

LITTELFUSE INC /DE  
Form 10-Q  
August 02, 2017  
United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

(Mark  
one)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the Quarterly Period Ended July 1, 2017**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES ACT OF  
1934  
For the transition period from \_\_\_ to \_\_\_**

Commission file number 0-20388

**LITTELFUSE, INC.**

(Exact name of registrant as specified in its charter)

Delaware 36-3795742  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

8755 West Higgins Road, Suite 500  
Chicago, Illinois 60631  
(Address of principal executive offices) (ZIP Code)

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

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

Name of Each Exchange

Title of Each Class

On Which Registered

Common Stock, \$0.01 par value NASDAQ Global Select Market<sup>SM</sup>

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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

As of July 28, 2017, the registrant had outstanding 22,712,629 shares of Common Stock, net of Treasury Shares.

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**LITTELFUSE, INC.****CONSOLIDATED BALANCE SHEETS**

| <b>(in thousands)</b>                             | <b>July 1,<br/>2017<br/>(Unaudited)</b> | <b>December<br/>31,<br/>2016</b> |
|---|---|----------------------------------|
| <b>ASSETS</b>                                     |   |                                  |
| Current assets:                                   |   |                                  |
| Cash and cash equivalents                         | \$ 321,893                              | \$ 275,124                       |
| Short-term investments                            | 34                                      | 3,690                            |
| Trade receivables, net                            | 199,027                                 | 176,032                          |
| Inventories                                       | 125,240                                 | 114,063                          |
| Prepaid income taxes                              | 6,720                                   | 11,671                           |
| Prepaid expenses and other current assets         | 51,938                                  | 31,501                           |
| Total current assets                              | 704,852                                 | 612,081                          |
| Property, plant, and equipment:                   |   |                                  |
| Land  | 9,691                                   | 9,268                            |
| Buildings   | 84,481                                  | 80,553                           |
| Equipment   | 471,960                                 | 439,542                          |
| Accumulated depreciation and amortization         | (333,593 )                              | (312,188 )                       |
| Net property, plant, and equipment                | 232,539                                 | 217,175                          |
| Intangible assets, net of amortization:           |   |                                  |
| Patents, licenses and software                    | 85,798                                  | 83,607                           |
| Distribution network                              | 18,191                                  | 18,995                           |
| Customer relationships, trademarks and tradenames | 106,848                                 | 110,425                          |
| Goodwill  | 432,134                                 | 403,544                          |
| Investments                                       | 11,916                                  | 13,933                           |
| Deferred income taxes                             | 19,028                                  | 20,585                           |
| Other assets                                      | 10,885                                  | 10,849                           |
| Total assets                                      | \$ 1,622,191                            | \$ 1,491,194                     |
| <b>LIABILITIES AND EQUITY</b>                     |   |                                  |
| Current liabilities:                              |   |                                  |
| Accounts payable                                  | \$ 100,826                              | \$ 90,712                        |
| Accrued payroll                                   | 32,866                                  | 42,810                           |
| Accrued expenses                                  | 50,536                                  | 36,138                           |
| Accrued severance                                 | 629                                     | 2,785                            |
| Accrued income taxes                              | 9,522                                   | 8,846                            |
| Current portion of long-term debt                 | 7,813                                   | 6,250                            |
| Total current liabilities                         | 202,192                                 | 187,541                          |
| Long-term debt, less current portion              | 473,879                                 | 447,892                          |
| Deferred income taxes                             | 8,826                                   | 7,066                            |

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|  |              |              |
|--|--------------|--------------|
| Accrued post-retirement benefits         | 15,975       | 13,398       |
| Other long-term liabilities              | 25,887       | 20,366       |
| Shareholders' equity:                    |              |              |
| Common stock, par value \$0.01 per share | 245          | 228          |
| Treasury stock, at cost                  | (41,049 )    | (36,510 )    |
| Additional paid-in capital               | 302,238      | 291,258      |
| Accumulated other comprehensive income   | (73,104 )    | (74,579 )    |
| Retained earnings                        | 706,959      | 634,391      |
| Littelfuse, Inc. shareholders' equity    | 895,289      | 814,788      |
| Non-controlling interest                 | 143          | 143          |
| Total equity                             | 895,432      | 814,931      |
| Total liabilities and equity             | \$ 1,622,191 | \$ 1,491,194 |

See accompanying Notes to Consolidated Financial Statements.

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

| <b>(in thousands, except per share data)</b>               | <b>For the Three<br/>Months Ended</b> |                         | <b>For the Six Months<br/>Ended</b> |                         |
|--|---------------------------------------|-------------------------|-------------------------------------|-------------------------|
|  | <b>July 1,<br/>2017</b>               | <b>July 2,<br/>2016</b> | <b>July 1,<br/>2017</b>             | <b>July 2,<br/>2016</b> |
| Net sales  | \$313,355                             | \$271,912               | \$598,797                           | \$491,310               |
| Cost of sales  | 180,747                               | 174,046                 | 352,539                             | 306,289                 |
| Gross profit   | 132,608                               | 97,866                  | 246,258                             | 185,021                 |
| Selling, general, and administrative expenses              | 53,438                                | 51,092                  | 100,139                             | 93,458                  |
| Research and development expenses                          | 12,729                                | 11,916                  | 24,881                              | 20,481                  |
| Amortization of intangibles                                | 6,171                                 | 5,156                   | 12,115                              | 8,952                   |
| Total operating expenses                                   | 72,338                                | 68,164                  | 137,135                             | 122,891                 |
| Operating income   | 60,270                                | 29,702                  | 109,123                             | 62,130                  |
| Interest expense   | 3,281                                 | 1,670                   | 6,401                               | 3,715                   |
| Foreign exchange gain                                      | (558 )                                | (6,237 )                | (2,115 )                            | (2,414 )                |
| Other expense (income), net                                | 190                                   | 255                     | 52                                  | (262 )                  |
| Income before income taxes                                 | 57,357                                | 34,014                  | 104,785                             | 61,091                  |
| Income taxes   | 8,719                                 | 6,862                   | 17,255                              | 14,650                  |
| Net income   | \$48,638                              | \$27,152                | \$87,530                            | \$46,441                |
| Income per share:  |                                       |                         |                                     |                         |
| Basic  | \$2.13                                | \$1.21                  | \$3.84                              | \$2.07                  |
| Diluted  | \$2.11                                | \$1.20                  | \$3.80                              | \$2.05                  |
| Weighted-average shares and equivalent shares outstanding: |                                       |                         |                                     |                         |
| Basic  | 22,822                                | 22,528                  | 22,785                              | 22,483                  |
| Diluted  | 23,023                                | 22,674                  | 23,005                              | 22,647                  |

See accompanying Notes to Consolidated Financial Statements.

