LITTELFUSE INC /DE
Form 10-Q
May 01, 2019
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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 30, 2019
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES 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 West Higgins Road, Suite 500	
Chicago, Illinois	60631
(Address of principal executive offices)	(ZIP Code)

Registrant's telephone number, including area code: 773-628-1000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, $0.01 par value	NASDAQ Global Select MarketSM

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 website, 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 a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act (Check one):
Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ] Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes [ ] No [ ]

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 29, 2019, the registrant had outstanding 24,726,692 shares of Common Stock, net of Treasury Shares.

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LITTELFUSE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)	(Unaudited) March 30, 2019	December 29, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$476,614	$489,733
Short-term investments	33	34
Trade receivables, less allowances of $33,140 and $36,038 at March 30, 2019 and December 29, 2018, respectively	237,878	232,892
Inventories	261,659	258,228
Prepaid income taxes and income taxes receivable	758	2,339
Prepaid expenses and other current assets	53,203	49,291
Total current assets	1,030,145	1,032,517
Net property, plant, and equipment	342,334	339,894
Intangible assets, net of amortization	350,421	361,474
Goodwill	825,467	826,715
Investments	24,640	25,405
Deferred income taxes	8,461	7,330
Right of use lease assets, net	24,725	—
Other assets	18,825	20,971
Total assets	$2,625,018	$2,614,306
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$129,092	$126,323
Accrued liabilities	107,214	138,405
Accrued income taxes	23,244	20,547
Current portion of long-term debt	10,000	10,000
Total current liabilities	269,550	295,275
Long-term debt, less current portion	676,510	684,730
Deferred income taxes	52,658	51,853
Accrued post-retirement benefits	31,548	31,874
Non-current operating lease liabilities	19,950	—
Other long-term liabilities	69,414	72,232
Shareholders’ equity:		
Common stock, par value $0.01 per share: 34,000,000 shares authorized; shares issued, March 30, 2019–25,677,535; December 29, 2018–25,641,959	254	254
Treasury stock, at cost: 950,843 and 868,045 shares, respectively	(130,103)	(116,454)
Additional paid-in capital	842,086	835,828
Accumulated other comprehensive loss	(89,851)	(97,924)
Retained earnings	882,871	856,507
Littelfuse, Inc. shareholders’ equity	1,505,257	1,478,211
Non-controlling interest	131	131
Total equity	1,505,388	1,478,342
Total liabilities and equity	$2,625,018	$2,614,306

See accompanying Notes to Condensed Consolidated Financial Statements.

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LITTELFUSE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF NET INCOME
(Unaudited)

(in thousands, except per share data)	Three Months Ended March 30, 2019	March 31, 2018
Net sales	$405,500	$417,813
Cost of sales	250,272	268,190
Gross profit	155,228	149,623
Selling, general, and administrative expenses	62,955	77,514
Research and development expenses	21,409	22,540
Amortization of intangibles	10,191	11,998
Total operating expenses	94,555	112,052
Operating income	60,673	37,571
Interest expense	5,686	5,423
Foreign exchange loss (gain)	4,243	(10,555)
Other expense (income), net	4,305	(1,943)
Income before income taxes	46,439	44,646
Income taxes	9,450	8,617
Net income	$36,989	$36,029
Income per share:		
Basic	$1.50	$1.48
Diluted	$1.48	$1.45
Weighted-average shares and equivalent shares outstanding:		
Basic	24,717	24,339
Diluted	25,009	24,775

See accompanying Notes to Condensed Consolidated Financial Statements.

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LITTELFUSE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(in thousands)	Three Months Ended March 30, 2019	March 31, 2018
Net income	$36,989	$36,029
Other comprehensive income (loss):		
Pension and postemployment adjustment, net of tax	(49)	(3)
Foreign currency translation adjustments	8,122	(276)
Comprehensive income	$45,062	$35,750

See accompanying Notes to Condensed Consolidated Financial Statements.

