



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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of July 29, 2016, 22,453,175 shares of common stock, \$.01 par value, of the registrant were outstanding.

---

**TABLE OF CONTENTS**

|   | <u>Page</u> |
|---|-------------|
| <b>PART I - FINANCIAL INFORMATION</b>   |             |
| Item 1. Financial Statements.   |             |
| Condensed Consolidated Balance Sheets as of July 2, 2016 (unaudited) and January 2, 2016  | 1           |
| Consolidated Statements of Net Income for the three and six months ended July 2, 2016 (unaudited) and June 27, 2015 (unaudited)           | 2           |
| Consolidated Statements of Comprehensive Income for the three and six months ended July 2, 2016 (unaudited) and June 27, 2015 (unaudited) | 3           |
| Consolidated Statements of Cash Flows for the six months ended July 2, 2016 (unaudited) and June 27, 2015 (unaudited)                     | 4           |
| Notes to Condensed Consolidated Financial Statements (unaudited)  | 5           |
| Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.  | 17          |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk.   | 24          |
| Item 4. Controls and Procedures   | 25          |
| <b>PART II - OTHER INFORMATION</b>  |             |
| Item 1. Legal Proceedings   | 26          |
| Item 1A. Risk Factors   | 26          |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds   | 26          |
| Item 3. Defaults Upon Senior Securities   | 26          |
| Item 4. Mine Safety Disclosures   | 26          |
| Item 5. Other Information   | 26          |
| Item 6. Exhibits  | 27          |
| Signatures  | 28          |



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

(In thousands of USD, except share amounts)

|   | <b>July 2, 2016</b> | January 2,<br>2016 |
|---|---------------------|--------------------|
|   | <b>(unaudited)</b>  |                    |
| <b>Assets</b>   |                     |                    |
| Current assets:   |                     |                    |
| Cash and cash equivalents                                   | <b>\$ 179,461</b>   | \$328,786          |
| Short-term investments                                      | <b>3,920</b>        | 4,179              |
| Accounts receivable, less allowances                        | <b>197,543</b>      | 142,882            |
| Inventories   | <b>124,700</b>      | 98,629             |
| Prepaid expenses and other current assets                   | <b>14,253</b>       | 8,238              |
| Total current assets  | <b>519,877</b>      | 582,714            |
| Property, plant and equipment:                              |                     |                    |
| Land  | <b>14,255</b>       | 5,236              |
| Buildings   | <b>84,457</b>       | 71,383             |
| Equipment   | <b>450,597</b>      | 382,429            |
|   | <b>549,309</b>      | 459,048            |
| Accumulated depreciation                                    | <b>(324,799)</b>    | (296,480)          |
| Net property, plant and equipment                           | <b>224,510</b>      | 162,568            |
| Intangible assets, net of amortization:                     |                     |                    |
| Patented and unpatented technologies, licenses and software | <b>76,703</b>       | 20,221             |
| Distribution network  | <b>18,664</b>       | 16,490             |
| Customer lists, trademarks and tradenames                   | <b>92,313</b>       | 54,912             |
| Goodwill  | <b>363,341</b>      | 189,767            |
| Investments   | <b>13,936</b>       | 15,197             |
| Deferred income taxes                                       | <b>13,994</b>       | 8,333              |
| Other assets  | <b>18,460</b>       | 14,058             |
| Total assets  | <b>\$ 1,341,798</b> | \$ 1,064,260       |
| <b>Liabilities and Equity</b>                               |                     |                    |
| Current liabilities:  |                     |                    |
| Accounts payable  | <b>\$ 78,197</b>    | \$51,658           |

|                                      |                     |              |
|--------------------------------------|---------------------|--------------|
| Accrued payroll                      | <b>30,615</b>       | 32,611       |
| Accrued expenses                     | <b>55,716</b>       | 24,145       |
| Accrued severance                    | <b>1,328</b>        | 3,798        |
| Accrued income taxes                 | <b>6,682</b>        | 15,567       |
| Current portion of long-term debt    | <b>6,250</b>        | 87,000       |
| Total current liabilities            | <b>178,788</b>      | 214,779      |
| Long-term debt, less current portion | <b>361,732</b>      | 83,753       |
| Deferred income taxes                | <b>6,347</b>        | 8,014        |
| Accrued post-retirement benefits     | <b>7,498</b>        | 5,653        |
| Other long-term liabilities          | <b>12,576</b>       | 12,809       |
| Total equity                         | <b>774,857</b>      | 739,252      |
| <br>                                 |                     |              |
| Total liabilities and equity         | <b>\$ 1,341,798</b> | \$ 1,064,260 |

Common shares issued of 22,552,780 and 22,420,785, at July 2, 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<br>Months Ended |                  | For the Six Months<br>Ended |                  |
|--|-------------------------------|------------------|-----------------------------|------------------|
|  | <b>July 2,<br/>2016</b>       | June 27,<br>2015 | <b>July 2,<br/>2016</b>     | June 27,<br>2015 |
| Net sales  | <b>\$271,912</b>              | \$222,021        | <b>\$491,310</b>            | \$432,334        |
| Cost of sales  | <b>174,046</b>                | 136,740          | <b>306,289</b>              | 270,723          |
| Gross profit   | <b>97,866</b>                 | 85,281           | <b>185,021</b>              | 161,611          |
| Selling, general and administrative expenses               | <b>51,092</b>                 | 38,772           | <b>93,458</b>               | 75,117           |
| Research and development expenses                          | <b>11,916</b>                 | 7,361            | <b>20,481</b>               | 14,745           |
| Amortization of intangibles                                | <b>5,156</b>                  | 2,977            | <b>8,952</b>                | 6,030            |
|  | <b>68,164</b>                 | 49,110           | <b>122,891</b>              | 95,892           |
| Operating income   | <b>29,702</b>                 | 36,171           | <b>62,130</b>               | 65,719           |
| Interest expense   | <b>1,670</b>                  | 948              | <b>3,715</b>                | 2,099            |
| Foreign exchange (gain) loss                               | <b>(6,237 )</b>               | (1,292 )         | <b>(2,414 )</b>             | 1,825            |
| Other (income) expense, net                                | <b>255</b>                    | (1,202 )         | <b>(262 )</b>               | (2,328 )         |
| Income before income taxes                                 | <b>34,014</b>                 | 37,717           | <b>61,091</b>               | 64,123           |
| Income taxes   | <b>6,862</b>                  | 9,033            | <b>14,650</b>               | 15,444           |
| Net income   | <b>\$27,152</b>               | \$28,684         | <b>\$46,441</b>             | \$48,679         |
| Net income per share (see Note 9):                         |                               |                  |                             |                  |
| Basic  | <b>\$1.21</b>                 | \$1.26           | <b>\$2.07</b>               | \$2.15           |
| Diluted  | <b>\$1.20</b>                 | \$1.26           | <b>\$2.05</b>               | \$2.13           |
| Weighted average shares and equivalent shares outstanding: |                               |                  |                             |                  |
| Basic  | <b>22,528</b>                 | 22,691           | <b>22,483</b>               | 22,645           |
| Diluted  | <b>22,674</b>                 | 22,835           | <b>22,647</b>               | 22,810           |
| Cash dividends paid per common share                       | <b>\$0.29</b>                 | \$0.25           | <b>\$0.58</b>               | \$0.50           |





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

(In thousands of USD, unaudited)

|  | For the Three<br>Months Ended |                  | For the Six Months<br>Ended |                  |
|--|-------------------------------|------------------|-----------------------------|------------------|
|  | <b>July 2,<br/>2016</b>       | June 27,<br>2015 | <b>July 2,<br/>2016</b>     | June 27,<br>2015 |
| Net income   | <b>\$27,152</b>               | \$28,684         | <b>\$46,441</b>             | \$48,679         |
| Other comprehensive income (loss):   |                               |                  |                             |                  |
| Pension liability adjustments (net of tax of \$32 and \$385 for the three months ended 2016 and 2015, and \$365 and \$416 for the six months ended 2016 and 2015, respectively)                | <b>(137 )</b>                 | (198 )           | <b>(45 )</b>                | (124 )           |
| Reclassification adjustments to expense, (net of tax of \$0 and (\$249), for the three months ended 2016 and 2015, and (\$0) and (\$498) for the six months ended 2016 and 2015, respectively) | <b>71</b>                     | 985              | <b>144</b>                  | 1,971            |
| Unrealized (loss) gain on investments  | <b>(252 )</b>                 | 1,380            | <b>(1,486 )</b>             | 3,336            |
| Foreign currency translation adjustments   | <b>(14,935)</b>               | 3,821            | <b>(3,180 )</b>             | (10,153)         |
| Comprehensive income   | <b>\$11,899</b>               | \$34,672         | <b>\$41,874</b>             | \$43,709         |

See accompanying notes.