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

| <b>(in thousands)</b>   | <b>For the Three<br/>Months Ended</b> |                         | <b>For the Six<br/>Months Ended</b> |                         |
|---|---------------------------------------|-------------------------|-------------------------------------|-------------------------|
|   | <b>July 1,<br/>2017</b>               | <b>July 2,<br/>2016</b> | <b>July 1,<br/>2017</b>             | <b>July 2,<br/>2016</b> |
| Net income  | \$48,638                              | \$27,152                | \$87,530                            | \$46,441                |
| Other comprehensive income (loss):  |                                       |                         |                                     |                         |
| Pension liability adjustments (net of tax of \$23 and \$32 for the three months ended 2017 and 2016, and \$55 and \$365 for the six months ended 2017 and 2016, respectively) | (19 )                                 | (137 )                  | (200 )                              | (45 )                   |
| Pension and postemployment reclassification adjustments   | (80 )                                 | 71                      | (181 )                              | 144                     |
| Unrealized gain (loss) on investments   | (472 )                                | (252 )                  | 475                                 | (1,486 )                |
| Foreign currency translation adjustments  | (3,582 )                              | (14,935)                | 1,380                               | (3,180 )                |
| Comprehensive income  | \$44,485                              | \$11,899                | \$89,004                            | \$41,874                |

See accompanying Notes to Consolidated Financial Statements.

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

| <b>(in thousands)</b>   | <b>For the Six Months<br/>Ended</b> |                         |
|---|-------------------------------------|-------------------------|
|   | <b>July 1,<br/>2017</b>             | <b>July 2,<br/>2016</b> |
| <b>Operating activities</b>   |                                     |                         |
| Net income  | \$87,530                            | \$46,441                |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                     |                         |
| Depreciation  | 18,575                              | 16,156                  |
| Amortization of intangibles   | 12,115                              | 8,952                   |
| Provision for bad debts   | 1,895                               | —                       |
| Impairment of long-lived assets   | —                                   | 1,391                   |
| Non-cash inventory charge   | —                                   | 6,902                   |
| Loss on sale of property, plant, and equipment                                    | 593                                 | 331                     |
| Stock-based compensation  | 8,590                               | 6,124                   |
| Excess tax benefit on share-based compensation                                    | —                                   | (1,585 )                |
| Deferred income taxes   | 1,514                               | —                       |
| Changes in operating assets and liabilities:                                      |                                     |                         |
| Trade receivables   | (32,039 )                           | (25,028 )               |
| Inventories   | (8,739 )                            | (1,282 )                |
| Accounts payable  | 7,985                               | 2,974                   |
| Accrued expenses (including post-retirement)                                      | 3,912                               | 5,715                   |
| Accrued payroll and severance   | (13,190 )                           | (10,227 )               |
| Accrued taxes   | 515                                 | (13,946 )               |
| Prepaid expenses and other  | 4,317                               | (7,642 )                |
| Net cash provided by operating activities   | 93,573                              | 35,276                  |
| <b>Investing activities</b>   |                                     |                         |
| Acquisitions of businesses, net of cash acquired                                  | (14,172 )                           | (354,356)               |
| Proceeds from maturities of short-term investments                                | 3,739                               | —                       |
| Decrease in entrusted loan  | 2,416                               | —                       |
| Purchases of property, plant, and equipment                                       | (28,278 )                           | (20,217 )               |
| Proceeds from sale of property, plant, and equipment                              | 178                                 | 370                     |
| Net cash used in investing activities   | (36,117 )                           | (374,203)               |
| <b>Financing activities</b>   |                                     |                         |
| Proceeds of revolving credit facility   | —                                   | 258,000                 |
| Proceeds of term loan   | —                                   | 125,000                 |
| Proceeds of senior notes payable  | 125,000                             | —                       |
| Payments of term loan   | (3,125 )                            | (86,563 )               |
| Payments of revolving credit facility   | (112,500)                           | (97,500 )               |



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|   |           |           |
|---|-----------|-----------|
| Net proceeds (payments) related to stock-based award activities           | (2,074 )  | 2,960     |
| Payments of entrusted loan  | (2,416 )  | —         |
| Debt issuance costs   | (1 )      | (1,701 )  |
| Cash dividends paid   | (14,963 ) | (12,995 ) |
| Excess tax benefit on share-based compensation                            | —         | 1,586     |
| Net cash (used in) provided by financing activities                       | (10,079 ) | 188,787   |
| Effect of exchange rate changes on cash and cash equivalents              | (608 )    | 815       |
| Increase (decrease) in cash and cash equivalents                          | 46,769    | (149,325) |
| Cash and cash equivalents at beginning of period                          | 275,124   | 328,786   |
| Cash and cash equivalents at end of period                                | \$321,893 | \$179,461 |
| Supplemental disclosure of non-cash investing activities:                 |           |           |
| Fair value of commitment to purchase non-controlling interest of Monolith | \$9,000   | \$—       |

See accompanying Notes to Consolidated Financial Statements.

## 1. Summary of Significant Accounting Policies and Other Information

### *Nature of Operations*

Littelfuse, Inc. and subsidiaries (the “Company”) design, manufacture, and sell circuit protection devices for use in the automotive, electronics, and industrial markets throughout the world. The Company is one of the world’s leading suppliers of circuit protection products for the electronics, automotive, and industrial markets, with expanding platforms in sensors and power control components and modules. In addition to circuit protection products and solutions, the Company offers electronic reed switches and sensors, automotive sensors for comfort and safety systems and a comprehensive line of highly reliable electromechanical and electronic switch and control devices for commercial and specialty vehicles, as well as protection relays and power distribution centers for the safe control and distribution of electricity. The Company has a network of global engineering centers and labs that develop new products and product enhancements, provides customer application support and test products for safety, reliability, and regulatory compliance. The Company’s devices protect products in virtually every market that uses electrical energy, from consumer electronics to automobiles to industrial equipment.

### *Basis of Presentation*

The Company’s accompanying unaudited Consolidated Financial Statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”) for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and disclosures normally included in the consolidated balance 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. They have been prepared in accordance with accounting policies described in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, which should be read in conjunction with the disclosures therein. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal, recurring nature. Operating results for interim periods are not necessarily indicative of annual operating results. Certain reclassifications of prior year amounts for *Trade receivables, net* and *Prepaid expenses and other current assets* were made to conform to the 2017 presentation.

### *Goodwill and Indefinite-Lived Intangible Assets*

The Company annually tests goodwill and indefinite-lived intangible assets for impairment on the first day of its fiscal fourth quarter or at other dates if there is an event or change in circumstances that indicates the asset may be impaired. Management determines the fair value of each of its reporting units by using a discounted cash flow model (which

includes forecasted five-year income statement and working capital projections, a market-based weighted average cost of capital and terminal values after five years) to estimate market value. In addition, the Company compares its derived enterprise value on a consolidated basis to the Company's market capitalization as of its test date to ensure its derived value approximates the market value of the Company when taken as a whole.