LITTELFUSE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(in thousands)	Three Months Ended March 30, 2019	March 31, 2018
OPERATING ACTIVITIES		
Net income	$36,989	$36,029
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	13,088	11,614
Amortization of intangibles	10,191	11,998
Non-cash inventory charges	—	17,896
Stock-based compensation	3,966	8,714
Loss (gain) on investments and other assets	2,810	(1,864)
Deferred income taxes	(72)	842
Other	5,393	86
Changes in operating assets and liabilities:		
Trade receivables	(5,800)	(8,417)
Inventories	(3,250)	(269)
Accounts payable	(8,499)	2,990
Accrued liabilities and income taxes	(27,170)	(7,208)
Prepaid expenses and other assets	3,273	(3,143)
Net cash provided by operating activities	30,919	69,268
INVESTING ACTIVITIES		
Acquisitions of businesses, net of cash acquired	(775)	(306,487)
Purchases of property, plant, and equipment	(14,076)	(17,909)
Proceeds from sale of property, plant, and equipment	607	19
Net cash used in investing activities	(14,244)	(324,377)
FINANCING ACTIVITIES		
Proceeds of revolving credit facility	—	50,000
Proceeds of term loan	—	75,000
Net proceeds from senior notes payable	—	175,000
Payments of term loan	(5,000)	(2,500)
Payments of revolving credit facility	—	(47,000)
Net proceeds (payments) related to stock-based award activities	2,198	(116)
Purchases of common stock	(17,906)	—
Debt issuance costs	—	(878)
Cash dividends paid	(10,625)	(9,198)
Net cash (used in) provided by financing activities	(31,333)	240,308
Effect of exchange rate changes on cash and cash equivalents	1,539	(2,417)
Decrease in cash and cash equivalents	(13,119)	(17,218)
Cash and cash equivalents at beginning of period	489,733	429,676
Cash and cash equivalents at end of period	$476,614	$412,458
Supplemental disclosure of non-cash investing activities:		
Fair value of commitment to purchase non-controlling interest of Monolith	$—	$9,000

See accompanying Notes to Condensed Consolidated Financial Statements.

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LITTELFUSE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Littelfuse, Inc. Shareholders' Equity						
(in thousands, except share and per share data)	Common Stock	Addl. Paid in Capital	Treasury Stock	Accum. Other Comp. Inc. (Loss)	Retained Earnings	Non-controlling Interest	Total
Balance at December 29, 2018	$254	$835,828	$(116,454)	$(97,924)	$856,507	$ 131	$1,478,342
Net income	—	—	—	—	36,989	—	36,989
Pension and postemployment adjustments, net of tax	—	—	—	(49)	—	—	(49)
Foreign currency translation adjustments	—	—	—	8,122	—	—	8,122
Other comprehensive income, net of tax	—	—	—	8,073	—	—	8,073
Stock-based compensation	—	3,966	—	—	—	—	3,966
Withheld shares on restricted share units for withholding taxes	—	—	(94)	—	—	—	(94)
Stock options exercised	—	2,292	—	—	—	—	2,292
Repurchases of common stock	—	—	(13,555)	—	—	—	(13,555)
Cash dividends paid ($0.43 per share)	—	—	—	—	(10,625)	—	(10,625)
Balance at March 30, 2019	$254	$842,086	$(130,103)	$(89,851)	$882,871	$ 131	$1,505,388

	Littelfuse, Inc. Shareholders' Equity						
(in thousands, except share and per share data)	Common Stock	Addl. Paid in Capital	Treasury Stock	Accum. Other Comp. Inc. (Loss)	Retained Earnings	Non-controlling Interest	Total
Balance at December 30, 2017	$229	$310,012	$(41,294)	$(63,668)	$722,140	$ 137	$927,556
Net income	—	—	—	—	36,029	—	36,029
Pension and postemployment adjustments, net of tax	—	—	—	(3)	—	—	(3)
Unrealized gain (loss) on investments				(9,795)	9,795		—
Foreign currency translation adjustments	—	—	—	(276)	—	—	(276)
Other comprehensive income, net of tax	—	—	—	(10,074)	9,795	—	(279)
Stock-based compensation	—	8,714	—	—	—	—	8,714
Withheld shares on restricted share units for withholding taxes	—	—	(2,758)	—	—	—	(2,758)
Stock options exercised	—	9,609	—	—	—	—	9,609
Issuance of common stock	22	472,279	—	—	—	—	472,301
Cash dividends paid ($0.37 per share)	—	—	—	—	(9,198)	—	(9,198)
Balance at March 31, 2018	$251	$800,614	$(44,052)	$(73,742)	$758,766	$ 137	$1,441,974

See accompanying Notes to Condensed Consolidated Financial Statements.

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Notes to Condensed Consolidated Financial Statements

1. Summary of Significant Accounting Policies and Other Information

Nature of Operations

Littelfuse, Inc. and subsidiaries (the "Company") is a global manufacturer of leading technologies in circuit protection, power control and sensing. The company's products are found in automotive and commercial vehicles, industrial applications, data and telecommunications, medical devices, consumer electronics and appliances. With its broad product portfolio of fuses, semiconductors, polymers, ceramics, relays and sensors, and extensive global infrastructure, the Company's worldwide associates partner with its customers to design, manufacture and deliver innovative, high-quality solutions for a safer, greener and increasingly connected world.

