-state switches, for approximately $50.0 million. The acquisition allows the company to further expand its off-road, truck and bus business. Cole Hersee is located in Boston, Massachusetts with manufacturing operations in Melchor Muzquiz, Mexico. The company funded the acquisition with available cash.

The following table sets forth the final purchase price allocation for Cole Hersee's net assets in accordance with the purchase method of accounting with adjustments to record the acquired net assets at their estimated fair market or net realizable values.

Cole Hersee final purchase price allocation (in thousands):

Cash	$	1,708	
Current assets, net		17,628	
Property, plant and equipment, net		5,368	
Customer list		10,700	
Distribution network		500	
Trademarks		2,900	
Goodwill		15,564	
Other assets		533	
Current liabilities		(2,575	)
Other long-term liabilities		(2,376	)
	$	49,950	

All Cole Hersee goodwill and other assets and liabilities were recorded in the Automotive business unit segment and reflected in the Americas geographical area. The customer list is being amortized over 13 years. The distribution network is being amortized over five years. The trademarks are being amortized over 10 years. Goodwill for the

above acquisition is expected to be deductible for tax purposes.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

3. Acquisition of Businesses, continued

As required by purchase accounting rules, the company recorded a $3.7 million step-up of inventory to its fair value as of the acquisition date. During the first quarter of 2011, as the inventory was sold, cost of goods sold included $3.7 million of non-cash charges for this step-up.

On August 3, 2011, the company acquired 100% of Selco A/S ("Selco"), a manufacturer of relays and generator controls for the marine industry, for approximately $11.1 million. The acquisition allows the company to further expand its global relay business within its Electrical business unit segment. Selco is located in Roskilde, Denmark with a sales office located in Dubai, United Arab Emirates. The company funded the acquisition with available cash.

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

Selco's preliminary purchase price allocation (in thousands):

Cash	$	5	
Current assets, net		3,815	
Property, plant and equipment, net		183	
Distribution network		3,547	
Trademarks		389	
Patents and licenses		1,439	
Goodwill		6,303	
Current liabilities		(4,549	)
	$	11,132	

All Selco goodwill and other assets and liabilities were recorded in the Electrical business unit segment and reflected in the Europe geographical area. The goodwill resulting from this acquisition consists largely of the company's expected future product sales and synergies from combining Selco's products with the company's existing product offerings. The distribution network is being amortized over three to ten years. The trademarks are being amortized over five years. The patents and licenses are being amortized over ten years. Goodwill for the above acquisition is not expected to be deductible for tax purposes.

As required by purchase accounting rules, the company recorded a $0.7 million step-up of inventory to its fair value as of the acquisition date. During the fourth quarter of 2011, as this inventory was sold, cost of goods sold included $0.5 million of non-cash charges for this step-up. The remaining $0.2 million was included in cost of goods sold for the three months ended March 31, 2012.

Pro forma financial information is not presented for the company's business acquisitions described above due to amounts not being material.

4. Inventories

The components of inventories at March 31, 2012 and December 31, 2011 are as follows (in thousands):

	March 31, 2012	December 31, 2011

Raw material	$	27,186	$	26,919
Work in process		12,967		10,704
Finished goods		37,576		37,952
Total inventories	$	77,729	$	75,575

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

5. Investments

Included in the company's investments are shares of Polytronics Technology Corporation Ltd. ("Polytronics"), a Taiwanese company whose shares are traded on the Taiwan Stock Exchange. The Polytronics investment was acquired as part of the Littelfuse GmbH acquisition. The fair value of the Polytronics investment was €8.2 million (approximately $10.9 million) at March 31, 2012 and €6.8 million (approximately $8.9 million) at December 31, 2011, based on the quoted market price at the close of business corresponding to each date. Included in Other Comprehensive Income (Loss), for the three months ended March 31, 2012, is an unrealized gain of $1.8 million, due to the increase in fair market value. The remaining difference in fair market value of this investment was due to the impact of changes in exchange rates, which is included as a component of the currency translation adjustments of "Other Comprehensive Income (Loss)".