Factors the Company considers important when performing the impairment tests, which could result in changes to its estimates, include underperformance relative to historical or projected future operating results and declines in acquisitions and trading multiples. Due to the diverse end user base and non-discretionary product demand, the Company does not believe its future operating results will vary significantly relative to its historical and projected future operating results. However, it is possible that impairment charges could be recognized for the Relays reporting unit if there are declines in profitability or projected future operating results due to changes in volume, market pricing, cost, or the business environment. As of the most recent annual test conducted on October 2, 2016, the Company concluded the fair value of the Relays reporting unit exceeded its carrying value of invested capital and therefore, no potential goodwill impairment existed. As of the 2016 annual test date, the Relays reporting unit had \$41.4 million of goodwill and intangible assets and the excess of fair value over the carrying value of invested capital was 15%. As of July 1, 2017, there were no events or circumstances that indicate the Relays intangible assets were impaired.

#### ***Recently Adopted Accounting Standards***

In July 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-11 – "Inventory (Topic 330): Simplifying the Measurement of Inventory," which simplifies the measurement of inventory by requiring inventory to be measured at the lower of cost and net realizable value. The update is effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company adopted the new standard on January 1, 2017. The adoption of the update did not have a material impact on the Company's consolidated financial statements. As a result of the adoption of the update, inventories are stated at the lower of cost or net realizable value. Cost is principally determined using the first-in, first-out method. The Company maintains excess and obsolete allowances against inventory to reduce the carrying value to the expected net realizable value. These allowances are based upon a combination of factors including historical sales volume, market conditions, lower of cost or market analysis and expected realizable value of the inventory.

In March 2016, the FASB issued ASU No. 2016-09 – “Improvements to Employee Share-Based Payment Accounting,” which amends ASC 718, “Compensation – Stock Compensation.” The update simplifies several aspects of the accounting for employee share-based payment transactions, including accounting for income taxes, forfeitures, and statutory withholding requirements, as well as classification in the Consolidated Statements of Cash Flows. The update is effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company adopted the new standard on January 1, 2017. As a result of the adoption, on a prospective basis, the Company recognized \$1.4 million and \$1.9 million of excess tax benefits from stock-based compensation as a discrete item in income tax expense for the three and six months ended July 1, 2017, respectively. Historically, these amounts were recorded as additional paid-in capital. The Company also elected to apply the change prospectively to the Consolidated Statement of Cash Flows. As a result, on a prospective basis, share-based payments will be reported as operating activities in the Consolidated Statement of Cash Flows. The Company elected not to change its policy on accounting for forfeitures and will continue to estimate a requisite forfeiture rate. Additional amendments to the accounting for income taxes and minimum statutory withholding requirements had no impact on the results of operations.

#### ***Recently Issued Accounting Standards***

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers” (Topic 606) which supersedes the revenue recognition requirements in ASC 605, “Revenue Recognition.” This ASU provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most current revenue recognition guidance. The guidance permits two implementation approaches, one requiring retrospective application of the new standard with restatement of prior years and one requiring prospective application of the new standard with disclosure of results under old standards. In August, 2015, the FASB issued ASU No. 2015-14, which postponed the effective date of ASU No. 2014-09 to fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted on the original effective date of fiscal years beginning after December 15, 2016. The Company is in the process of performing its initial assessment of the potential impact on its consolidated financial statements, and currently anticipates adopting this standard using the modified retrospective method. While the Company is currently assessing the impact of the new standards, the Company’s revenue is primarily generated from the sale of finished products to customers. Those sales predominantly contain a single delivery element and revenue is recognized at a single point in time when ownership, risks, and rewards transfer. These are largely un-affected by the new standard. The Company does not expect this new guidance to have a material impact on the amount of overall sales recognized; however, the timing of sales on certain projects may be affected. The Company has not yet quantified this potential impact.

In February 2016, the FASB issued ASU No. 2016-02, "Leases" (Topic 842). This ASU requires lessees to recognize, on the balance sheet, assets and liabilities for the rights and obligations created by leases of greater than twelve months. The accounting by lessors will remain largely unchanged. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. Adoption will require a modified retrospective transition. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles-Goodwill and Other” (Topic 350). This ASU modifies the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. An entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. Because the update will eliminate Step 2 from the goodwill impairment test, it should reduce the cost and complexity of evaluating goodwill for impairment. This ASU is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2020, with early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company expects to adopt the new standard in 2017.

## 2. Acquisitions

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

### *Monolith*

In December 2015, the Company invested \$3.5 million in the preferred stock of Monolith Semiconductor Inc. (“Monolith”), a U.S. start-up company developing silicon carbide technology, which represented approximately 12% of the common stock of Monolith on an as-converted basis. The Company accounted for its investment in Monolith under the cost method with any changes in value recorded in other comprehensive income. The value of the Monolith investment was \$3.5 million at December 31, 2016.

On February 28, 2017, pursuant to a Securities Purchase Agreement between the Company and the stockholders of Monolith and conditioned on Monolith achieving a product development milestone and other provisions, the Company acquired approximately 62% of the outstanding common stock of Monolith for \$15 million. The Securities Purchase Agreement includes provisions whereby the Company will acquire the remaining outstanding stock of Monolith (“non-controlling interest”) at a time or times based on Monolith meeting certain technical and sales targets. Consideration for the additional investment(s) will range from \$1.0 million to \$10 million and will be paid no later than June 30, 2019.

The additional investment resulted in the Company gaining control of Monolith and was accounted for as a step-acquisition with the fair value of the original investment immediately before the acquisition estimated to be approximately \$3.5 million. As the fair value of the investment immediately prior to the transaction equaled the carrying value, there was no impact on the Company’s consolidated statement of net income. As the Securities Purchase Agreement includes an obligation of the Company to mandatorily redeem the non-controlling interest for cash, the fair value of the non-controlling interest was recognized as a liability on the Company’s consolidated balance sheet. Changes in the fair value of the non-controlling interest are recognized in the Company’s consolidated statements of net income.

Commencing March 1, 2017, Monolith was reflected as a consolidated subsidiary within the Company’s consolidated financial statements. Had the acquisition occurred as of January 1, 2017, the impact on the Company’s consolidated results of operations would not have been material.

The following table summarizes the preliminary purchase price allocation of the fair value of assets acquired and liabilities assumed in the Monolith acquisition:

| <b>(in thousands)</b>   | <b>Purchase<br/>Price<br/><br/>Allocation</b> |
|---|---|
| Total purchase consideration:   |   |
| Original investment   | \$ 3,500                                      |
| Cash, net of cash acquired  | 14,172  |
| Fair value of commitment to purchase non-controlling interest           | 9,000   |
| Total purchase consideration  | \$ 26,672                                     |
| Allocation of consideration to assets acquired and liabilities assumed: |   |
| Current assets, net   | \$ 891  |
| Property, plant, and equipment  | 789   |
| Patented and unpatented technologies                                    | 6,720   |
| Non-compete agreement   | 140   |
| Goodwill  | 20,641  |
| Current liabilities   | (639 )  |

|                               |           |
|-------------------------------|-----------|
| Other non-current liabilities | (1,870 )  |
|                               | \$ 26,672 |

All Monolith goodwill, other assets and liabilities were recorded in the Electronics segment and reflected in the United States geographic area. The goodwill resulting from this acquisition consists largely of the Company's expected future product sales and synergies from combining Monolith's products and technology with the Company's existing electronics product portfolio. Goodwill for the above acquisition is not expected to be deductible for tax purposes.