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

(In thousands of USD, unaudited)

|   | For the Six Months<br>Ended |                  |
|---|-----------------------------|------------------|
|   | <b>July 2,<br/>2016</b>     | June 27,<br>2015 |
| <b>Operating activities:</b>  |                             |                  |
| Net income  | <b>\$46,441</b>             | \$48,679         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                             |                  |
| Depreciation  | <b>16,156</b>               | 14,761           |
| Amortization of intangibles   | <b>8,952</b>                | 6,030            |
| Stock-based compensation  | <b>6,124</b>                | 5,764            |
| Impairment of long-lived assets   | <b>1,391</b>                | —                |
| Non-cash inventory charge   | <b>6,902</b>                | —                |
| Excess tax benefit on share-based compensation                                    | <b>(1,585 )</b>             | (1,470 )         |
| Loss on sale of assets  | <b>331</b>                  | 329              |
| Changes in operating assets and liabilities:                                      |                             |                  |
| Accounts receivable   | <b>(20,846 )</b>            | (21,266 )        |
| Inventories   | <b>(1,282 )</b>             | (1,199 )         |
| Accounts payable  | <b>2,974</b>                | 3,440            |
| Accrued expenses (including post-retirement)                                      | <b>5,715</b>                | 11,129           |
| Accrued payroll and severance   | <b>(10,227 )</b>            | (3,652 )         |
| Accrued taxes   | <b>(13,946 )</b>            | (3,003 )         |
| Prepaid expenses and other  | <b>(11,824 )</b>            | 2,422            |
| Net cash provided by operating activities   | <b>35,276</b>               | 61,964           |
| <b>Investing activities:</b>  |                             |                  |
| Acquisition of businesses, net of cash acquired                                   | <b>(354,356)</b>            | —                |
| Purchases of property, plant, and equipment                                       | <b>(20,217 )</b>            | (26,388 )        |
| Decrease in entrusted loan receivable   | <b>—</b>                    | 3,519            |
| Proceeds from sale of assets  | <b>370</b>                  | 48               |
| Net cash used in investing activities   | <b>(374,203)</b>            | (22,821 )        |
| <b>FINANCING activities:</b>  |                             |                  |
| Proceeds from revolving credit facility   | <b>258,000</b>              | 11,000           |
| Proceeds from term loan   | <b>125,000</b>              | —                |
| Payments of revolving credit facility   | <b>(97,500 )</b>            | (21,000 )        |
| Payments of term loan   | <b>(86,563 )</b>            | (2,500 )         |
| Payments of entrusted loan  | <b>—</b>                    | (3,519 )         |
| Debt issuance costs   | <b>(1,701 )</b>             | (42 )            |

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

|  |                  |           |
|--|------------------|-----------|
| Cash dividends paid  | <b>(12,995 )</b> | (11,296 ) |
| Proceeds from exercise of stock options                      | <b>2,960</b>     | 6,278     |
| Excess tax benefit on share-based compensation               | <b>1,586</b>     | 1,470     |
| Net cash (used in) provided by financing activities          | <b>188,787</b>   | (19,609 ) |
| Effect of exchange rate changes on cash and cash equivalents | <b>815</b>       | (5,190 )  |
| Increase (decrease) in cash and cash equivalents             | <b>(149,325)</b> | 14,344    |
| Cash and cash equivalents at beginning of period             | <b>328,786</b>   | 297,571   |
| Cash and cash equivalents at end of period                   | <b>\$179,461</b> | \$311,915 |

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 July 2, 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 months ended July 2, 2016 include the operating results of PolySwitch for the three month period from March 25, 2016 through June 25, 2016. The company's unaudited consolidated statements of income for the three and six months ended July 2, 2016 both exclude a portion of the operating results of the PolySwitch business for the eight day period of June 26, 2016 through July 2, 2016. The related excluded portion of the operating results of PolySwitch for this eight day period is not material to the company's financial statements for the three and six months ended July 2, 2016 and will be included within the company's statement of income for the quarter ended October 1, 2016.

### 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 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):

|                           | <b>January 2, 2016</b> |                   |                |
|---------------------------|------------------------|-------------------|----------------|
|                           | <b>Previously</b>      | <b>Adjustment</b> | <b>As</b>      |
|                           | <b>Reported</b>        |                   | <b>Revised</b> |
| Accrued income taxes      | \$ 10,621              | \$ 4,946          | \$ 15,567      |
| Total current liabilities | 209,833                | 4,946             | 214,779        |
| 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                 | Adjustment | As        | Previously                   | Adjustment | As        |
|                                | Reported                   |            | Revised   | Reported                     |            | 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 ) | \$ 4.35   |
| Net income per share - Diluted | \$3.63                     | \$ (0.07 ) | \$ 3.56   | \$4.37                       | \$ (0.05 ) | \$ 4.32   |

A reconciliation of the effects of the adjustments to the previously reported statements of cash flows for the years ended January 2, 2016 and December 27, 2014 follows (\$ in thousands):

|   | Year Ended January 2, 2016 |             |           | Year Ended December 27, 2014 |             |           |
|---|----------------------------|-------------|-----------|------------------------------|-------------|-----------|
|   | Previously                 | Adjustment  | As        | Previously                   | Adjustment  | As        |
|   | Reported                   |             | Revised   | Reported                     |             | Revised   |
| Net income                                | \$82,466                   | \$ (1,600 ) | \$ 80,866 | \$99,418                     | \$ (1,318 ) | \$ 98,100 |
| Accrued taxes                             | (1,043 )                   | 1,600       | 557       | (549 )                       | 1,318       | 769       |
| Net cash provided by operating activities | 165,826                    | —           | 165,826   | 153,141                      | —           | 153,141   |

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

|                            | Year Ended January 2, 2016 |             |           | Year Ended December 27, 2014 |             |           |
|----------------------------|----------------------------|-------------|-----------|------------------------------|-------------|-----------|
|                            | Previously                 | Adjustment  | As        | Previously                   | Adjustment  | As        |
|                            | Reported                   |             | Revised   | Reported                     |             | Revised   |
| Net income                 | \$82,466                   | \$ (1,600 ) | \$ 80,866 | \$99,418                     | \$ (1,318 ) | \$ 98,100 |
| Comprehensive income       | 57,921                     | (1,600 )    | 56,321    | 57,875                       | (1,318 )    | 56,557    |
| Retained earnings          | 562,717                    | (4,946 )    | 557,771   | 523,302                      | (3,346 )    | 519,956   |
| Total shareholders' equity | 744,198                    | (4,946 )    | 739,252   | 727,665                      | (3,346 )    | 724,319   |

A reconciliation of the effects of the adjustments to the previously reported statement of equity at December 28, 2013 follows (\$ in thousands):

**December 28, 2013**

|                            | <b>Previously<br/>Reported</b> | <b>Adjustment</b> | <b>As<br/>Revised</b> |
|----------------------------|--------------------------------|-------------------|-----------------------|
| Retained earnings          | \$445,059                      | \$ (2,028 )       | \$443,031             |
| Total shareholders' equity | 686,916                        | (2,028 )          | 684,888               |

**3. Reclassifications**

Certain amounts presented in the 2015 financial statements have been reclassified to conform to the 2016 presentation. In April 2015, the FASB issued ASU No. 2015-03, *Interest - Imputation of Interest* (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The amended guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amended guidance is to be applied on a retrospective basis. The company adopted the new guidance on January 3, 2016 and has made the corresponding reclassification on its balance sheet for the fiscal year ended January 2, 2016. The adoption of the new guidance had no effect on the company's net income, cash flows or shareholder's equity.

#### 4. Acquisition of Businesses

##### *Member's*

On April 4, 2016, the company completed the acquisition of Member's S.p.A. ("Member's") headquartered in Legnago, Italy for \$18.7 million, after settlement of a working capital adjustment. At July 2, 2016, \$17.8 million of the \$18.7 million purchase price has been paid and financed through a mixture of cash on hand and borrowings under the company's revolving credit facility, with the remaining consideration expected to be paid out in the remainder of 2016. The acquired business is part of the company's commercial vehicle product business within the Automotive segment, specializes in the design, manufacturing and selling of manual and electrical battery switches and trailer connectors for commercial vehicles.

The following table represents the preliminary allocation of the total consideration to assets acquired and liabilities assumed in the acquisition of Member's based on the company's preliminary estimate of their respective fair values at the acquisition date (in thousands):

|   |           |
|---|-----------|
| Total purchase consideration:   |           |
| Cash  | \$ 17,798 |
| Additional consideration payable  | 919       |
| Total purchase consideration  | \$ 18,717 |
| Preliminary allocation of consideration to assets acquired and liabilities assumed: |           |
| Cash  | \$ 15     |
| Current assets, net   | 13,287    |
| Property, plant and equipment   | 1,558     |
| Customer relationships  | 3,066     |
| Patented and unpatented technologies  | 389       |
| Trademarks and tradenames   | 1,849     |
| Goodwill  | 7,364     |
| Current liabilities   | (7,367 )  |
| Other non-current liabilities   | (1,444 )  |
|   | \$ 18,717 |

All Member's goodwill and other assets and liabilities were recorded in the Automotive segment and reflected in the Europe geographical area. The customer relationships are being amortized over 10 years. The patented and unpatented technologies are being amortized over 5 years. The trademarks and tradenames are being amortized over 10 years. The goodwill resulting from this acquisition consists largely of the company's expected future product sales and synergies from combining Member's products with the company's existing automotive product portfolio. Goodwill for the above



acquisition is not expected to be deductible for tax purposes.

Included in the company's consolidated statements of net income for the three months ended July 2, 2016 are net sales of approximately \$6.8 million and income before income taxes of approximately \$0.6 million since the April 4, 2016 acquisition of Menber's.

The company incurred legal, professional and other costs related to this acquisition aggregating approximately \$0.1 and \$0.2 million for the three and six months ended July 2, 2016. These costs were recognized as selling, general and administrative expenses and reflected as other non-segment costs.

*PolySwitch*

On March 25, 2016, the company acquired 100% of the circuit protection business (“PolySwitch”) of TE Connectivity Ltd. for \$350.0 million, subject to certain post-closing adjustments. The PolySwitch business, which is split between the Automotive and Electronics segments, has a leading position in polymer based resettable circuit protection devices, with a strong global presence in the automotive, battery, industrial, communications and mobile computing markets. PolySwitch has operations in Menlo Park, California and manufacturing facilities in Shanghai and Kunshan, China and Tsukuba, Japan. The acquisition allows the company to strengthen its global circuit protection product portfolio, as well as strengthen its presence in the automotive electronics and battery end markets. The acquisition also significantly increases the company’s presence in Japan. The company funded the acquisition with available cash and proceeds from a new credit facility.