In 2011, the company invested $6.0 million in certain preferred stock of Shocking Technologies, Inc., ("Shocking Technologies") a research and development company in the electronics industry located in San Jose, California. Shocking Technologies, Inc. is a developer of circuit protection products for the computer and telecommunication markets. The company has accounted for its investment in Shocking Technologies, Inc., at cost as the company does not exert significant influence thereon and as the fair value of the investment is not readily determinable.

6. Debt

The carrying amounts of long-term debt at March 31, 2012 and December 31, 2011 are as follows (in thousands):

	March 31, 2012	December 31,2011
Revolving credit facility	$ 96,500	$ 85,000
Less: Current maturities	96,500	85,000
Total long-term debt	$ —	$ —

On June 13, 2011, the company entered into a new credit agreement with certain commercial banks that provides an unsecured revolving credit facility in an amount of up to $150.0 million, with a potential to increase up to $225.0 million. At March 31, 2012, the company had available $52.9 million of borrowing capacity under the revolver credit agreement at an interest rate of LIBOR plus 1.250% (1.49% as of March 31,2012). The credit agreement replaces the company's previous credit agreement dated July 21, 2006 and loan agreement dated September 29, 2008, and, unless terminated earlier, will terminate on June 13, 2016. During the second quarter of 2011, $0.2 million of previously capitalized debt issuance costs were written off as a non-cash charge and $0.7 million of new debt issuance costs incurred was capitalized and will be amortized over the life of the new credit agreement.

During the second quarter of 2011, as part of the new refinancing arrangement discussed above, $47.0 million of indebtedness that was due on the previous term loan was settled and rolled-over into the revolving credit facility by the lender.

7. Financial Instruments and Risk Management

Occasionally, the company uses financial instruments to manage its exposures to movements in commodity prices, foreign exchange and interest rates. The use of these financial instruments modifies the company's exposure to these risks with the goal of reducing the risk or cost to the company. The company does not use derivatives for trading purposes and is not a party to leveraged derivative contracts.

The company recognizes all derivative instruments as either assets or liabilities at fair value in the Condensed Consolidated Balance Sheets. The fair value is based upon either market quotes for actively traded instruments or independent bids for non-exchange traded instruments. The company formally documents its hedge relationships,

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

7. Financial Instruments and Risk Management, continued

including identifying the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction. This process includes linking derivatives that are designated as hedges of specific assets, liabilities, firm commitments or forecasted transactions to the hedged risk. On the date the derivative is entered into, the company designates the derivative as a fair value hedge, cash flow hedge or a net investment hedge, and accounts for the derivative in accordance with its designation. The company also formally assesses, both at inception and at least quarterly thereafter, whether the derivatives are highly effective in offsetting changes in either the fair value or cash flows of the hedged item. If it is determined that a derivative ceases to be a highly effective hedge, or if the anticipated transaction is no longer likely to occur, the company discontinues hedge accounting, and any deferred gains or losses are recorded in the respective measurement period. At March 31, 2012, the company does not have any outstanding derivative instruments.

8. Fair Value of Financial 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.

Available-for-sale securities

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.

Derivative instruments

The fair value of commodity derivatives are valued based on quoted futures prices for the underlying commodity and are categorized as Level 2. The fair values of foreign exchange rate derivatives are determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets and are categorized as Level 2.