#### *ON Portfolio*

On August 29, 2016, the Company acquired certain assets of select businesses (the "ON Portfolio") of ON Semiconductor Corporation for \$104.0 million. The Company funded the acquisition with available cash and proceeds from its credit facility. The acquired business, which is included in the Electronics segment, consists of a product portfolio that includes transient voltage suppression ("TVS") diodes, switching thyristors and insulated gate bipolar transistors ("IGBTs") for automotive ignition applications. The acquisition expands the Company's offerings in power semiconductor applications as well as increases its presence in the automotive electronics market. The ON Portfolio products have strong synergies with the Company's existing circuit protection business and will strengthen its channel partnerships and customer engagement.

The following table summarizes the purchase price allocation of the fair value of assets acquired and liabilities assumed in the ON Portfolio acquisition:

| <b>(in thousands)</b>   | <b>Purchase<br/>Price</b> |
|---|---------------------------|
|   | <b>Allocation</b>         |
| Total purchase consideration:   |                           |
| Cash  | \$ 104,000                |
| Allocation of consideration to assets acquired and liabilities assumed: |                           |
| Current assets, net   | \$ 4,816                  |
| Customer relationships  | 31,800                    |
| Patented and unpatented technologies                                    | 8,800                     |
| Non-compete agreement   | 2,500                     |
| Goodwill  | 56,084                    |
|   | \$ 104,000                |

All the ON Portfolio business goodwill and other assets were recorded in the Electronics segment and are reflected in the Americas and Europe geographic areas. The customer relationships are being amortized over 13.5 years. The patented and unpatented technologies are being amortized over 6-8.5 years. The non-compete agreement is being amortized over 4 years. The goodwill resulting from this acquisition consists largely of the Company's expected future product sales and synergies from combining the ON Portfolio products with the Company's existing power semiconductor product portfolio. \$7.3 million of goodwill for the above acquisition is expected to be deductible for tax purposes.

As required by purchase accounting rules, the Company recorded a \$0.7 million step-up of inventory to its fair value as of the acquisition date based on the preliminary valuation. All of the step-up was amortized as a non-cash charge to cost of goods sold during 2016, as the acquired inventory was sold, and reflected as other non-segment costs.

#### *Member's*

On April 4, 2016, the Company completed the acquisition of Member's S.p.A. ("Member's") headquartered in Legnago, Italy for \$19.2 million, net of acquired cash and after settlement of a working capital adjustment. The Company funded the acquisition with cash on hand and borrowings under the Company's revolving credit facility. The acquired business is part of the Company's commercial vehicle product business within the Automotive segment and specializes in the design, manufacturing, and selling of manual and electrical high current switches and trailer connectors for commercial vehicles. The acquisition expands the Company's commercial vehicle products business globally.



The following table summarizes the purchase price allocation of the fair value of assets acquired and liabilities assumed in the Member's acquisition:

| <b>(in thousands)</b>   | <b>Purchase<br/>Price<br/><br/>Allocation</b> |
|---|---|
| Total purchase consideration:   |   |
| Cash, net of acquired cash  | \$ 19,162                                     |
| Preliminary allocation of consideration to assets acquired and liabilities assumed: |   |
| Current assets, net   | \$ 12,919                                     |
| Property, plant, and equipment  | 1,693   |
| Customer relationships  | 3,050   |
| Patented and unpatented technologies  | 224   |
| Trademarks and tradenames   | 1,849   |
| Goodwill  | 8,091   |
| Current liabilities   | (7,220 )                                      |
| Other non-current liabilities   | (1,444 )                                      |
|   | \$ 19,162                                     |

All Member's goodwill and other assets and liabilities were recorded in the Automotive segment and reflected in the Europe geographic 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.

As required by purchase accounting rules, the Company recorded a \$0.2 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 2016, as the acquired inventory was sold, with the charge 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 \$348.3 million, net of acquired cash and after settlement of certain post-closing adjustments. In the second quarter of 2017, the Company paid the final consideration of \$3.8 million. The Company funded the acquisition with available cash on hand and borrowings under the Company’s revolving credit facility. 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 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 following table summarizes the purchase price allocation of the fair value of assets acquired and liabilities assumed in the PolySwitch acquisition:

| <b>(in thousands)</b>   | <b>Purchase<br/>Price<br/>Allocation</b> |
|---|--|
| Total purchase consideration:   |  |
| Original consideration  | \$ 350,000                               |
| Post closing consideration adjustment received                          | (1,708 )                                 |
| Acquired cash   | (3,810 )                                 |
| Acquired cash returned to seller  | 3,810                                    |
| Total purchase consideration  | \$ 348,292                               |
| Allocation of consideration to assets acquired and liabilities assumed: |  |
| Current assets, net   | \$ 60,228                                |
| Property, plant, and equipment  | 51,613                                   |
| Land lease  | 4,290                                    |
| Patented and unpatented technologies                                    | 56,425                                   |
| Customer relationships  | 39,720                                   |
| Goodwill  | 165,088                                  |
| Other long-term assets  | 11,228                                   |
| Current liabilities   | (35,280 )                                |
| Other non-current liabilities   | (5,020 )                                 |
|   | \$ 348,292                               |

All PolySwitch goodwill and other assets and liabilities were recorded in the Electronics and Automotive 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. \$103.8 million and \$61.3 million of the goodwill for the above acquisition has been assigned to the Electronics and Automotive segments, respectively, with \$64.9 million 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.

*Pro Forma Results*

The following table summarizes, on a pro forma basis, the combined results of operations of the Company and the acquired PolySwitch and the ON Portfolio businesses for the three months and six months ended July 2, 2016 as though the acquisitions had occurred as of January 3, 2016. The Company has not included pro forma results of operations for Menber's or Monolith 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 or ON Portfolio acquisitions occurred as of January 3, 2016 or of future consolidated operating results.

|                            | <b>Three<br/>Months</b>  | <b>Six<br/>Months</b>    |
|----------------------------|--------------------------|--------------------------|
| <b>(in thousands)</b>      | <b>Ended<br/>July 2,</b> | <b>Ended<br/>July 2,</b> |
|                            | <b>2016</b>              | <b>2016</b>              |
| Net sales                  | \$286,975                | \$555,750                |
| Income before income taxes | 44,140                   | 78,222                   |
| Net income                 | 36,191                   | 63,700                   |
| Net income — basic         | 1.61                     | 2.83                     |
| Net income — diluted       | 1.60                     | 2.81                     |