The following table represents the preliminary allocation of the total consideration to assets acquired and liabilities assumed in the acquisition of PolySwitch based on the company’s preliminary estimate of their respective fair values at the acquisition date (in thousands):

|   |            |
|---|------------|
| Total purchase consideration  | \$ 350,000 |
| Preliminary allocation of consideration to assets acquired and liabilities assumed: |            |
| Cash  | \$ 16,958  |
| Other current assets, net   | 57,114     |
| Property, plant and equipment   | 57,042     |
| Patented and unpatented technologies  | 56,425     |
| Customer relationships  | 39,720     |
| Goodwill  | 165,797    |
| Other long-term assets  | 15,899     |
| Current liabilities   | (53,389 )  |
| Other non-current liabilities   | (5,566 )   |
|   | \$ 350,000 |

All PolySwitch goodwill and other assets and liabilities were recorded in the Automotive and Electronics segments and reflected in all geographic areas. The customer relationships are being amortized over 15 years. The patented and unpatented technologies are being amortized over 10 years. The goodwill resulting from this acquisition consists largely of the company’s expected future product sales and synergies from combining PolySwitch products with the company’s existing automotive and electronics product portfolio. A portion of the goodwill for the above acquisition is expected to be deductible for tax purposes.

As required by purchase accounting rules, the company recorded a \$6.9 million step-up of inventory to its fair value as of the acquisition date based on the preliminary valuation. The step-up was amortized as a non-cash charge to cost of goods sold during the second quarter of 2016, as the acquired inventory was sold, and reflected as other non-segment costs.

Included in the company's consolidated statements of net income for the three months ended July 2, 2016 are net sales of approximately \$36.4 million and a loss before income taxes of approximately \$9.1 million since the March 25, 2016 acquisition of PolySwitch.

The company incurred legal, professional and other costs related to this acquisition aggregating approximately \$5.7 million and \$11.6 million for the three and six months ended July 2, 2016, respectively. Of these costs, approximately \$0.9 million were recognized as cost of goods sold during the second quarter and the remainder of the costs both periods were recognized as selling, general and administrative expenses. All of these costs were reflected as other non-segment costs.

#### *Sigmar S.r.l*

On October 1, 2015, the company acquired 100% of Sigmar S.r.l. ("Sigmar"). The total purchase price for Sigmar is expected to be \$6.7 million, net of cash acquired and including: (1) additional consideration of \$1.1 million paid in the first six months of 2016 relating to certain working capital related adjustments and an earn-out clause payment; and (2) estimated additional net payments of up to \$0.8 million, a portion of which is subject to the achievement of certain milestones.

Located in Ozegna, Italy, Sigmar is a leading global manufacturer of water-in-fuel sensors and also manufactures selective catalytic reduction (SCR) quality sensors, diesel fuel heaters and rotating oil filters for automotive and commercial vehicle applications. The acquisition further expanded the company's automotive sensor product line offerings within its Automotive segment. The company funded the acquisition with available cash.

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

|   |         |
|---|---------|
| Total purchase consideration:   |         |
| Cash  | \$5,845 |
| Estimated additional consideration payable  | 844     |
| Total purchase consideration  | \$6,689 |
| Preliminary allocation of consideration to assets acquired and liabilities assumed: |         |
| Cash  | \$230   |
| Current assets, net   | 4,011   |
| Property, plant and equipment   | 1,097   |
| Goodwill  | 2,552   |
| Patents   | 2,845   |
| Current liabilities   | (1,478) |
| Other non-current liabilities   | (2,568) |
|   | \$6,689 |

All Sigmar goodwill and other assets and liabilities were recorded in the Automotive segment and reflected in the Europe geographical area. The patents are being amortized over 10 years. The goodwill resulting from this acquisition consists largely of the company's expected future product sales and synergies from combining Sigmar's products with the company's existing automotive product offerings. Goodwill for the above acquisition is not expected to be deductible for tax purposes.

#### *Pro Forma Results*

The following table summarizes, on a pro forma basis, the combined results of operations of the company and PolySwitch as though the acquisition had occurred as of December 28, 2014. The company has not provided pro forma results of operations for Menber's or Sigmar as these results were not material to the company. The pro forma amounts presented are not necessarily indicative of either the actual consolidated results had the PolySwitch acquisition occurred as of December 28, 2014 or of future consolidated operating results.

| (in thousands, except per share amounts) | For the Three<br>Months Ended |                  | For the Six Months<br>Ended |                  |
|--|-------------------------------|------------------|-----------------------------|------------------|
|  | July 2,<br>2016               | June 27,<br>2015 | July 2,<br>2016             | June 27,<br>2015 |
| Net sales                                | \$271,912                     | \$267,711        | \$525,520                   | \$523,844        |
| Income before income taxes               | 40,916                        | 41,206           | 72,348                      | 64,881           |
| Net income                               | 32,662                        | 32,743           | 57,085                      | 56,493           |
| Net income per share — basic             | 1.45                          | 1.44             | 2.54                        | 2.49             |
| Net income per share — diluted           | 1.44                          | 1.43             | 2.52                        | 2.48             |

Pro forma results presented above primarily reflect: (1) incremental depreciation relating to fair value adjustments to property, plant and equipment; (2) amortization adjustments relating to fair value estimates of intangible assets; (3) incremental interest expense on assumed indebtedness; and (4) additional cost of goods sold relating to the capitalization of gross profit which will be recognized during the company's quarter ended July 2, 2016 as part of purchase accounting recognized for purposes of the pro forma as if it was recognized during the company's first quarter of 2015. Pro forma adjustments described above have been tax affected using the company's effective rate during the respective periods.

The historical PolySwitch results for the three and six months ended July 2, 2016 and June 27, 2015 do not include a provision for income taxes. Income tax expense for the historical PolySwitch business was only provided at the end of the business's fiscal year ended September 25, 2015.

## 5. Inventories

The components of inventories at July 2, 2016 and January 2, 2016 are as follows (in thousands):

|                   | <b>July 2,<br/>2016</b> | January<br>2, 2016 |
|-------------------|-------------------------|--------------------|
| Raw material      | <b>\$37,738</b>         | \$33,599           |
| Work in process   | <b>24,978</b>           | 16,479             |
| Finished goods    | <b>61,984</b>           | 48,551             |
| Total inventories | <b>\$124,700</b>        | \$98,629           |

## 6. Investments

The company's investments represent shares of Polytronics Technology Corporation Ltd. ("Polytronics"), a Taiwanese company, and shares of Monolith Semiconductor, Inc. ("Monolith"), a Texas-based start-up company.

### Polytronics

The Polytronics investment was acquired as part of the Littelfuse GmbH acquisition. The fair value of the Polytronics investment was €9.4 million (approximately \$10.4 million) at July 2, 2016 and €10.7 million (approximately \$11.7 million) at January 2, 2016. Included in 2016 other comprehensive income is an unrealized loss of \$1.5 million, due to the decrease in fair market value of the Polytronics investment. The remaining change in in the recorded value was due to the impact of changes in exchange rates.

### Monolith

In December, 2015, the company invested \$3.5 million in the preferred stock of Monolith, a U.S. start-up company developing silicon carbide technology, which represents approximately 12% of the common stock of Monolith on an as-converted basis. The company accounts for its investment in Monolith under the cost method. The value of the Monolith investment was \$3.5 million at July 2, 2016 and January 2, 2016.

## 7. Debt

The carrying amounts of debt at July 2, 2016 and January 2, 2016 are as follows (in thousands):

|                                 | <b>July 2,<br/>2016</b> | January<br>2, 2016 |
|---------------------------------|-------------------------|--------------------|
| Revolving credit facility       | <b>\$237,500</b>        | \$77,000           |
| Term loan                       | <b>123,438</b>          | 85,000             |
| Entrusted loan                  | <b>9,256</b>            | 9,474              |
| Unamortized debt issuance costs | <b>(2,212 )</b>         | (721 )             |
| Total debt                      | <b>367,982</b>          | 170,753            |
| Less: Current maturities        | <b>6,250</b>            | 87,000             |
| Total long-term debt            | <b>\$361,732</b>        | <b>\$83,753</b>    |

### *Revolving Credit Facility / Term Loan*

On March 4, 2016, the company entered into a new credit agreement with Bank of America, as agent, for up to \$700.0 million which consists of an unsecured revolving credit facility of \$575.0 million and an unsecured term loan credit facility of up to \$125.0 million. The new credit agreement is for a five year period. The new credit agreement replaced the company's previous credit agreement dated May 31, 2013, which was terminated on March 4, 2016. As of July 2, 2016, the company had had \$0.1 million outstanding in letters of credit and had available \$337.4 million of borrowing capacity under the revolving credit facility at an interest rate of LIBOR plus 1.5% (1.97% as of July 2, 2016). At July 2, 2016, the company was in compliance with all covenants under the credit agreement.

### *Entrusted Loan*

During 2014, the company entered into an entrusted loan arrangement (“Entrusted Loan”) of RMB 110.0 million (approximately \$17.9 million) between two of its China legal entities, Littelfuse Semiconductor (Wuxi) Company (the “lender”) and Suzhou Littelfuse OVS Ltd. (the “borrower”), utilizing Bank of America, N.A., Shanghai Branch as agent. Direct borrowing and lending between two commonly owned commercial entities was strictly forbidden at the time under China’s regulations requiring the use of a third party agent to enable loans between Chinese legal entities. As a result, the Entrusted Loan is reflected as both a long-term asset and long-term debt on the company’s Consolidated Balance Sheets and is reflected in the investing and financing activities in its Consolidated Statements of Cash Flows. Interest expense and interest income will be recorded between the lender and borrower with no net impact on the company’s Consolidated Statements of Income since the amounts will be offsetting. The loan interest rate per annum is 5.25%. The Entrusted Loan is used to finance the operation and working capital needs of the borrower and matures in November 2019. The balance of the Entrusted Loan was RMB 61.5 million (approximately \$9.3 million) at July 2, 2016.