Basis of Presentation

The Company's accompanying unaudited Condensed Consolidated Financial Statements 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 sheets, statements of net income and comprehensive income, statements of cash flows, and statement of stockholders' equity 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. They have been prepared in accordance with accounting policies described in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2018 which should be read in conjunction with the disclosures therein. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal, recurring nature. Operating results for interim periods are not necessarily indicative of annual operating results.

Revenue Recognition

On December 31, 2017, the Company adopted new guidance on revenue from contracts with customers using the modified retrospective method. The adoption did not have a significant impact on the Company's consolidated financial statements.

Revenue Disaggregation

The following tables disaggregate the Company's revenue by primary business units for the three months ended March 30, 2019 and March 31, 2018 :

	Three Months Ended March 30, 2019			
(in thousands)	Electronics Segment	Automotive Segment	Industrial Segment	Total
Electronics – Passive Products and Sensors	$108,377	$ —	$ —	$108,377
Electronics – Semiconductor	157,017	—	—	157,017
Passenger Car Products	—	56,543	—	56,543
Automotive Sensors	—	26,057	—	26,057
Commercial Vehicle Products	—	30,883	—	30,883
Industrial Products			26,623	26,623
Total	$265,394	$ 113,483	$ 26,623	$405,500

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(in thousands)	Three Months Ended March 31, 2018 Electronics Segment	Automotive Segment	Industrial Segment	Total
Electronics – Passive Products and Sensors	$114,495	$ —	$ —	$114,495
Electronics – Semiconductor	149,916	—	—	149,916
Passenger Car Products	—	63,580	—	63,580
Automotive Sensors	—	31,323	—	31,323
Commercial Vehicle Products	—	31,228	—	31,228
Industrial Products	—		27,271	27,271
Total	$264,411	$ 126,131	$ 27,271	$417,813

See Note 16, Segment Information for net sales by segment and countries.

Revenue Recognition

The Company recognizes revenue on product sales in the period in which the Company satisfies its performance obligation and control of the product is transferred to the customer. The Company's sales arrangements with customers are predominately short term in nature and generally provide for transfer of control at the time of shipment as this is the point at which title and risk of loss of the product transfers to the customer. At the end of each period, for those shipments where title to the products and the risk of loss and rewards of ownership do not transfer until the product has been received by the customer, the Company adjusts revenues and cost of sales for the delay between the time that the products are shipped and when they are received by the customer. The amount of revenue recorded reflects the consideration to which the Company expects to be entitled in exchange for goods and may include adjustments for customer allowance, rebates and price adjustments. The Company's distribution channels are primarily through direct sales and independent third-party distributors.

The Company elected the practical expedient under Accounting Standards Codification ("ASC") 340-40-25-4 to expense commissions when incurred as the amortization period of the commission asset the Company would have otherwise recognized is less than one year.

Revenue and Billing

The Company generally accepts orders from customers through receipt of purchase orders or electronic data interchange based on written sales agreements and purchasing contracts. Contract pricing and selling agreement terms are based on market factors, costs, and competition. Pricing is often negotiated as an adjustment (premium or discount) from the Company's published price lists. The customer is invoiced when the Company's products are shipped to them in accordance with the terms of the sales agreement. As the Company's standard payment terms are less than one year, the Company elected the practical expedient under ASC 606-10-32-18 to not assess whether a contract has a significant financing component. The Company also elected the practical expedient provided in ASC 606-10-25-18B to treat all product shipping and handling activities as fulfillment activities, and therefore recognize the gross revenue associated with the contract, inclusive of any shipping and handling revenue. This is similar to the Company's prior practice and therefore the effect of the new guidance is immaterial.

Ship and Debit Program

Some of the terms of the Company's sales agreements and normal business conditions provide customers (distributors) the ability to receive price adjustments on products previously shipped and invoiced. This practice is common in the industry and is referred to as a “ship and debit” program. This program allows the distributor to debit the Company for the difference between the distributors' contracted price and a lower price for specific transactions. Under certain circumstances (usually in a competitive situation or large volume opportunity), a distributor will request authorization for pricing allowances to reduce its price. When the Company approves such a reduction, the distributor is authorized to “debit” its account for the difference between the contracted price and the lower approved price. The Company establishes reserves for this program based on historic activity and actual authorizations for the debit and recognizes these debits as a reduction of revenue.