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

**3. Inventories**

The components of inventories at July 1, 2017 and December 31, 2016 are as follows:

| <b>(in thousands)</b> | <b>July 1,<br/>2017</b> | <b>December<br/>31, 2016</b> |
|-----------------------|-------------------------|------------------------------|
| Raw materials         | \$36,104                | \$32,231                     |
| Work in process       | 26,576                  | 23,354                       |

|                |           |           |
|----------------|-----------|-----------|
| Finished goods | 62,560    | 58,478    |
| Total          | \$125,240 | \$114,063 |

#### 4. Debt

The carrying amounts of debt at July 1, 2017 and December 31, 2016 are as follows:

| (in thousands)                       | July 1,<br>2017 | December<br>31, 2016 |
|--------------------------------------|-----------------|----------------------|
| Revolving credit facility            | \$—             | \$112,500            |
| Term loan                            | 117,188         | 120,313              |
| Entrusted loan                       | 1,179           | 3,522                |
| Euro Senior Notes, Series A due 2023 | 133,497         | 122,313              |
| Euro Senior Notes, Series B due 2028 | 108,395         | 99,314               |
| USD Senior Notes, Series A due 2022  | 25,000          | —                    |
| USD Senior Notes, Series B due 2027  | 100,000         | —                    |
| Unamortized debt issuance costs      | (3,567 )        | (3,820 )             |
| Total debt                           | 481,692         | 454,142              |
| Less: Current maturities             | (7,813 )        | (6,250 )             |
| Total long-term debt                 | \$473,879       | \$447,892            |

*Revolving Credit Facility / Term Loan*

On March 4, 2016, the Company entered into a new five year credit agreement with a group of lenders for up to \$700.0 million. The new credit agreement consists of an unsecured revolving credit facility of \$575.0 million and an unsecured term loan credit facility of up to \$125.0 million. In addition, the Company has the ability, from time to time, to increase the size of the revolving credit facility and the term loan facility by up to an additional \$150.0 million, in the aggregate, in each case in minimum increments of \$25.0 million, subject to certain conditions and the agreement of participating lenders. For the term loan credit facility, the Company is required to make quarterly principal payments of \$1.6 million through March 31, 2018 and \$3.1 million from June 30, 2018 through December 31, 2020 with the remaining balance due on March 4, 2021.

Outstanding borrowings under the credit agreement bear interest, at the Company's option, at either LIBOR, fixed for interest periods of one, two, three or six month periods, plus 1.00% to 2.00%, or at the bank's Base Rate, as defined, plus 0.00% to 1.00%, based upon the Company's Consolidated Leverage Ratio, as defined. The Company is also required to pay commitment fees on unused portions of the credit agreement ranging from 0.15% to 0.30%, based on the Consolidated Leverage Ratio, as defined. The credit agreement includes representations, covenants and events of default that are customary for financing transactions of this nature. The effective interest rate on outstanding borrowings under the credit facility was 2.72% at July 1, 2017.

As of July 1, 2017, the Company had \$0.1 million outstanding in letters of credit and had available \$574.9 million of borrowing capacity under the revolving credit facility. At July 1, 2017, the Company was in compliance with all covenants under the credit agreement.

*Senior Notes*

On December 8, 2016, the Company entered into a Note Purchase Agreement, pursuant to which the Company issued and sold €212 million aggregate principal amount of senior notes in two series. The funding date for the Euro denominated senior notes occurred on December 8, 2016 for €117 million in aggregate amount of 1.14% Senior Notes, Series A, due December 8, 2023, and €95 million in aggregate amount of 1.83% Senior Notes, Series B due December 8, 2028 (together, the "Euro Senior Notes"). Interest on the Euro Senior Notes is payable semiannually on June 8 and December 8, commencing June 8, 2017.

On December 8, 2016, the Company entered into a Note Purchase Agreement, pursuant to which the Company issued and sold \$125 million aggregate principal amount of senior notes in two series. On February 15, 2017, \$25 million in aggregate principal amount of 3.03% Senior Notes, Series A, due February 15, 2022, and \$100 million in aggregate principal amount of 3.74% Senior Notes, Series B, due February 15, 2027 (together, the "U.S. Senior Notes," and

together with the Euro Senior Notes, the “Senior Notes”) were funded. Interest on the U.S. Senior Notes will be payable semiannually on February 15 and August 15, commencing August 15, 2017.

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

The Senior Notes are subject to certain customary covenants, including limitations on the Company’s ability, with certain exceptions, to engage in mergers, consolidations, asset sales and transactions with affiliates, to engage in any business that would substantially change the general business of the Company, and to incur liens. In addition, the Company is required to satisfy certain financial covenants and tests relating to, among other matters, interest coverage and leverage. At July 1, 2017, the Company was in compliance with all covenants under the revolving credit facility and the Senior Notes.

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

#### *Entrusted Loan*

During 2014, the Company entered into an entrusted loan arrangement (“Entrusted Loan”) of Chinese renminbi 110.0 million (approximately U.S. \$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 Chinese renminbi 8.0 million (approximately U.S. \$1.2 million) at July 1, 2017.

## 5. Fair Value of Assets and Liabilities

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 upon quoted prices for *similar* instruments, prices for identical or similar instruments in markets that are not active, or model-derived valuations, all of whose significant inputs are observable, and

Level 3—Valuations based upon one or more significant unobservable inputs.

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

### *Investments*

Investments in equity securities listed on a national market or exchange are valued at the last sales price and are classified within Level 1 of the valuation hierarchy.

There were no changes during the quarter ended July 1, 2017 to the Company's valuation techniques used to measure asset and liability fair values on a recurring basis. As of July 1, 2017 and December 31, 2016, the Company did not hold any 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 1, 2017:

| (in thousands) | Fair Value Measurements Using |                   |                          | Total |
|----------------|-------------------------------|-------------------|--------------------------|-------|
|                | Quoted Prices                 | Significant Other | Significant Unobservable |       |



|                           | <b>in<br/>Active<br/>Markets<br/>for<br/>Identical<br/>Assets<br/>(Level<br/>1)</b> | <b>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Inputs<br/>(Level 3)</b> |           |
|---------------------------|---|--|-----------------------------|-----------|
| Investment in Polytronics | \$ 11,916   | \$ —                                       | \$ —                        | \$ 11,916 |

The following table presents assets measured at fair value by classification within the fair value hierarchy as of December 31, 2016:

| <b>(in thousands)</b>     | <b>Fair Value Measurements Using<br/>Quoted<br/>Prices<br/>in<br/>Active<br/>Markets<br/>for<br/>Identical<br/>Assets<br/>(Level<br/>1)</b> |  |      | <b>Total</b> |
|---------------------------|---|--|------|--------------|
|                           | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b>  | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |      |              |
| Investment in Polytronics | \$ 10,435   | \$ —   | \$ — | \$ 10,435    |

In addition to the methods and assumptions used for the financial instruments recorded at fair value as discussed above, the following methods and assumptions are used to estimate the fair value of other financial instruments that are not marked to market on a recurring basis. The Company's other financial instruments include cash and cash equivalents, short-term investments, accounts receivable and its long-term debt. Due to their short-term maturity, the carrying amounts of cash and cash equivalents, short-term investments and accounts receivable approximate their fair values. The Company's revolving and term loan debt facilities' fair values approximate book value at July 1, 2017 and December 31, 2016, as the rates on these borrowings are variable in nature.