### *Debt Issuance Costs*

The company incurred debt issuance costs of \$1.7 million in relation to the new credit agreement which along with the remaining balance of debt issuance costs of the previous credit facility, are being amortized over the life of the new credit agreement. This new credit agreement was determined to be a modification under ASC 470-50 of the previous credit agreement.

In April 2015, the FASB issued ASU No. 2015-03, *Interest - Imputation of Interest* (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The company adopted this guidance in the current quarter, on a retrospective basis, and has reclassified the unamortized debt issuance costs into long-term debt as shown in the table above.

## **8. Fair Value of Assets and Liabilities**

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



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

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

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

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

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

*Investments*

The company holds an investment in the equity securities of Polytronics as described in Note 6. Equity securities listed on a national market or exchange, such as Polytronics, are valued at the last sales price. Such securities are classified within Level 1 of the valuation hierarchy. The company also holds an investment in Monolith as described in Note 6 for which the value of the \$3.5 million represents the cost of the investment.

There were no changes during the quarter ended July 2, 2016 to the company's valuation techniques used to measure asset and liability fair values on a recurring basis. As of July 2, 2016 and January 2, 2016 the company held no non-financial assets or liabilities that are required to be measured at fair value on a recurring basis.

The following table presents assets measured at fair value by classification within the fair value hierarchy as of July 2, 2016 (in thousands):

|                           | <b>Fair Value Measurements Using</b> |    |                    |                     |   |          |
|---------------------------|--------------------------------------|----|--------------------|---------------------|---|----------|
|                           | <b>Quoted</b>                        |    | <b>Significant</b> |                     |   |          |
|                           | <b>Prices</b>                        |    | <b>Other</b>       | <b>Significant</b>  |   |          |
|                           | <b>in</b>                            |    | <b>Observable</b>  | <b>Unobservable</b> |   |          |
|                           | <b>Active</b>                        |    | <b>Inputs</b>      | <b>Inputs</b>       |   |          |
|                           | <b>Markets</b>                       |    | <b>(Level 2)</b>   | <b>(Level 3)</b>    |   |          |
|                           | <b>for</b>                           |    |                    |                     |   |          |
|                           | <b>Identical</b>                     |    |                    |                     |   |          |
|                           | <b>Assets</b>                        |    |                    |                     |   |          |
|                           | <b>(Level</b>                        |    |                    |                     |   |          |
|                           | <b>1)</b>                            |    |                    | <b>Total</b>        |   |          |
| Investment in Polytronics | \$10,438                             | \$ | —                  | \$                  | — | \$10,438 |
| Total                     | \$10,438                             | \$ | —                  | \$                  | — | \$10,438 |

The following table presents assets measured at fair value by classification within the fair value hierarchy as of January 2, 2016 (in thousands):

|  | <b>Fair Value Measurements Using</b> |                    |                     |              |
|--|--------------------------------------|--------------------|---------------------|--------------|
|  | <b>Quoted</b>                        | <b>Significant</b> | <b>Significant</b>  | <b>Total</b> |
|  | <b>Prices</b>                        | <b>Other</b>       | <b>Unobservable</b> |              |
|  | <b>in</b>                            | <b>Observable</b>  | <b>Inputs</b>       |              |
|  | <b>Active</b>                        | <b>Inputs</b>      | <b>(Level 3)</b>    |              |

**Markets (Level 2)  
for  
Identical  
Assets  
(Level  
1)**

|                           |          |    |   |    |   |          |
|---------------------------|----------|----|---|----|---|----------|
| Investment in Polytronics | \$11,697 | \$ | — | \$ | — | \$11,697 |
| Total                     | \$11,697 | \$ | — | \$ | — | \$11,697 |

The company's other financial instruments include cash and cash equivalents, short-term investments, accounts receivable, accounts payable and debt. The carrying amounts of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and debt approximate their fair values. The company's debt fair value approximates book value at July 2, 2016 and January 2, 2016, respectively, as the variable interest rates fluctuate along with market interest rates.

## 9. Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share of July 2, 2016 and June 27, 2015 (in thousands, except per share amounts).

|   | For the Three<br>Months Ended |                  | For the Six<br>Months Ended |                  |
|---|-------------------------------|------------------|-----------------------------|------------------|
|   | <b>July 2,<br/>2016</b>       | June 27,<br>2015 | <b>July 2,<br/>2016</b>     | June 27,<br>2015 |
| Net income  | <b>\$27.152</b>               | <b>\$28.684</b>  | <b>\$46,441</b>             | \$48,679         |
| Average shares outstanding - Basic                              | <b>22,528</b>                 | <b>22,691</b>    | <b>22,483</b>               | 22,645           |
| Net effect of dilutive stock options and restricted share units | <b>146</b>                    | <b>144</b>       | <b>164</b>                  | 165              |
| Average shares - Diluted  | <b>22,674</b>                 | <b>22,835</b>    | <b>22,647</b>               | 22,810           |
| Net income per share:   |                               |                  |                             |                  |
| Basic   | <b>\$1.21</b>                 | <b>\$1.26</b>    | <b>\$2.07</b>               | \$2.15           |
| Diluted   | <b>\$1.20</b>                 | <b>\$1.26</b>    | <b>\$2.05</b>               | \$2.13           |

Potential shares of common stock relating to stock options excluded from the earnings per share calculation because their effect would be anti-dilutive were 60,491 and 113,878 for the three months ended July 2, 2016 and June 27, 2015, respectively, and 36,699 and 90,875 for the six months ended July 2, 2016 and June 27, 2015, respectively.



## 10. Income Taxes

The effective tax rate for the second quarter of 2016 was 20.2% compared to an effective tax rate of 23.9% in the second quarter of 2015. The effective tax rate for the six months ended July 2, 2016 was 24.0% as compared to an effective tax rate of 24.1% for the six months ended June 27, 2015. The effective tax rates for all periods presented are lower than the U.S. statutory tax rate primarily due to income earned in lower tax jurisdictions.

## 11. Pensions

The components of net periodic benefit cost for the three and six months ended July 2, 2016, compared with the three and six months ended June 27, 2015, were (in thousands):

|   | U.S. Pension Benefits |                    | Foreign Plans      |               |                  |               |
|---|-----------------------|--------------------|--------------------|---------------|------------------|---------------|
|   | Three Months Ended    | Six Months Ended   | Three Months Ended |               | Six Months Ended |               |
|   | July 2, 2016          | June 27, 2015      | July 2, 2016       | June 27, 2015 | July 2, 2016     | June 27, 2015 |
| Service cost                              | \$- \$250             | \$- \$500          | \$333              | \$315         | \$665            | \$630         |
| Interest cost                             | - 1,031               | - 2,062            | 496                | 513           | 993              | 1,026         |
| Expected return on plan assets            | - (916)               | - (1,832)          | (520)              | (601)         | (1,040)          | (1,201)       |
| Amortization of net loss                  | - 290                 | - 580              | 73                 | 62            | 146              | 123           |
| Total cost (credit) of the plan           | - 655                 | - 1,310            | 382                | 289           | 764              | 578           |
| Expected plan participants' contribution  | - -                   | - -                | - -                | - -           | - -              | - -           |
| <b>Net periodic benefit cost (credit)</b> | <b>\$- \$655</b>      | <b>\$- \$1,310</b> | <b>\$382</b>       | <b>\$289</b>  | <b>\$764</b>     | <b>\$578</b>  |

\* The U.S. pension plan was terminated effective July 30, 2014 and, following receipt of a favorable Letter of Determination from the IRS (dated April 14, 2015), all liabilities of the plan were settled during the third quarter of fiscal 2015.

The expected rate of return assumption on U.S. pension assets was 3.90% in 2015. The expected return on foreign pension assets is 4.95% and 5.39% in 2016 and 2015, respectively.

## 12. Segment and Geographic Information

The company and its subsidiaries design, manufacture and sell components and modules for circuit protection, power control and sensing throughout the world. The company reports its operations by the following segments: Electronics, Automotive, and Industrial. An operating segment is defined as a component of an enterprise that engages in business activities from which it may earn revenues and incur expenses, and about which separate financial information is regularly evaluated by the Chief Operating Decision Maker (“CODM”) in deciding how to allocate resources. The CODM is the company’s President and Chief Executive Officer (“CEO”). 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, but does not evaluate the operating segments using discrete balance sheet information.

Sales, marketing and research and development expenses are charged directly into each operating segment. Manufacturing, purchasing, logistics, customer service, finance, information technology and human resources are shared functions that are allocated back to the three operating segments. The company does not report inter-segment revenue because the operating segments do not record it. Certain expenses, determined by the CODM to be strategic in nature and not directly related to segments current results, are not allocated but identified as “Other”. Additionally, the company does not allocate interest and other income, interest expense, or taxes to operating segments. These costs are not allocated to the segments, as management excludes such costs when assessing the performance of the segments. Although the CODM uses operating income (loss) to evaluate the segments, operating costs included in one segment may benefit other segments. Except as discussed above, the accounting policies for segment reporting are the same as for the company as a whole.