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Return to Stock

The Company has a return to stock policy whereby certain customers, with prior authorization from Littelfuse management, can return previously purchased goods for full or partial credit. The Company establishes an estimated allowance for these returns based on historic activity. Sales revenue and cost of sales are reduced to anticipate estimated returns.

Volume Rebates

The Company offers volume based sales incentives to certain customers to encourage greater product sales. If customers achieve their specific quarterly or annual sales targets, they are entitled to rebates. The Company estimates the projected amount of rebates that will be achieved by the customer and recognizes this estimated cost as a reduction to revenue as products are sold.

Recently Adopted Accounting Standards

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, "Leases" (Topic 842), ("ASC 842"). This ASU requires lessees to recognize, on the balance sheet, assets and liabilities for the rights and obligations created by leases of greater than twelve months. The accounting by lessors will remain largely unchanged. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. Adoption requires using a modified retrospective transition with either 1) periods prior to the adoption date being recast or 2) a cumulative-effect adjustment recognized to the opening balance of retained earnings on the adoption date with prior periods not recast.

The Company adopted the standard on December 30, 2018 using alternative modified retrospective transition method provided in ASU No. 2018-11, "Leases (Topic 842): Target Improvements." Under this method, the Company recorded a cumulative-effect adjustment as of December 30, 2018 and did not record any retrospective adjustments to comparative periods to reflect the adoption of ASC 842. The new standard provides a number of optional practical expedients in transition. The Company has elected the ‘package of practical expedients’ which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. The Company has not elected the use-of-hindsight. Adoption of ASC 842 resulted in the recognition of operating lease right-of-use assets ("ROU") net of deferred rent of $26.1 million and lease liabilities of $29.4 million, as of December 30, 2018 for operating leases on its Condensed Consolidated Balance Sheets, with no impact to its Condensed Consolidated Statements of Net Income and no impact on Condensed Consolidated Statements of Cash Flow. See Note 6, Lease Commitments, for further discussion.

In February 2018, the FASB issued ASU No. 2018-02 “Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,” which permits the reclassification of tax effects stranded in accumulated other comprehensive income to retained earnings as a result of the Tax Act. The standard also requires entities to disclose whether or not they elected to reclassify the tax effects related to the Tax Act as well as their policy for releasing income tax effects from accumulated other comprehensive income. The standard allows the option of applying either a retrospective adoption, meaning the standard is applied to all periods in which the effect of the Tax Act is recognized, or applying the amendments in the period of adoption, meaning an adjustment is made to shareholder’s equity as of the beginning of the reporting period. The Company adopted the new standard on December 30, 2018. The adoption of this guidance did not have a material effect on our Condensed Consolidated Financial Statements.

2. Acquisitions

The Company accounts for acquisitions using the acquisition method in accordance with ASC 805, “Business Combinations,” in which assets acquired and liabilities assumed are recorded at fair value as of the date of acquisition. The operating results of the acquired business are included in the Company’s Consolidated Financial Statements from the date of the acquisition.

IXYS Corporation

On January 17, 2018, the Company acquired IXYS Corporation (“IXYS”), a global pioneer in the power semiconductor and integrated circuit markets with a focus on medium to high voltage power control semiconductors across the industrial, communications, consumer and medical markets. IXYS has a broad customer base, serving more than 3,500 customers through its direct sales force and global distribution partners. The acquisition of IXYS is expected to accelerate the Company’s growth across the power control market driven by IXYS’s extensive power semiconductor portfolio and technology expertise. With IXYS, the Company will be able to diversify and expand its presence within industrial electronics markets, leveraging the strong IXYS industrial OEM customer base. The Company also expects to increase long-term penetration of its power semiconductor portfolio in automotive markets, expanding its global content per vehicle.

Upon completion of the acquisition, at IXYS stockholders' election and subject to proration, each share of IXYS common stock, par value $0.01 per share, owned immediately prior to the effective time was canceled and extinguished and automatically converted into the right to receive: (i) $23.00 in cash (subject to applicable withholding tax), without interest (referred to as the cash consideration), or (ii) 0.1265 of a share of common stock, par value $0.01 per share, of Littelfuse (referred to as the stock consideration). IXYS stockholders received cash in lieu of any fractional shares of Littelfuse common stock that the IXYS stockholders would otherwise have been entitled to receive. Additionally, each outstanding option to purchase shares of IXYS common stock granted under an IXYS equity plan were assumed by Littelfuse and converted into an option to acquire (i) a number of shares of Littelfuse common stock equal to the number of shares of IXYS common stock subject to such option immediately prior to the effective time multiplied by 0.1265, rounded down to the nearest whole share, with (ii) an exercise price per share of Littelfuse common stock equal to the exercise price of such IXYS stock option immediately prior to the effective time divided by 0.1265, rounded up to the nearest whole cent.