The carrying value and estimated fair values of the Company's Euro Senior Notes, Series A and Series B and USD Senior Notes, Series A and Series B, as of July 1, 2017 and December 31, 2016 are as follows:

| <b>(in thousands)</b>                | <b>July 1, 2017</b>       |                                     | <b>December 31, 2016</b>  |                                     |
|--------------------------------------|---------------------------|-------------------------------------|---------------------------|-------------------------------------|
|                                      | <b>Carrying<br/>Value</b> | <b>Estimated<br/>Fair<br/>Value</b> | <b>Carrying<br/>Value</b> | <b>Estimated<br/>Fair<br/>Value</b> |
| Euro Senior Notes, Series A due 2023 | \$ 133,497                | \$ 132,037                          | \$ 122,313                | \$ 122,586                          |

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|                                      |         |         |        |        |
|--------------------------------------|---------|---------|--------|--------|
| Euro Senior Notes, Series B due 2028 | 108,395 | 105,505 | 99,314 | 99,230 |
| USD Senior Notes, Series A due 2022  | 25,000  | 24,928  | —      | —      |
| USD Senior Notes, Series B due 2027  | 100,000 | 99,890  | —      | —      |

## 6. Benefit Plans

The Company has company-sponsored defined benefit pension plans covering employees in the U.K., Germany, the Philippines, China, Japan, and France. The amount of the retirement benefits provided under the plans is based on years of service and final average pay.

The components of net periodic benefit cost for the three and six months ended July 1, 2017 and July 2, 2016 are as follows:

| (in thousands)                           | For the<br>Three<br>Months<br>Ended |                    | For the Six<br>Months Ended |                 |
|--|-------------------------------------|--------------------|-----------------------------|-----------------|
|  | July<br>1,<br>2017                  | July<br>2,<br>2016 | July<br>1,<br>2017          | July 2,<br>2016 |
| Components of net periodic benefit cost: |                                     |                    |                             |                 |
| Service cost                             | \$408                               | \$333              | \$816                       | \$665           |
| Interest cost                            | 360                                 | 496                | 720                         | 993             |
| Expected return on plan assets           | (476)                               | (520)              | (952)                       | (1,040)         |
| Amortization of prior service (credit)   | 84                                  | 73                 | 168                         | 146             |
| Total cost of the plan                   | 376                                 | 382                | 752                         | 764             |
| Expected plan participants' contribution | —                                   | —                  | —                           | —               |
| Net periodic benefit cost                | \$376                               | \$382              | \$752                       | \$764           |

The expected return on pension assets is 4.5% and 4.9% in 2017 and 2016, respectively.

## 7. Shareholders' Equity

Accumulated Other Comprehensive Income (Loss) ("AOCI"): The following table sets forth the changes in the components of AOCI by component for the six months ended July 1, 2017:

| (in thousands) | Pension and<br>postretirement | Unrealized<br>gains on | Foreign<br>currency | Accumulated<br>other |
|----------------|-------------------------------|------------------------|---------------------|----------------------|
|----------------|-------------------------------|------------------------|---------------------|----------------------|

|                              | <b>liability and<br/>reclassification</b> | <b>investments</b> | <b>translation</b> | <b>comprehensive<br/>adjustment</b> | <b>income (loss)</b> |
|------------------------------|---|--------------------|--------------------|-------------------------------------|----------------------|
|                              | <b>adjustments <sup>(a)</sup></b>         |                    |                    |                                     |                      |
| Balance at December 31, 2016 | \$ (11,983 )                              | \$ 10,769          | \$ (73,365 )       | \$ (74,579 )                        |                      |
| Activity in the period       | (381 )                                    | 475                | 1,381              | 1,475                               |                      |
| Balance at July 1, 2017      | \$ (12,364 )                              | \$ 11,244          | \$ (71,984 )       | \$ (73,104 )                        |                      |

(a) The balances at July 1, 2017 and December 31, 2016 are net of taxes of \$1.1 million and \$1.1 million, respectively.

## 8. Income Taxes

The effective tax rates for the three and six months ended July 1, 2017 was 15.2% and 16.5%, respectively, compared to effective tax rates for the three and six months ended July 2, 2016 of 20.2% and 24.0%, respectively. The effective tax rates for all periods are lower than the U.S. statutory tax rate primarily due to income earned in lower tax jurisdictions. Further, the effective tax rate for the second quarter of 2017 was lower than the effective tax rate for the second quarter of 2016 primarily due to a larger amount of income earned in lower tax jurisdictions in the second quarter of 2017 compared to the second quarter of 2016 as well as the adoption on January 1, 2017 of ASU No. 2016-09 which resulted in the recognition of \$1.4 million and \$1.9 million of excess tax benefits from stock-based compensation as a discrete item in income tax expense for the three and six months ended July 1, 2017, respectively. Historically, these amounts were recorded as additional paid-in capital.

## 9. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

| (in thousands, except per share amounts) | For the Three<br>Months Ended |                 | For the Six<br>Months Ended |                 |
|--|-------------------------------|-----------------|-----------------------------|-----------------|
|  | July 1,<br>2017               | July 2,<br>2016 | July 1,<br>2017             | July 2,<br>2016 |
| <b>Numerator:</b>                        |                               |                 |                             |                 |
| Net income as reported                   | \$48,638                      | \$27,152        | \$87,530                    | \$46,441        |
| <b>Denominator:</b>                      |                               |                 |                             |                 |
| Weighted average shares outstanding      |                               |                 |                             |                 |
| Basic                                    | 22,822                        | 22,528          | 22,785                      | 22,483          |
| Effect of dilutive securities            | 201                           | 146             | 220                         | 164             |
| Diluted                                  | 23,023                        | 22,674          | 23,005                      | 22,647          |
| <b>Earnings Per Share:</b>               |                               |                 |                             |                 |
| Basic earnings per share                 | \$2.13                        | \$1.21          | \$3.84                      | \$2.07          |
| Diluted earnings per share               | \$2.11                        | \$1.20          | \$3.80                      | \$2.05          |

Potential shares of common stock relating to stock options excluded from the earnings per share calculation because their effect would be anti-dilutive were 46,100 and 60,491 for the three months ended July 1, 2017 and July 2, 2016, respectively, and 21,896 and 36,699 for the six months ended July 1, 2017 and July 2, 2016, respectively.

## 10. Segment 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.

*Electronics Segment:* Provides circuit protection components for overcurrent and overvoltage protection, as well as sensor components and modules to leading global manufacturers of a wide range of electronic products. The segment covers a broad range of end markets, including consumer electronics, telecommunications equipment, medical devices, lighting products, and white goods. The Electronics segment supplies circuit protection, sensing and control products to various leading manufacturers. The Electronics segment has one of the broadest product offerings in the industry including fuses and protectors, positive temperature coefficient (“PTC”) resettable fuses, varistors, polymer electrostatic discharge (“ESD”) suppressors, discrete TVS diodes, TVS diode arrays protection and switching thyristors, gas discharge tubes, power switching components, fuseholders, reed switch and sensor assemblies, IGBT blocks, and related accessories.