Segment information for the three and six months ended July 2, 2016 and June 27, 2015 are summarized “as follows (in thousands):

|                                      | For the Three<br>Months Ended |                  | For the Six Months<br>Ended |                  |
|--------------------------------------|-------------------------------|------------------|-----------------------------|------------------|
|                                      | July 2,<br>2016               | June 27,<br>2015 | July 2,<br>2016             | June 27,<br>2015 |
| <b>Net sales</b>                     |                               |                  |                             |                  |
| Electronics                          | \$132,170                     | \$105,553        | \$230,966                   | \$204,933        |
| Automotive                           | 111,370                       | 85,918           | 203,303                     | 169,989          |
| Industrial                           | 28,372                        | 30,550           | 57,041                      | 57,412           |
| Total net sales                      | \$271,912                     | \$222,021        | \$491,310                   | \$432,334        |
| <b>Depreciation and amortization</b> |                               |                  |                             |                  |
| Electronics                          | \$7,717                       | \$5,775          | \$13,089                    | \$11,573         |
| Automotive                           | 4,988                         | 3,303            | 8,254                       | 6,639            |
| Industrial                           | 1,376                         | 1,295            | 2,828                       | 2,579            |
| Other <sup>(1)</sup>                 | -                             | -                | 937                         | -                |
| Total depreciation and amortization  | \$14,081                      | \$10,373         | \$25,108                    | \$20,791         |
| <b>Operating income (loss)</b>       |                               |                  |                             |                  |
| Electronics                          | \$25,259                      | \$22,167         | \$47,675                    | \$40,832         |
| Automotive                           | 16,474                        | 12,699           | 33,965                      | 23,870           |
| Industrial                           | 2,028                         | 4,709            | 3,701                       | 7,439            |
| Other <sup>(2)</sup>                 | (14,059 )                     | (3,404 )         | (23,211 )                   | (6,422 )         |
| Total operating income               | 29,702                        | 36,171           | 62,130                      | 65,719           |
| Interest expense                     | 1,670                         | 948              | 3,715                       | 2,099            |
| Foreign exchange (gain) loss         | (6,237 )                      | (1,292 )         | (2,414 )                    | 1,825            |
| Other (income) expense, net          | 255                           | (1,202 )         | (262 )                      | (2,328 )         |
| Income before income taxes           | \$34,014                      | \$37,717         | \$61,091                    | \$64,123         |

(1) Consists of intangible impairments. (See Note 14).

(2) Included in “Other” Operating income (loss) for the 2016 second quarter is \$6.1 million (\$12.3 million year-to-date) of acquisition-related costs primarily related to legal and integration costs associated with the company’s acquisition of the PolySwitch business, a \$6.9 million (\$6.9 million year-to-date) inventory adjustment relating to the PolySwitch acquisition as described in Note 4, \$0.3 million (\$1.9 million year-to-date) in charges related to the closure of the company’s manufacturing facility in Denmark, \$0.7 million (\$1.7 million year-to-date) related to the company’s transfer of its reed sensor manufacturing operations from the U.S. and China to the Philippines and \$0.1 million (\$0.4 million year-to-date) related to internal legal restructuring costs.

Included in “Other” Operating income (loss) for the 2015 second quarter is \$0.9 million (\$1.9 million year-to-date) of costs related to the company’s transfer of its reed sensor manufacturing from the U.S. to the Philippines, \$1.7 million (\$2.9 million year-to-date) related to internal legal restructuring, \$0.2 million (\$0.3 million year-to-date) related to

acquisition costs and \$0.7 million (\$1.3 million year-to-date) of expense related to the planned termination of the U.S. pension as described in Note 11.



The company's significant net sales by country for the three and six months ended July 2, 2016 and June 27, 2015 are summarized as follows (in thousands):

|                 | For the Three<br>Months Ended <sup>(a)</sup> |                  | For the Six Months<br>Ended <sup>(a)</sup> |                  |
|-----------------|--|------------------|--|------------------|
|                 | <b>July 2,<br/>2016</b>                      | June 27,<br>2015 | <b>July 2,<br/>2016</b>                    | June 27,<br>2015 |
| United States   | <b>\$93,036</b>                              | \$89,608         | <b>\$178,184</b>                           | \$172,981        |
| China           | <b>62,411</b>                                | 49,920           | <b>110,919</b>                             | 94,349           |
| Other countries | <b>116,465</b>                               | 82,493           | <b>202,207</b>                             | 165,004          |
| Total           | <b>\$271,912</b>                             | \$222,021        | <b>\$491,310</b>                           | \$432,334        |

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

The company's significant long-lived assets by country as of July 2, 2016 and January 2, 2016 are summarized as follows (in thousands):

|                 | Long-lived assets <sup>(b)</sup> |                    |
|-----------------|----------------------------------|--------------------|
|                 | <b>July 2,<br/>2016</b>          | January<br>2, 2016 |
| United States   | <b>\$23,985</b>                  | \$23,965           |
| China           | <b>70,325</b>                    | 37,241             |
| Canada          | <b>10,925</b>                    | 10,488             |
| Other countries | <b>119,275</b>                   | 90,874             |
| Total           | <b>\$224,510</b>                 | \$162,568          |

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

The company's significant additions to long-lived assets by country for the six months ended July 2, 2016 and June 27, 2015 are summarized as follows (in thousands):

|               | Additions to<br>long-lived assets |                  |
|---------------|-----------------------------------|------------------|
|               | <b>July 2,<br/>2016</b>           | June 27,<br>2015 |
| United States | <b>\$2,783</b>                    | \$6,615          |
| China         | <b>3,847</b>                      | 4,080            |

|                 |                 |          |
|-----------------|-----------------|----------|
| Canada          | <b>137</b>      | 878      |
| Other countries | <b>13,450</b>   | 14,815   |
| Total           | <b>\$20,217</b> | \$26,388 |

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

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

| AOCI component   | Balance at January 2, 2016 | Other comprehensive income (loss) activity | Reclassification adjustment for expense included in net income | Balance at July 2, 2016 |
|--|----------------------------|--|--|-------------------------|
| Pension and postemployment liability and reclassification adjustments <sup>(a)</sup> | \$ (8,722 )                | \$ (45 )                                   | \$ 144   | <b>\$ (8,623 )</b>      |
| Unrealized gain on investments <sup>(b)</sup>  | 11,584                     | (1,486 )                                   | —  | <b>10,098</b>           |
| Foreign currency translation adjustment  | (48,533)                   | (3,180 )                                   | —  | <b>(51,713)</b>         |
| AOCI (loss) income   | \$ (45,671)                | \$ (4,711 )                                | \$ 144   | <b>\$ (50,238)</b>      |

(a) Balances are net of tax of \$654 and \$661 for July 2, 2016 and January 2, 2016, respectively.

(b) Balances are net of tax of \$0 and \$0 for July 2, 2016 and January 2, 2016, respectively.

**14. Product Line Sale**

During the first quarter of 2016, the company sold its tangible and intangible assets relating to a marine product line that it acquired as part of its acquisition of Selco A/S in 2011. In connection with this sale, the company recorded asset impairment charges of \$1.4 million within cost of sales (\$0.4 million), selling, general and administrative expenses (less than \$0.1 million), research and development expenses (less than \$0.1 million) and amortization of intangibles (\$0.9) million. These charges were recognized as an “other” charge for segment reporting purposes.

**15. Subsequent Event**

None.

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

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

Certain statements in this section and other parts of this Quarterly Report on Form 10-Q may constitute "forward-looking statements" within the meaning of the federal securities laws and are entitled to the safe-harbor provisions of the PSLRA. These statements include statements regarding the company’s future performance, as well as management's expectations, beliefs, intentions, plans, estimates or projections relating to the future. Such statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "estimates," "will," "should," "plans" or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy, although not all forward-looking statements contain such terms. The company cautions that forward-looking statements, which speak only as of the date they are made, are subject to risks, uncertainties and other factors, and actual results and outcomes may differ materially from those indicated or implied by the forward-looking statements. These risks, uncertainties and other factors include, but are not limited to, risks relating to product demand and market acceptance, economic conditions, the impact of competitive products and pricing, product quality problems or product recalls, capacity and supply difficulties or constraints, coal mining exposures reserves, failure of an indemnification for environmental liability, exchange rate fluctuations, commodity price fluctuations, the effect of the company's accounting policies, labor disputes, restructuring costs in excess of expectations, pension plan asset returns less than assumed, integration of acquisitions and other risks which may be detailed in the company's other Securities and Exchange Commission filings, including those set forth under Item 1A. "Risk Factors" of the company's Annual Report on Form 10-K for the year ended January 2, 2016. The company does not undertake any obligation to update or revise any forward-looking statements to reflect future events or circumstances, new information or otherwise.

This report, including the Management’s Discussion and Analysis of Financial Condition and Results of Operations, should be read in conjunction with information provided in the financial statements and the related Notes thereto appearing in the company's Annual Report on Form 10-K for the year ended January 2, 2016.

### **Littelfuse Overview**

Littelfuse, Inc. and its subsidiaries (the “company” or “Littelfuse”) is the worldwide leader in circuit protection offering the industry's broadest and deepest portfolio of circuit protection products and solutions. The company’s devices protect products in virtually every market that uses electrical energy, from consumer electronics to automobiles to industrial equipment. The company’s worldwide revenue in 2015 was \$867.9 million and net earnings were \$82.5 million. The company conducts its business through three reportable segments, which are defined by markets and consist of Electronics, Automotive, and Industrial. The company’s customer base includes original equipment manufacturers, tier one automotive suppliers and distributors.

In addition to protecting and growing its core circuit protection business, Littelfuse has been expanding its portfolio in power control and sensing technologies. These platforms, combined with the company's strong balance sheet and operating cash flow, provide opportunities for increased organic and acquisition growth. In 2012, the company set a five-year strategic plan to grow annual sales at 15% per year; 5% organically and 10% through acquisitions.

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

- Grow organically faster than its markets;
- Double the pace of acquisitions;
- Sustain high-teens operating margins;
- Improve return on investment; and
- Return excess cash to shareholders.

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

### **Electronics Segment**

The Electronics segment sells passive and semiconductor components and modules as well as sensors primarily into the global consumer electronics, general industrial and telecommunications markets. The core electronics markets are characterized by significant Asia-Pacific competition and price erosion. As a result the company is focusing additional efforts on higher growth, less price sensitive niche markets (such as LED lighting) and higher-power industrial applications. The PolySwitch business acquisition in 2016 has expanded the company's product offering used in a wide variety of electronic products and utilizes many of the same distribution channels as the company's legacy electronics products.