The company does not have any financial assets or liabilities measured at fair value on a recurring basis categorized as Level 3, and there were no transfers in or out of Level 2 or Level 3 during the three months ended March 31, 2012. There were no changes during the three months ended March 31, 2012, to the company's valuation techniques used to

measure asset and liability fair values on a recurring basis. As of March 31, 2012, 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)

8. Fair Value of Financial Assets and Liabilities, continued

The following table presents assets measured at fair value by classification within the fair value hierarchy as of March 31, 2012 (in thousands):

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Available-for-sale securities	$10,918	$—	$—	$10,918
Short-term investments	19,022	—	—	19,022
Total	$29,940	$—	$—	$29,940

The following table presents assets measured at fair value by classification within the fair value hierarchy as of December 31, 2011 (in thousands):

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Available-for-sale securities	$8,867	$—	$—	$8,867
Short-term investments	13,997	—	—	13,997
Total	$22,864	$—	$—	$22,864

The company's other financial instruments include cash and cash equivalents, accounts receivable, accounts payable, current portion of long-term debt, and long-term debt. Due to their short-term maturity, the carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and current portion of long-term debt approximate their fair values. The company's long-term debt fair value approximates book value at March 31, 2012 and December 31, 2011, respectively, as the long-term debt variable interest rates fluctuate along with market interest rates.

9. Earnings Per Share

In June 2008, the FASB issued authoritative guidance which states that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method.

Effective December 28, 2008, the company adopted the authoritative guidance. The company's unvested share-based payment awards, such as certain performance shares, restricted shares and restricted share units that contain non-forfeitable rights to dividends, meet the criteria of a participating security. The adoption changed the methodology of computing the company's earnings per share to the two-class method from the treasury stock method. This change has not affected previously reported earnings per share, consolidated net earnings or net cash flows from

operations. Under the two-class method, earnings are allocated between common stock and participating securities. The presentation of basic and diluted earnings per share is required only for each class of common stock and not for participating securities. As such, the company presents basic and diluted earnings per share for its one class of common stock.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

9. Earnings Per Share, continued

The two-class method includes an earnings allocation formula that determines earnings per share for each class of common stock according to dividends declared and undistributed earnings for the period. The company's reported net earnings is 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.

The dilutive effect of participating securities is calculated using the more dilutive of the treasury stock or the two-class method. The company has 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 is adjusted for the reallocation of undistributed earnings to participating securities, as prescribed by the guidance, to arrive at the earnings allocated to common stock shareholders for calculating the diluted earnings per share.

The following table sets forth the computation of basic and diluted earnings per share under the two-class method:

(in thousands except per share amounts)	For the Three Months Ended March 31, 2012	April 2, 2011
Net income as reported	$17,889	$21,578
Less: Distributed earnings available to participating securities	(6)	(2)
Less: Undistributed earnings available to participating securities	(45)	(102)
Numerator for basic earnings per share —		
Undistributed and distributed earnings available to common shareholders	$17,838	$21,474
Add: Undistributed earnings allocated to participating securities	45	102
Less: Undistributed earnings reallocated to participating securities	(44)	(100)
Numerator for diluted earnings per share —		
Undistributed and distributed earnings available to common shareholders	$17,839	$21,476
Denominator for basic earnings per share —		
Weighted-average shares	21,608	21,878
Effect of dilutive securities:		
Common stock equivalents	321	450
Denominator for diluted earnings per share —		
Adjusted for weighted-average shares & assumed conversions	21,929	22,328
Basic earnings per share	$0.83	$0.98
Diluted earnings per share	$0.81	$0.96

10. Restructuring

During the period 2006 through 2009, the company announced closures of its facilities in Dundalk, Ireland, Irving, Texas, Des Plaines, Illinois, Elk Grove, Illinois, Matamoros, Mexico, Swindon, U.K., Dünsen, Germany, Utrecht, Netherlands, and Yangmei, Taiwan. These manufacturing and distribution center closures were part of a multi-year plan to improve the company's cost structure and margins by rationalizing the company's footprint, reducing labor costs and moving closer to customers. As of March 31, 2012, all of these facility closures have been completed except for Yangmei, Taiwan. Together, these initiatives have impacted approximately 946 employees and resulted in aggregate restructuring charges of $53.8 million through March 31, 2012. The company does not expect to incur any additional costs associated with these facility closures and related restructuring activities.