*Automotive Segment:* Provides circuit protection and sensor products to the worldwide automotive original equipment manufacturers (“OEM”) and parts distributors of passenger automobiles, trucks, buses, and off-road equipment. In addition, the Company supplies heavy duty power distribution modules, switches and relays to the commercial vehicle industry. The Company also sells its fuses, including blade fuses and high current fuses, battery cable protectors, and varistors, in the automotive replacement parts market. The Company also supplies wiring harness manufacturers and auto parts suppliers worldwide.

*Industrial Segment:* Provides circuit protection products for industrial and commercial customers. Products include power fuses and other circuit protection devices, including protection and time delay relays, which are used in commercial and industrial buildings and large equipment such as HVAC systems, elevators, and machine tools. The Company also supplies industrial ground fault protection in mining and other large industrial operations.

Segment information is summarized as follows:

| (in thousands)                      | For the Three<br>Months Ended |                 | For the Six Months<br>Ended |                 |
|-------------------------------------|-------------------------------|-----------------|-----------------------------|-----------------|
|                                     | July 1,<br>2017               | July 2,<br>2016 | July 1,<br>2017             | July 2,<br>2016 |
| Net sales                           |                               |                 |                             |                 |
| Electronics                         | \$169,387                     | \$132,170       | \$323,154                   | \$230,966       |
| Automotive                          | 116,457                       | 111,370         | 224,297                     | 203,303         |
| Industrial                          | 27,511                        | 28,372          | 51,346                      | 57,041          |
| Total net sales                     | \$313,355                     | \$271,912       | \$598,797                   | \$491,310       |
| Depreciation and amortization       |                               |                 |                             |                 |
| Electronics                         | \$8,707                       | \$7,717         | \$17,095                    | \$13,089        |
| Automotive                          | 5,580                         | 4,988           | 10,950                      | 8,254           |
| Industrial                          | 1,330                         | 1,376           | 2,645                       | 2,828           |
| Other                               | -                             | —               | -                           | 937             |
| Total depreciation and amortization | \$15,617                      | \$14,081        | \$30,690                    | \$25,108        |
| Operating income (loss)             |                               |                 |                             |                 |
| Electronics                         | \$42,967                      | \$25,259        | \$78,173                    | \$47,675        |
| Automotive                          | 15,713                        | 16,474          | 30,778                      | 33,965          |
| Industrial                          | 1,905                         | 2,028           | 2,012                       | 3,701           |
| Other <sup>(a)</sup>                | (315 )                        | (14,059 )       | (1,840 )                    | (23,211 )       |
| Total operating income              | 60,270                        | 29,702          | 109,123                     | 62,130          |
| Interest expense                    | 3,281                         | 1,670           | 6,401                       | 3,715           |
| Foreign exchange loss (gain)        | (558 )                        | (6,237 )        | (2,115 )                    | (2,414 )        |
| Other expense (income), net         | 190                           | 255             | 52                          | (262 )          |
| Income before income taxes          | \$57,357                      | \$34,014        | \$104,785                   | \$61,091        |

(a) Included in “Other” Operating income (loss) for the 2017 second quarter is of \$0.3 million (\$1.8 million year-to-date) of acquisition and integration costs associated with the Company’s 2016 acquisitions (included in Cost of sales (“COS”) and Selling, general, and administrative expenses (“SG&A)).

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.

The Company's net sales by country are as follows:

| (in thousands)  | For the Three<br>Months Ended |                 | For the Six Months<br>Ended |                 |
|-----------------|-------------------------------|-----------------|-----------------------------|-----------------|
|                 | July 1,<br>2017               | July 2,<br>2016 | July 1,<br>2017             | July 2,<br>2016 |
| Net sales       |                               |                 |                             |                 |
| United States   | \$100,648                     | \$93,036        | \$187,306                   | \$178,184       |
| China           | 83,055                        | 62,411          | 157,745                     | 110,919         |
| Other countries | 129,652                       | 116,465         | 253,746                     | 202,207         |
| Total net sales | \$313,355                     | \$271,912       | \$598,797                   | \$491,310       |

The Company's long-lived assets by country, as of July 1, 2017 and December 31, 2016, are as follows:

| (in thousands)          | July 1,<br>2017 | December<br>31, 2016 |
|-------------------------|-----------------|----------------------|
| Long-lived assets       |                 |                      |
| United States           | \$23,415        | \$23,731             |
| China                   | 70,671          | 65,345               |
| Mexico                  | 60,172          | 52,262               |
| Philippines             | 31,573          | 33,345               |
| Other countries         | 46,708          | 42,492               |
| Total long-lived assets | \$232,539       | \$217,175            |



The Company's additions to long-lived assets by country are as follows:

| <b>(in thousands)</b>                | <b>For the Six<br/>Months Ended</b> |                         |
|--------------------------------------|-------------------------------------|-------------------------|
|                                      | <b>July 1,<br/>2017</b>             | <b>July 2,<br/>2016</b> |
| Additions to long-lived assets       |                                     |                         |
| United States                        | \$1,149                             | \$2,783                 |
| China                                | 10,149                              | 3,847                   |
| Mexico                               | 10,925                              | 8,164                   |
| Philippines                          | 1,345                               | 2,925                   |
| Other countries                      | 5,310                               | 2,498                   |
| Total additions to long-lived assets | \$28,878                            | \$20,217                |

#### **11) Subsequent Event**

On July 6, 2017, the company completed the acquisition of U.S. Sensor Corp. headquartered in California. The purchase price of \$24.0 million is subject to a working capital adjustment and was financed primarily by cash on hand. The acquired business, which will be part of the company's Electronics segment, will contribute to the expansion of the Company's existing sensor platform portfolio with a range of high-quality temperature sensor products.

## **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, uncertainties related to political or regulatory changes, 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 December 31, 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 December 31, 2016.

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide information that is supplemental to, and should be read together with, the consolidated financial statements and the accompanying notes. Information in MD&A is intended to assist the reader in obtaining an understanding of (i) the consolidated financial statements, (ii) the changes in certain key items within those financial statements from year-to-year, (iii) the primary factors that contributed to those changes, and (iv) any changes in known trends or uncertainties that we are aware of and that may have a material effect on future performance. In addition, MD&A provides information about the Company's segments and how the results of those segments impact the results of operations and financial condition as a whole.