### **Automotive Segment**

The Automotive segment is comprised of passenger vehicle circuit protection, commercial vehicle products and sensors. The primary growth drivers for these businesses are increasing global demand for passenger and commercial vehicles and increasing content per vehicle for both circuit protection and sensing products. The move away from internal combustion engines to hybrid and electric drive systems that require more circuit protection continues to be an additional growth driver. The PolySwitch business acquisition in 2016 has added to the company's strong global presence in the automotive market. The acquisition of Menber's further strengthens the company's position in electrical battery switches and connectors for the commercial vehicle market.

### **Industrial Segment**

The Industrial segment derives its revenues from power fuses, protection relays and custom products selling primarily into the industrial, mining, solar and oil and gas markets. Protection relay sales have declined due to the general slowdown in the global mining and oil and gas markets. Custom products sales have declined over the past two years

due to continued end market softness in the potash mining market. The potash market has recently experienced a steep decline in market pricing. Goodwill associated with the custom products reporting unit is approximately \$9 million. As of the most recent annual goodwill impairment test conducted on September 27, 2015, the fair value of custom products reporting unit exceeded its carrying value by 12%. Due to recent negative events in the potash market subsequent to the company's quarter end, the company conducted a step one goodwill impairment analysis for the custom products reporting unit as of July 2, 2016 to determine if goodwill was impaired at this date. The fair value of this reporting unit at this date exceeded its carrying value by less than 10%. If there is a continued future decline in the custom products reporting unit and its fair value falls below its carrying value, the goodwill may be impaired.

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

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

|                                | Second Quarter   |           |             | First Six Months |           |             |
|--------------------------------|------------------|-----------|-------------|------------------|-----------|-------------|
|                                | 2016             | 2015      | %<br>Change | 2016             | 2015      | %<br>Change |
| <b>Business Unit</b>           |                  |           |             |                  |           |             |
| Electronics                    | <b>\$132,170</b> | \$105,553 | 25%         | <b>\$230,966</b> | \$204,933 | 13%         |
| Automotive                     | <b>111,370</b>   | 85,918    | 30%         | <b>203,303</b>   | 169,989   | 20%         |
| Industrial                     | <b>28,372</b>    | 30,550    | (7%)        | <b>57,041</b>    | 57,412    | (1%)        |
| <b>Total</b>                   | <b>\$271,912</b> | \$222,021 | 22%         | <b>\$491,310</b> | \$432,334 | 14%         |
| <b>Geography<sup>(a)</sup></b> |                  |           |             |                  |           |             |
| Americas                       | <b>\$107,297</b> | \$103,033 | 4%          | <b>\$207,120</b> | \$200,087 | 4%          |
| Europe                         | <b>54,406</b>    | 39,125    | 39%         | <b>97,219</b>    | 78,093    | 24%         |
| Asia-Pacific                   | <b>110,209</b>   | 79,863    | 38%         | <b>186,971</b>   | 154,154   | 21%         |
| <b>Total</b>                   | <b>\$271,912</b> | \$222,021 | 22%         | <b>\$491,310</b> | \$432,334 | 14%         |

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

The following table summarizes the company's consolidated results of operations for the periods presented. The second quarter of 2016 includes approximately \$14.1 million of additional special charges (\$23.2 million year-to-date). These included \$6.1 million (\$12.3 million year-to-date) of acquisition-related costs primarily related to legal and integration costs associated with the company's acquisition of the PolySwitch business, a \$6.9 million (\$6.9 million year-to-date) non-cash inventory charge relating to the PolySwitch acquisition as described in Note 4, \$0.3 million (\$1.9 million year-to-date) in charges related to the closure of the company's manufacturing facility in Denmark, \$0.7 million (\$1.7 million year-to-date) related to the company's transfer of its reed sensor manufacturing operations from the U.S. and China to the Philippines and \$0.1 million (\$0.4 million year-to-date) related to internal legal restructuring costs.

The second quarter of 2015 includes approximately \$3.4 million of special charges (\$6.4 million year-to-date) consisting of \$0.9 million (\$1.9 million year-to-date) related to the company's transfer of its reed sensor manufacturing from the U.S. to the Philippines, \$1.7 million (\$2.9 million year-to-date) related to internal legal restructuring, \$0.2 million (\$0.3 million year-to-date) related to acquisition costs and \$0.7 million (\$1.3 million year-to-date) of expense related to the planned termination of the U.S. pension as described in Note 11.

| (In thousands, unaudited)    | Second Quarter |           |      |        | First Six Months |           |        |    |
|------------------------------|----------------|-----------|------|--------|------------------|-----------|--------|----|
|                              | 2016           |           | 2015 |        | 2016             |           | 2015   |    |
|                              |                |           |      | Change |                  |           | Change |    |
| Sales                        | \$271,912      | \$222,021 | 22   | %      | \$491,310        | \$432,334 | 14     | %  |
| Gross Profit                 | 97,866         | 85,281    | 15   | %      | 185,021          | 161,611   | 14     | %  |
| Operating expense            | 68,164         | 49,110    | 39   | %      | 122,891          | 95,892    | 28     | %  |
| Operating income             | 29,702         | 36,171    | (18  | %)     | 62,130           | 65,719    | (5     | %) |
| Interest expense             | 1,670          | 948       | 76   | %      | 3,715            | 2,099     | 77     | %  |
| Foreign exchange (gain) loss | (6,237 )       | (1,292 )  | 383  | %      | (2,414 )         | 1,825     | (232   | %) |
| Other (income) expense, net  | 255            | (1,202 )  | (121 | %)     | (262 )           | (2,328 )  | (89    | %) |
| Income before income taxes   | 34,014         | 37,717    | (10  | %)     | 61,091           | 64,123    | (5     | %) |
| Net income                   | \$27,152       | \$28,684  | (5   | %)     | \$46,441         | \$48,679  | (5     | %) |

#### *Results of Operations – Second Quarter, 2016 compared to 2015*

Net sales for the second quarter of 2016 were \$271.9 million, a 22% increase compared to the prior year quarter. Excluding PolySwitch revenue of \$36.4 million, net sales increased \$13.5 million, or 6%, primarily due to strong organic growth in the Automotive segment and to a lesser extent organic growth in the Electronics segment, partially offset by lower sales from the Industrial segment.

Electronics sales increased \$26.6 million, or 25%, compared to the prior year quarter. Excluding PolySwitch, sales increased \$2.4 million, or 2%, to \$107.9 million in the second quarter of 2016 compared to \$105.6 million in the second quarter of 2015 primarily reflecting growth in sensor and passive products, partially offset by lower semiconductor sales. This segment continues to leverage the company's technology expertise to design its products into a broad variety of end markets and market segments.

Automotive sales increased \$25.5 million, or 30%, compared to the prior year quarter. Excluding PolySwitch, sales increased \$13.3 million, or 15%, to \$99.2 million in the second quarter of 2016 compared to \$85.9 million in the



second quarter of 2015 reflecting the recent acquisitions of Menber's and Sigmar as well as organic growth in sensor and passenger car products. These increases in sales were partially offset by lower sales of legacy commercial vehicle products, reflecting weakness in the North American heavy truck, construction and agricultural end markets. The company expects flat to declining automotive sensor revenue in the second half of 2016 as it exits certain low margin legacy business.

Industrial sales decreased \$2.2 million, or 7%, to \$28.4 million in the second quarter of 2016 compared to \$30.6 million in the second quarter of 2015 primarily reflecting lower relay sales, and to a lesser extent, fuse sales. The company's fuse business has benefited from a strong U.S. solar market for a number of years, however this market slowed in the second quarter of 2016. As the U.S. Congress extended solar energy related tax credits late in 2015, many solar original equipment manufacturers pushed out projects to focus on scale and efficiencies. Sales in both the protection relay and custom products businesses continued to be impacted by weakness in the heavy industrial markets, particularly mining, and oil and gas, as those customers restrict their capital spending. In the custom products business, the company continues to see a decline in its potash market, The steep decline in potash pricing has led to further slow-downs and delays in investments by customers.

On a geographic basis, sales in the Americas increased \$4.3 million, or 4%, to \$107.3 million in the second quarter of 2016 compared to \$103.0 million in the second quarter of 2015 primarily reflecting the addition of the PolySwitch business in the current year and, to a lesser extent, increased Automotive segment sales, partially offset by lower Industrial segment sales and \$0.1 million in unfavorable currency effects from sales denominated in Canadian dollars.

Europe sales increased \$15.3 million, or 39%, to \$54.4 million in the second quarter of 2016 compared to \$39.1 million in the second quarter of 2015 primarily due to strong sales of automotive products, the addition of the PolySwitch business in the current year, increased electronic sales and \$0.8 million in favorable currency effects primarily from sales denominated in euro. Excluding currency effects, Europe sales increased \$14.4 million, or 37%, year-over-year.

Asia-Pacific sales increased \$30.3 million, or 38%, to \$110.2 million in the second quarter of 2016 compared to \$79.9 million in the second quarter of 2015 primarily reflecting the addition of the PolySwitch business in the current year and increased demand for electronics and automotive products, partially offset by unfavorable currency effects of \$1.4 million. Excluding currency effects, Asia-Pacific sales increased \$31.8 million, or 40%, year-over-year.

Gross profit was \$97.9 million, or 36% of net sales, for the second quarter of 2016 compared to \$85.3 million, or 38% of net sales, in the same quarter last year. Gross profit for 2016 includes a \$6.9 million inventory adjustment relating to the PolySwitch acquisition, \$0.9 million of acquisition-related costs primarily related to integration costs associated with the company's acquisition of the PolySwitch business, \$0.5 million related to the transfer of the company's reed switch production from the U.S. and China to the Philippines and \$0.3 million in charges related to the closure of the company's manufacturing facility in Denmark. Gross profit for 2015 included \$0.9 million related to the reed switch production transfer. Excluding the impact of these charges, gross profit was \$106.4 million, or 39% of net sales, for the second quarter of 2016 compared to \$86.2 million, or 39% of net sales, in the second quarter of 2015.