Based on the $207.5 per share opening price of Littelfuse common stock on January 17, 2018, the consideration IXYS stockholders received in exchange of their IXYS common stock in the acquisition had a value of $814.8 million comprised of $380.6 million of cash and $434.2 million of Littelfuse stock. In addition to the consideration transferred related to IXYS common stock, the value of consideration transferred, and included in the purchase price, related to IXYS stock options that were converted to Littelfuse stock options, or cash settled, had a value of $41.7 million. As a result, total consideration was valued at $856.5 million.

The total purchase price of $856.5 million has been allocated to assets acquired and liabilities assumed, as of the completion of the acquisition, based on estimated fair values. The following table summarizes the purchase price allocation of the fair value of assets acquired and liabilities assumed in the IXYS acquisition:

(in thousands)	Purchase Price Allocation
Total purchase consideration:	
Cash, net of cash acquired	$302,865
Cash settled stock options	3,622
Littelfuse stock	434,192
Converted stock options	38,109
Total purchase consideration	$778,788
Allocation of consideration to assets acquired and liabilities assumed:	
Current assets, net	$155,930
Property, plant, and equipment	77,442
Intangible assets	212,720
Goodwill	382,360
Other non-current assets	28,706
Other non-current liabilities	(78,370)
	$778,788

Approximately $49.1 million of net receivables was included in IXYS's current assets. All IXYS goodwill, other assets and liabilities were recorded in the Electronics segment and primarily reflected in the Americas and European geographic areas. The goodwill resulting from this acquisition consists largely of the Company's expected future product sales and synergies from combining IXYS's products and technology with the Company's existing electronics product portfolio. Goodwill resulting from the IXYS acquisition is not expected to be deductible for tax purposes.

During the three months ended March 31, 2018, the Company recognized a charge of $17.9 million for the amortization of the fair value inventory step-up. The step-up was a non-cash charge to cost of goods and reflected as other non-segment costs. The Company recognized approximately $5.9 million of stock compensation expense related to IXYS stock options converted to Littelfuse stock options during the three months ended March 31, 2018 of which $4.5 million was recognized immediately as it related to prior services periods.

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During the three months ended March 31, 2018, the Company incurred approximately $10.2 million of legal and professional fees related to this acquisition which were primarily recognized as selling, general, and administrative expenses. These costs were reflected as other non-segment costs.

Pro Forma Results

The following table summarizes, on a pro forma basis, the combined results of operations of the Company and IXYS as though the acquisition had occurred as of January 1, 2017. The pro forma amounts presented are not necessarily indicative of either the actual consolidated results had the IXYS acquisition occurred as of January 1, 2017 or of future consolidated operating results.

(in thousands, except per share amounts)	Three Months Ended March 31, 2018
Net sales	$434,526
Income before income taxes	81,924
Net income	63,933
Net income per share — basic	2.57
Net income per share — diluted	2.53

Pro forma results presented above primarily reflect the following adjustments:

(in thousands)	Three Months Ended March 31, 2018
Amortization(a)	$1,902
Transaction costs(b)	9,976
Amortization of inventory step-up(c)	17,896
Stock compensation(d)	4,479
Income tax impact of above items	(7,701)

(a) The amortization adjustment for the three months ended March 31, 2018 primarily reflects the reduction of amortization expense in the period related to the Order backlog intangible asset. The Order backlog has a useful life of twelve months and was fully amortized in the fiscal 2017 pro forma results.

(b) The transaction cost adjustments reflect the reversal of certain bank and attorney fees from the three months ended March 31, 2018 and recognition of those fees during the three months ended April 1, 2017.

(c) The amortization of inventory step-up adjustment reflects the reversal of the amount recognized during the three months ended March 31, 2018 and recognition of those fees during the three months ended April 1, 2017. The inventory step-up was amortized over five months as the inventory was sold.

(d) The stock compensation adjustment reflects the reversal of the portion of stock compensation for IXYS stock options that were converted to Littelfuse stock options and expensed immediately during the three months ended March 31, 2018.