Total operating expense was \$68.2 million, or 25% of net sales, for the second quarter of 2016 compared to \$49.1 million, or 22% of net sales, for the same quarter in 2015. Operating expense in 2016 included \$5.2 million of acquisition-related costs primarily related to legal and integration costs associated with the company's acquisition of the PolySwitch business, \$0.2 million related to the transfer of the company's reed switch production from the U.S. and China to the Philippines and \$0.1 million related to internal legal restructuring costs. Operating expense in 2015 included \$1.7 million related to internal legal restructuring, \$0.2 million related to acquisition costs and \$0.7 million of expense related to the planned termination of the U.S. pension. Excluding these charges, total operating expense was \$62.7 million, or 23% of net sales, for 2016 compared to \$46.6 million, or 21% of net sales, in 2015, partially reflecting increased research and development expenses in the current year quarter as compared to the prior year quarter and incremental amortization of intangible assets associated with recent acquisitions.

Due to the reasons noted above, operating income for the second quarter of 2016 was approximately \$29.7 million compared to operating income of \$36.2 million for the same quarter in 2015.

Interest expense was \$1.7 million in the second quarter of 2016 as compared to \$0.9 million in the second quarter of 2015, primarily reflecting higher borrowings relating to the March 2016 acquisition of the PolySwitch business.

Foreign exchange (gain) loss, reflecting net gains and losses resulting from the effect of exchange rate changes on various foreign currency transactions worldwide, was approximately \$6.2 million of income for the second quarter of 2016 and \$1.3 million of income for the second quarter of 2015 and primarily reflects fluctuations in the euro and Philippine peso against the U.S. dollar and the euro against the Japanese yen.

Other (income) expense, net, consisting of interest income, royalties and non-operating income items was approximately \$0.3 million of expense for second quarter of 2016 and \$1.2 million of income for the second quarter of 2015. The quarter over quarter decline primarily reflects lower interest income in the current year quarter due to cash used for the acquisition of the PolySwitch business in March 2016.

Income before income taxes was \$34.0 million for the second quarter of 2016 compared to \$37.7 million for the second quarter of 2015. Income tax expense was \$6.9 million with an effective tax rate of 20.2% for the second quarter of 2016 compared to income tax expense of \$9.0 million with an effective tax rate of 23.9% in the second quarter of 2015. The effective tax rates for both the second quarter of 2016 and 2015 are lower than the U.S. statutory tax rate primarily due to income earned in lower tax jurisdictions.

Net income for the second quarter of 2016 was \$27.2 million or \$1.20 per diluted share compared to net income of \$28.7 million or \$1.26 per diluted share for the same quarter of 2015.

*Results of Operations – Six Months, 2016 compared to 2015*

Net sales for the first six months of 2016 were \$491.3 million, a 14% increase compared to the prior year period. Excluding PolySwitch revenue of \$36.4 million, net sales increased \$22.6 million, or 5%, primarily due to strong organic growth in the Automotive segment and to a lesser extent organic growth in the Electronics segment.

Electronics sales increased \$26.0 million, or 13%, compared to the prior year period. Excluding PolySwitch, sales increased \$1.8 million, or 1%, to \$206.7 million in the first six months of 2016 compared to \$204.9 million in the first six months of 2015, primarily reflecting growth in sensor and passive products, partially offset by lower semiconductor sales. The Electronics segment experienced \$1.6 million in unfavorable currency effects in the first six months of 2016 primarily from sales denominated in the renminbi and, to a lesser extent, sales denominated in the Korean won. Excluding currency effects, Net sales excluding PolySwitch, increased \$3.4 million, or 2%, year-over-year. This segment continues to leverage the company's technology expertise to design its products into a broad variety of end markets and market segments.

Automotive sales increased \$33.3 million, or 20%, compared to the prior year period. Excluding PolySwitch, Automotive sales increased \$21.1 million, or 12%, to \$191.1 million in the first six months of 2016 compared to \$170.0 million in the first six months of 2015 reflecting the recent acquisitions of Menber's and Sigmar as well as organic growth in sensor and passenger car products. These increases in sales were partially offset by lower sales of legacy commercial vehicle products, reflecting weakness in the North American heavy truck, construction and agricultural end markets. The company expects flat to declining automotive sensor revenue in the second half of 2016 as it exits certain low margin legacy business. The Automotive segment experienced \$1.9 million in unfavorable currency effects in the first six months of 2016 primarily from sales denominated in the renminbi. Excluding currency effects, net sales increased \$23.0 million, or 14%, year-over-year.

Industrial sales decreased \$0.4 million, or 1%, to \$57.0 million in the first six months of 2016 compared to \$57.4 million in the first six months of 2015 primarily reflecting lower relay sales, partially offset by increased custom sales. The company's fuse business has benefited from a strong U.S. solar market for a number of years, however this market slowed in the second quarter of 2016. As the U.S. Congress extended solar energy related tax credits late in 2015, many solar original equipment manufacturers pushed out projects to focus on scale and efficiencies. Sales in both the protection relay and custom products businesses continued to be impacted by weakness in the heavy industrial markets, particularly mining, and oil and gas, as those customers restrict their capital spending. In the custom products business, the company continues to see a decline in its potash market, The steep decline in potash pricing has led to further slow-downs and delays in investments by customers.

On a geographic basis, sales in the Americas increased \$7.0 million, or 4%, to \$207.1 million in the first six months of 2016 compared to \$200.1 million in the first six months of 2015 primarily reflecting the addition of the PolySwitch business in the current year and increased automotive segment sales and \$0.8 million in unfavorable currency effects

from sales denominated in Canadian dollars.

Europe sales increased \$19.1 million, or 25%, to \$97.2 million in the first six months of 2016 compared to \$78.1 million in the first six months of 2015 primarily due to strong sales of automotive products, the addition of the PolySwitch business in the current year and increased electronic sales, partially offset by \$0.4 million in unfavorable currency effects primarily from sales denominated in euro.

Asia-Pacific sales increased \$32.8 million, or 21%, to \$187.0 million in the first six months of 2016 compared to \$154.2 million in the first six months of 2015 primarily reflecting the addition of the PolySwitch business in the current year and increased demand for electronics and automotive products, partially offset by unfavorable currency effects of \$3.1 million. Excluding currency effects, Asia-Pacific sales increased \$35.9 million, or 23%, year-over-year.

Gross profit was \$185.0 million, or 38% of net sales, for the first six months of 2016 compared to \$161.6 million, or 37% of net sales, in the same period last year. Gross profit for 2016 includes a \$6.9 million non-cash inventory charge relating to the PolySwitch acquisition, \$1.5 million related to the transfer of the company's reed switch production from the U.S. and China to the Philippines, \$0.9 million of acquisition-related costs primarily related to integration costs associated with the company's acquisition of the PolySwitch business, \$0.5 million in charges related to the closure of the company's manufacturing facility in Denmark and \$0.1 million related to internal legal restructuring costs. Gross profit for 2015 included \$1.9 million related to the reed switch production transfer. Excluding the impact of these charges, gross profit was \$194.9 million, or 40% of net sales, for the first six months of 2016 compared to \$163.5 million, or 38% of net sales, in the first six months of 2015.

Total operating expense was \$122.9 million, or 25% of net sales, for the first six months of 2016 compared to \$95.9 million, or 22% of net sales, for the same period in 2015. Operating expense in 2016 included \$11.4 million of acquisition-related costs primarily related to legal and integration costs associated with the company's acquisition of the PolySwitch business, \$1.4 million in charges related to the closure of the company's manufacturing facility in Denmark, \$0.3 million related to internal legal restructuring costs and \$0.2 million related to the transfer of the company's reed switch production from the U.S. and China to the Philippines. Operating expense in 2015 included \$2.9 million related to internal legal restructuring, \$0.3 million related to acquisition costs and \$1.3 million of expense related to the planned termination of the U.S. pension. Excluding these charges, total operating expense was \$109.6 million, or 22% of net sales, for 2016 compared to \$91.4 million, or 21% of net sales, in 2015, partially reflecting increased research and development expenses in the current year quarter as compared to the prior year quarter and incremental amortization of intangible assets associated with recent acquisitions.

Due to reasons noted above, operating income for the first six months of 2016 was approximately \$62.1 million compared to operating income of \$65.7 million for the same period in 2015.

Interest expense was \$3.7 million in the first six months of 2016 as compared to \$2.1 million in the first six months of 2015, primarily reflecting higher borrowings relating to the March 2016 acquisition of the PolySwitch business.

Foreign exchange (gain) loss, reflecting net gains and losses resulting from the effect of exchange rate changes on various foreign currency transactions worldwide, was approximately \$2.4 million of income for the first six months of 2016 and \$1.8 million of loss for the first six months of 2015 and primarily reflects fluctuations in the euro and Philippine peso against the U.S. dollar and the euro against the Japanese yen.

Other (income) expense, net, consisting of interest income, royalties and non-operating income items was approximately \$0.3 million of income for first six months of 2016 and \$2.3 million of income for the first six months of 2015. The period over period decline primarily reflects lower interest income in the current year period due to cash used for the acquisition of the PolySwitch business in March 2016.

Income before income taxes was \$61.1 million for the first six months of 2016 compared to \$64.1 million for the first six months of 2015. Income tax expense was \$14.7 million with an effective tax rate of 24.0% for the first six months of 2016 compared to income tax expense of \$15.4 million with an effective tax rate of 24.1% in the first six months of 2015. The effective tax rates for both the first six months of 2016 and 2015 are lower than the U.S. statutory tax rate primarily due to income earned in lower tax jurisdictions.

Net income for the first six months of 2016 was \$46.4 million or \$2.05 per diluted share compared to net income of \$48.7 million or \$2.13 per diluted share for the same period of 2015.