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3. Inventories

The components of inventories at March 30, 2019 and December 29, 2018 are as follows:

(in thousands)	March 30 2019	December 29 2018
Raw materials	$75,949	$ 69,883
Work in process	90,538	88,505
Finished goods	95,172	99,840
Total	$261,659	$ 258,228

4. Property, Plant, and Equipment

The components of net property, plant, and equipment at March 30, 2019 and December 29, 2018 are as follows:

(in thousands)	March 30 2019	December 29 2018
Land	$25,607	$ 25,630
Building	114,506	114,636
Equipment	599,254	583,043
Accumulated depreciation and amortization	(397,033)	(383,415)
Total	$342,334	$ 339,894

The Company recorded depreciation expense of $13.1 million and $11.6 million for the three months ended March 30, 2019 and March 31, 2018, respectively.

5. Goodwill and Other Intangible Assets

The amounts for goodwill and changes in the carrying value by segment for the three months ended March 30, 2019 are as follows:

(in thousands)	Electronics	Automotive	Industrial	Total
As of December 29, 2018	$656,039	$ 132,332	$ 38,344	$826,715
Currency translation	(1,400)	102	50	(1,248)
As of March 30, 2019	$654,639	$ 132,434	$ 38,394	$825,467

The components of other intangible assets at March 30, 2019 are as follows:

(in thousands, except weighted average useful life)	Weighted Average Useful Life (Years)	Gross Carrying Value	Accumulated Amortization	Net Book Value
Patents, licenses and software	11.1	$138,951	$ 72,219	$66,732
Distribution network	12.3	43,797	35,049	8,748
Customer relationships, trademarks, and tradenames	17.2	374,204	99,263	274,941
Total		$556,952	$ 206,531	$350,421

During the three months ended March 30, 2019 and March 31, 2018, the Company recorded amortization expense of $10.2 million and $12.0 million, respectively, for intangible assets with definite lives.

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Estimated annual amortization expense related to intangible assets with definite lives as of March 30, 2019 is as follows:

(in thousands)	Amount
2019	$49,524
2020	38,776
2021	36,930
2022	35,884
2023	30,423
2024 and thereafter	169,075
Total	$360,612

6. Lease Commitments

The Company leases office and production space under various non-cancelable operating leases that expire no later than 2025. Certain real estate leases include one or more options to renew. The exercise of lease renewal options is at the Company's sole discretion. Options to extend the lease are included in the lease term when it is reasonably certain the Company will exercise the option.The Company also has production equipment, office equipment and vehicles under operating leases. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option that is reasonably certain of exercise. Certain leases include rental payments adjusted periodically for inflation. The lease agreements do not contain any material residual value guarantee or material restrictive covenants.

The Company does not have a published credit rating because it has no publicly traded debt; therefore, the Company is generating its incremental borrowing rate (IBR), using a synthetic credit rating model that compares its credit quality to other rated companies based on certain financial metrics and ratios. The reference rate will be based on the yield curve of companies with similar credit quality based on the metrics and adjusted for currency in regions where we have significant operations.

All leases with an initial term of 12 months or less that do not include an option to extend or purchase the underlying asset that the Company is reasonably certain to exercise (“short-term leases”) are not recorded on the Condensed Consolidated Balance Sheet. Short-term lease expenses are recognized on a straight-line basis over the lease term.

The following table presents the classification of ROU assets and lease liabilities as of March 30, 2019:

Leases (in thousands)	Condensed Consolidated Balance Sheet Classification	March 30, 2019
Assets		
Operating ROU assets	Right of use lease assets, net	$ 24,725
Liabilities		
Current operating lease liabilities	Accrued liabilities	$ 7,447
Non-current operating lease liabilities	Non-current operating lease liabilities	19,950
Total lease liabilities		$ 27,397

The following table represents the lease costs for the three months ended March 30, 2019:

Leases cost (in thousands)	Condensed Consolidated Statements of Net Income Classification	March 30, 2019
Short-term lease expenses	Cost of sales, SG&A expenses	$ 153

Variable lease expenses	Cost of sales, SG&A expenses	194
Operating lease rent expenses	Cost of sales, SG&A expenses	2,193
Total operating lease costs	Cost of sales, SG&A expenses	$ 2,540

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Maturity of Lease Liabilities as of March 30, 2019 (in thousands)	Operating leases
2019 (excluding the three months ended March 30, 2019)	$ 6,574
2020	7,551
2021	5,779
2022	4,665
2023	3,062
2024 and thereafter	3,064
Total lease payments	$ 30,695
Present value of lease Liabilities	$ 27,397

Operating Lease Term and Discount Rate	March 30, 2019	
Weighted-average remaining lease term (years)	4.40	
Weighted-average discount rate	5.17	%

Other Information (in thousands)	Three Months Ended March 30, 2019		
Cash paid for amounts included in the measurement of lease liabilities			
Operating cash flow payments for operating leases	$	(2,253	)
Leased assets obtained in exchange for operating lease liabilities	859		

7. Accrued Liabilities

The components of accrued liabilities at March 30, 2019 and December 29, 2018 are as follows:

(in thousands)	March 30, 2019	December 29, 2018
Employee-related liabilities	$ 38,479	$ 60,640
Other non-income taxes	25,379	21,523
Operating lease liability	7,447	—
Professional services	5,395	6,169
Interest	2,487	5,137
Accrued share repurchases	—	4,349
Restructuring liability	2,144	3,887
Other	25,883	36,700
Total	$ 107,214	$ 138,405

Employee-related liabilities consist primarily of payroll, sales commission, bonus, employee benefit accruals and workers’ compensation. Bonus accruals include amounts earned pursuant to the Company’s primary employee incentive compensation plans. Other accrued liabilities include miscellaneous operating accruals and other client-related liabilities.

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8. Restructuring, Impairment and Other Charges

The Company recorded restructuring, impairment and other charges-net for three months ended March 30, 2019 and March 31, 2018 as follows:

	Three months ended March 30, 2019			
(in thousands)	Electronics	Automotive	Industrial	Total
Employee terminations	$1,800	$ 605	$ 47	$2,452
Other restructuring charges	13	20	250	283
Total restructuring charges	$1,813	$ 625	$ 297	$2,735

	Three months ended March 31, 2018			
(in thousands)	Electronics	Automotive	Industrial	Total
Employee terminations	$677	$ 99	$ 3	$779
Total restructuring charges	$677	$ 99	$ 3	$779

2019
For the three months ended March 30, 2019, the Company recorded total restructuring charges of $2.7 million, of which $2.5 million was for employee termination costs and $0.3 million for other restructuring charges. These charges primarily related to reorganization of operations and selling, general and administrative functions as well as integration of IXYS within the Electronics segment and the reorganization of operations in the commercial vehicle products and automotive sensors businesses within the Automotive segment.

In April 2019, we announced the closure of a European manufacturing facility in the automotive sensors business within the Automotive segment. The Company estimates the restructuring costs associated with this plant closure to be approximately $5.0 million to $7.0 million.

2018
For the three months ended March 31, 2018, the Company recorded total restructuring charges of $0.8 million for employee termination costs mainly related to the Electronics segment.

The restructuring reserves as of March 30, 2019 and December 29, 2018 are $2.1 million and $3.9 million, respectively. The restructuring reserves are included within accrued liabilities in the Condensed Consolidated Balance Sheets. The Company anticipates the remaining payments associated with employee terminations will be completed in the second quarter of fiscal year 2019.

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9. Debt

The carrying amounts of debt at March 30, 2019 and December 29, 2018 are as follows:

(in thousands)	March 30, 2019	December 29, 2018
Term Loan	$150,000	$ 155,000
Euro Senior Notes, Series A due 2023	131,499	133,417
Euro Senior Notes, Series B due 2028	106,772	108,330
U.S. Senior Notes, Series A due 2022	25,000	25,000
U.S. Senior Notes, Series B due 2027	100,000	100,000
U.S. Senior Notes, Series A due 2025	50,000	50,000
U.S. Senior Notes, Series B due 2030	125,000	125,000
Other	2,619	2,619
Unamortized debt issuance costs	(4,380)	(4,636)
Total debt	686,510	694,730
Less: Current maturities	(10,000)	(10,000)
Total long-term debt	$676,510	$ 684,730

Revolving Credit Facility / Term Loan

On March 4, 2016, the Company entered into a five-year credit agreement (“Credit Agreement”) with a group of lenders for up to $700.0 million. The Credit Agreement consisted of an unsecured revolving credit facility (“Revolving Credit Facility”) of $575.0 million and an unsecured term loan credit facility (“Term Loan”) of up to $125.0 million. In addition, the Company had the ability, from time to time, to increase the size of the Revolving Credit Facility and the Term Loan by up to an additional $150.0 million, in the aggregate, in each case in minimum increments of $25.0 million, subject to certain conditions and the agreement of participating lenders.