*Liquidity and Capital Resources*

As of July 2, 2016, \$166.5 million of the \$179.5 million of the company's cash and cash equivalents was held by foreign subsidiaries. Of the \$166.5 million held by foreign subsidiaries, approximately \$20.1 million could be repatriated with minimal tax consequences. The company expects to maintain its foreign cash balances (other than the aforementioned \$20.1 million) for local operating requirements, to provide funds for future capital expenditures and for potential acquisitions. The company does not expect to repatriate these funds to the U.S.

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

*Revolving Credit Facility/Term Loan*

On March 4, 2016, the company entered into a new credit agreement with Bank of America, as agent, for up to \$700.0 million which consists of an unsecured revolving credit facility of \$575.0 million and an unsecured term loan credit facility of up to \$125.0 million. The new credit agreement is for a five year period. The new credit agreement replaced the company's previous credit agreement dated May 31, 2013, which was terminated on March 4, 2016. As of July 2, 2016, the company had available \$337.4 million of borrowing capacity under the revolving credit facility at an interest rate of LIBOR plus 1.5% (1.97% as of July 2, 2016).

The company incurred debt issuance costs of \$1.7 million in relation to the new credit agreement which along with the remaining balance of debt issuance costs of the previous credit facility, are being amortized over the life of the new credit agreement. This new credit agreement was determined to be a modification under ASC 470-50 of the previous credit agreement.

This arrangement contains covenants that, among other matters, impose limitations on the incurrence of additional indebtedness, future mergers, sales of assets, payment of dividends, and changes in control, as defined in the agreement. In addition, the company is required to satisfy certain financial covenants and tests relating to, among other matters, interest coverage and leverage. At July 2, 2016, the company was in compliance with all covenants under the credit agreement.

The company also had \$0.1 million outstanding in letters of credit at July 2, 2016. No amounts were drawn under these letters of credit at July 2, 2016.

#### *Entrusted Loan*

During the fourth quarter of 2014, the company entered into an entrusted loan arrangement (“Entrusted Loan”) of RMB 110.0 million (approximately \$17.9 million) between two of its China legal entities, Littelfuse Semiconductor (Wuxi) Company (the “lender”) and Suzhou Littelfuse OVS Ltd. (the “borrower”), utilizing Bank of America, N.A., Shanghai Branch as agent. Direct borrowing and lending between two commonly owned commercial entities was strictly forbidden at the time under China’s regulations requiring the use of a third party agent to enable loans between Chinese legal entities. As a result, the Entrusted Loan is reflected as both a long-term asset and long-term debt on the company’s Consolidated Balance Sheets and is reflected in the investing and financing activities in its Consolidated Statements of Cash Flows. Interest expense and interest income is recorded between the lender and borrower with no net impact on the company’s Consolidated Statements of Net Income since the amounts will be offsetting. The loan interest rate per annum is 5.25%. The Entrusted Loan is used to finance the operation and working capital needs of the borrower and matures in November 2019. The balance of the Entrusted Loan was RMB 61.5 million (approximately \$9.3 million) at July 2, 2016.

#### *Stock Repurchase Program*

The company’s Board of Directors authorized the repurchase of up to 1,000,000 shares of the company’s common stock under a program for the period May 1, 2016 to April 30, 2017. The company’s prior share repurchase authorization of 1,000,000 shares expired on April 30, 2016 with 650,000 shares remaining in the program. The company did not repurchase any shares of its common stock during the first six months of fiscal 2016.



*Cash Flow*

The company started 2016 with \$328.8 million of cash and cash equivalents. Net cash provided by operating activities was approximately \$35.3 million for the first six months of 2016 reflecting \$46.4 million in net income and \$38.3 million in non-cash adjustments (primarily \$25.1 million in depreciation and amortization) offset by \$49.4 million in net changes to various operating assets and liabilities.

Changes in operating assets and liabilities for the first six months of 2016 (including short-term and long-term items) that impacted cash flows negatively consisted of increases in accounts receivable (\$20.8 million), prepaid and other assets (\$11.9 million), decreases in accrued payroll and severance (\$10.2 million), accrued and net deferred taxes (\$13.9 million) and inventories (\$1.3 million). The increase in accounts receivable was due to increased sales in the second quarter. The decrease in accrued payroll and severance was due primarily to payouts for the 2015 management incentive plan which occurred in the first quarter. Changes having a positive impact on cash flows were increases in accrued expenses (\$5.7 million) and accounts payable (\$3.0 million).

Net cash used in investing activities for the first six months of 2016 was approximately \$374.2 million and primarily related to the acquisition of the PolySwitch business (\$333.0 million, net of cash acquired), the acquisition of Member's (\$17.8 million) and capital expenditures (\$20.2 million).

Net cash provided by financing activities for the first six months of 2016 was approximately \$188.8 million and included \$198.9 million in net proceeds on borrowings offset by dividends paid of \$13.0 million and debt issuance costs related to the new credit agreement of \$1.7 million, partially offset by \$4.5 million from the exercise of stock options including tax benefits. The effects of exchange rate changes increased cash and cash equivalents by approximately \$0.8 million. The net cash provided by operating activities combined with the effects of exchange rate changes less net cash used in investing and financing activities resulted in a \$149.3 million decrease in cash, which left the company with a cash and cash equivalents balance of \$179.5 million at July 2, 2016.

The ratio of current assets to current liabilities was 3.0 to 1 at the end of the second quarter of 2016 compared to 2.8 to 1 at year-end 2015 and 3.0 to 1 at the end of the second quarter of 2015. Days sales outstanding in accounts receivable was approximately 66 days at the end of the second quarter of 2016 compared to 62 days at the end of the second quarter of 2015 and 59 days at year-end 2015. Days inventory outstanding was approximately 65 days at the end of the second quarter of 2016 as well as at the year-end 2015 and second quarter of 2015.

#### *Outlook*

Sales in the 3rd quarter of 2016 are expected to be in the range of \$262 million to \$272 million, which includes PolySwitch sales of approximately \$40 million.

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

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

#### *Interest Rates*

The company had \$360.9 million in debt outstanding at July 2, 2016 related to the unsecured revolving credit facility and term loan. Because 100% of this debt has variable interest rates, the company is subject to future interest rate fluctuations in relation to these borrowings which could potentially have a negative impact on cash flows of the company. A prospective increase of 100 basis points in the interest rate applicable to the Company's outstanding borrowings under its credit facility would result in an increase of approximately \$3.6 million in annual interest expense. The Company is not party to any currency exchange or interest rate protection agreements as of July 2, 2016.

*Foreign Exchange Rates*

The majority of the company's operations consist of manufacturing and sales activities in foreign countries. The company has manufacturing facilities in the U.S., Mexico, Canada, China, Italy, Lithuania, Japan and the Philippines. During the first six months of 2016, sales to customers outside the U.S. were approximately 64% of total net sales. Substantially all sales in Europe are denominated in euros and substantially all sales in the Asia-Pacific region are denominated in U.S. dollars, Japanese yen, Korean won, Chinese yuan or Taiwanese dollars.

The company's foreign exchange exposures result primarily from sale of products in foreign currencies, foreign currency denominated purchases, inter-company loans, employee-related and other costs of running operations in foreign countries and translation of balance sheet accounts denominated in foreign currencies. The company's most significant net long exposure is to the euro. The company's most significant net short exposures are to the Chinese yuan, Mexican peso and Philippine peso. Changes in foreign exchange rates could affect the company's sales, costs, balance sheet values and earnings. The company uses netting and offsetting intercompany account management techniques to reduce known foreign currency exposures where possible.

#### *Commodity Prices*

The company uses various metals in the manufacturing of its products, including copper, zinc, tin, gold and silver. Prices of these commodities can and do fluctuate significantly, which can impact the company's earnings. The most significant of these exposures is to copper, zinc, silver and gold where at current prices and volumes, a 10% price change would affect annual pre-tax profit by approximately \$2.1 million for copper, \$0.7 million for zinc, \$0.6 million for silver and \$0.1 million for gold. From time to time, the company has utilized derivative instruments to hedge certain commodity exposures.

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

Each of our Chief Executive Officer and Chief Financial Officer has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934) as of the end of the period covered by this quarterly report. Based on such evaluation, such officers have concluded that, as of the end of the period covered by this quarterly report, our disclosure controls and procedures are effective.

There have been no changes in our internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended July 2, 2016 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

None.

### **Item 1A. Risk Factors.**

There have been no material changes from risk factors previously disclosed in our Annual Report on Form 10-K for the year ended January 2, 2016 in response to Item 1A to Part 1 of Form 10-K.

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

The company's Board of Directors authorized the repurchase of up to 1,000,000 shares of the company's common stock under a program for the period May 1, 2016 to April 30, 2017. The company's prior share repurchase authorization of 1,000,000 shares expired on April 30, 2016 with 650,000 shares remaining in the program. The company did not repurchase any shares of its common stock during the first six months of fiscal 2016.

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

None.

### **Item 4. Mine Safety Disclosures.**

None.

**Item 5. Other Information.**

None.

26

---

**Item 6. Exhibits.**

Exhibit Description

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

31.2\* Certification of Meenal A. Sethna, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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

101.INS\* XBRL Instance Document

101.SCH\* XBRL Taxonomy Extension Schema Document

101.CAL\* XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF\* XBRL Taxonomy Definition Linkbase Document

101.LAB\* XBRL Taxonomy Extension Label Linkbase Document

101.PRE\* XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed  
herewith.

\*\*  
Furnished  
herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Quarterly Report on Form 10-Q for the quarter ended July 2, 2016, to be signed on its behalf by the undersigned thereunto duly authorized.

**Littelfuse, Inc.**

Date: August 5, 2016

By

/s/ Meenal A. Sethna  
Meenal A. Sethna  
Executive Vice President and

Chief Financial Officer

(As duly authorized officer and as

the principal financial and  
accounting

officer)