On October 13, 2017, the Company amended the Credit Agreement to increase the Revolving Credit Facility from $575.0 million to $700.0 million and increase the Term Loan from $125.0 million to $200.0 million and to extend the expiration date from March 4, 2021 to October 13, 2022. The Credit Agreement also includes the option for the Company to increase the size of the Revolving Credit Facility and the Term Loan by up to an additional $300.0 million, in the aggregate, subject to the satisfaction of certain conditions set forth in the Credit Agreement. Term Loans may be made in up to two advances. The first advance of $125.0 million occurred on October 13, 2017 and the second advance of $75.0 million occurred on January 16, 2018. For the Term Loan, the Company is required to make quarterly principal payments of 1.25% of the original term loan ($2.5 million with the second advance on January 16, 2018) through maturity, with the remaining balance due on October 13, 2022. The Company paid quarterly principal payments of $5.0 million on the term loan during the three months ended March 30, 2019.

Outstanding borrowings under the Credit Agreement bear interest, at the Company’s option, at either LIBOR, fixed for interest periods of one, two, three or six-month periods, plus 1.00% to 2.00%, or at the bank’s Base Rate, as defined, plus 0.00% to 1.00%, based upon the Company’s Consolidated Leverage Ratio, as defined. The Company is also required to pay commitment fees on unused portions of the credit agreement ranging from 0.15% to 0.25%, based on the Consolidated Leverage Ratio, as defined in the agreement. The credit agreement includes representations, covenants and events of default that are customary for financing transactions of this nature. The effective interest rate on outstanding borrowings under the credit facility was 3.75% at March 30, 2019.

As of March 30, 2019, the Company had $0.1 million outstanding in letters of credit and had available $699.9 million of borrowing capacity under the Revolving Credit Facility. At March 30, 2019, the Company was in compliance with all covenants under the Credit Agreement.

Senior Notes

On December 8, 2016, the Company entered into a Note Purchase Agreement, pursuant to which the Company issued and sold €212 million aggregate principal amount of senior notes in two series. The funding date for the Euro denominated senior notes occurred on December 8, 2016 for €117 million in aggregate amount of 1.14% Senior Notes, Series A, due December 8, 2023

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(“Euro Senior Notes, Series A due 2023”), and €95 million in aggregate amount of 1.83% Senior Notes, Series B due December 8, 2028 (“Euro Senior Notes, Series B due 2028”) (together, the “Euro Senior Notes”). Interest on the Euro Senior Notes is payable semiannually on June 8 and December 8, commencing June 8, 2017.

On December 8, 2016, the Company entered into a Note Purchase Agreement, pursuant to which the Company issued and sold $125 million aggregate principal amount of senior notes in two series. On February 15, 2017, $25 million in aggregate principal amount of 3.03% Senior Notes, Series A, due February 15, 2022 (“U.S. Senior Notes, Series A due 2022”), and $100 million in aggregate principal amount of 3.74% Senior Notes, Series B, due February 15, 2027 (“U.S. Senior Notes, Series B due 2027”) (together, the “U.S. Senior Notes due 2022 and 2027”) were funded. Interest on the U.S. Senior Notes due 2022 and 2027 is payable semiannually on February 15 and August 15, commencing August 15, 2017.

On November 15, 2017, the Company entered into a Note Purchase Agreement pursuant to which the Company issued and sold $175 million in aggregate principal amount of senior notes in two series. On January 16, 2018, $50 million aggregate principal amount of 3.48% Senior Notes, Series A, due February 15, 2025 (“U.S. Senior Notes, Series A due 2025”) and $125 million in aggregate principal amount of 3.78% Senior Notes, Series B, due February 15, 2030 (“U.S. Senior Notes, Series B due 2030”) (together the “U.S. Senior Notes due 2025 and 2030” and with the Euro Senior Notes and the U.S. Senior Notes due 2022 and 2027, the “Senior Notes”) were funded. Interest on the U.S. Senior Notes due 2025 and 2030 is payable semiannually on February 15 and August 15, commencing on August 15, 2018.

The Senior Notes have not been registered under the Securities Act, or applicable state securities laws. The Senior Notes are general unsecured senior obligations and rank equal in right of payment with all existing and future unsecured unsubordinated indebtedness of the Company.

The Senior Notes are subject to certain customary covenants, including limitations on the Company’s ability, with certain exceptions, to engage in mergers, consolidations, asset sales and transactions with affiliates, to engage in any business that would substantially change the general business of the Company, and to incur liens. In addition, the Company is required to satisfy certain financial covenants and tests relating to, among other matters, interest coverage and leverage. At March 30, 2019, the Company was in compliance with all covenants under the Senior Notes.

The Company may redeem the Senior Notes upon the satisfaction of certain conditions and the payment of a make-whole amount to noteholders, and are required to offer to repurchase the Senior Notes at par following certain events, including a change of control.

Interest paid on all Company debt was $8.0 million and $4.0 million in the three months ended M