## **Executive Overview**

Littelfuse is one of the world's leading suppliers of circuit protection products for the electronics, automotive, and industrial markets, with expanding platforms in sensor and power control components and modules. In addition to circuit protection products and solutions, the Company offers electronic reed switches and sensors, automotive sensors for comfort and safety systems and a comprehensive line of highly reliable electromechanical and electronic switch and control devices for commercial and specialty vehicles, as well as protection relays and power distribution centers for the safe control and distribution of electricity. The Company has a network of global engineering centers and labs that develop new products and product enhancements, provides customer application support and test products for safety, reliability, and regulatory compliance. The Company's devices protect products in virtually every market that uses electrical energy, from various electronic devices to automobiles to industrial equipment.

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 OEMs, Tier One automotive suppliers, and distributors.

## Executive Summary

The Company experienced strong performance improvements in the second quarter of 2017 compared to the second quarter of 2016 and in the first six months of 2017 compared to the first six months of 2016. For the second quarter of 2017, the Company recognized net sales of \$313.4 million compared to \$271.9 million in the second quarter of 2016. The increase of \$41.4 million, or 15%, reflects increased net sales of \$37.2 million, or 28%, in the Electronics segment and \$5.1 million, or 5%, in the Automotive segment, partially offset by decreased net sales of \$0.9 million, or 3%, in the Industrial segment. The increased net sales in the Electronics segment was due to strong growth across all the Electronic segment's business units as well as the ON Portfolio acquisition in August 2016. The increased net sales in the Automotive segment was primarily due to the impact of growth in the passenger car and commercial vehicle businesses. The Company recognized net income of \$48.6 million, or \$2.11 per diluted share, in the second quarter of 2017 compared to net income of \$27.2 million, or \$1.20 per diluted share in the second quarter of 2016. Increased net income reflects the impacts of the prior year acquisitions on the current year results as well as a decrease in acquisition-related costs, coupled with a lower effective tax rate.

For the first six months of 2017, the Company recognized net sales of \$598.8 million compared to \$491.3 million in the first six months of 2016. The increase of \$107.5 million, or 22%, reflects increased net sales of \$92.2 million, or 40%, in the Electronics segment and \$21.0 million, or 10%, in the Automotive segment, partially offset by decreased net sales of \$5.7 million, or 10%, in the Industrial segment. The increased net sales in the Electronics segment was due to strong growth across all the Electronic segment's business units as well as the ON Portfolio acquisition in August 2016. The increased net sales in the Automotive segment was primarily due to the impact of prior year acquisitions as well as growth in the passenger car and commercial vehicle businesses. The Company recognized net income of \$87.5 million, or \$3.80 per diluted share, in the first six months of 2017 compared to net income of \$46.4 million, or \$2.05 per diluted share in the first six months of 2016. Increased net income reflects the impacts of the prior year acquisitions on the current year results as well as a decrease in acquisition-related costs, coupled with a lower effective tax rate.

## Results of Operations

The following table summarizes the Company's consolidated results of operations for the periods presented. The second quarter of 2017 includes approximately \$0.3 million of non-segment charges (\$1.8 million year-to-date). These were primarily attributable to acquisition-related costs related to legal and integration costs associated with the Company's acquisition in 2016 of the ON Portfolio.

The second quarter of 2016 includes approximately \$14.1 million of other non-segment 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 PolySwitch acquisition, a \$6.9 million (\$6.9 million year-to-date) non-cash inventory charge relating to the PolySwitch acquisition, \$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 operation 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.

|                            | Second Quarter |           |          |             | First Six Months |           |           |             |
|----------------------------|----------------|-----------|----------|-------------|------------------|-----------|-----------|-------------|
|                            | 2017           | 2016      | Change   | %<br>Change | 2017             | 2016      | Change    | %<br>Change |
| Net sales                  | \$313,355      | \$271,912 | \$41,443 | 15.2%       | \$598,797        | \$491,310 | \$107,487 | 21.9%       |
| Gross profit               | 132,608        | 97,866    | 34,742   | 35.5%       | 246,258          | 185,021   | 61,237    | 33.1%       |
| Operating expenses         | 72,338         | 68,164    | 4,174    | 6.1%        | 137,135          | 122,891   | 14,244    | 11.6%       |
| Operating income           | 60,270         | 29,702    | 30,568   | 102.9%      | 109,123          | 62,130    | 46,993    | 75.6%       |
| Income before income taxes | 57,357         | 34,014    | 23,343   | 68.6%       | 104,785          | 61,091    | 43,694    | 71.5%       |
| Income taxes               | 8,719          | 6,862     | 1,857    | 27.1%       | 17,255           | 14,650    | 2,605     | 17.8%       |
| Net income                 | \$48,638       | \$27,152  | \$21,486 | 79.1%       | \$87,530         | \$46,441  | \$41,089  | 88.5%       |

### *Net Sales*

Net sales increased \$41.4 million, or 15.2%, for the second quarter of 2017 compared to the second quarter of 2016 with \$16.6 million resulting from incremental net sales related to the ON Portfolio acquisition in the prior year. Increased net sales in the Electronics segment of \$37.2 million and the Automotive segment of \$5.1 million were partially offset by a \$0.9 million decrease in the Industrial segment.

Net sales for the first six months of 2017 increased \$107.5 million, or 21.9% compared to the first six months of 2016, partially due to a \$77.4 million increase from the prior year PolySwitch, ON Portfolio, and Member's acquisitions. Increased net sales in the Electronics segment of \$92.2 million and the Automotive segment of \$21.0 million were partially offset by a \$5.7 million decrease in the Industrial segment.

### ***Gross Profit***

Gross profit was \$132.6 million, or 42.3% of net sales, in the second quarter of 2017, compared to \$97.9 million, or 36.0% of net sales in the second quarter of 2016. The increase in gross profit reflects the incremental net sales and improved leverage in expenses and profits related to the prior year acquisitions.

Gross profit for the first six months of 2017 was \$246.3 million, or 41.1% of net sales compared to \$185.0 million, or 37.7% of net sales for the first six months of 2016. The increase in gross profit reflects the incremental net sales and improved leverage in expenses and profits related to the prior year acquisitions.

### ***Operating Expenses***

Total operating expense was \$72.3 million, or 23.1% of net sales, for the second quarter of 2017 compared to \$68.2 million, or 25.1% of net sales, for the second quarter of 2016. The increase in operating expenses of \$4.1 million is primarily due to incremental operating expenses related to the prior year acquisitions including increased selling costs and amortization of intangibles. 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.

Total operating expense for the first six months of 2017 was \$137.1 million, or 22.9% of net sales compared to \$122.9 million, or 25.0% of net sales, for the first six months of 2016. The increase in operating expenses of \$14.2 million is primarily due to incremental operating expenses related to the prior year acquisitions including increased selling costs and amortization of intangibles. 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 Income***

Operating income was \$60.3 million, or 19.2% of net sales, for the second quarter of 2017 compared to \$29.7 million, or 10.9% of net sales, for the second quarter of 2016. The increase in operating income is the result of the above-described increased net sales and associated margins partially offset by increased operating expenses. The

improvement in operating income as a percentage of net sales reflects the impact of the prior year acquisitions costs on operating expenses.

Operating income for the first six months of 2017 was \$109.1 million, or 18.2% of net sales compared to \$62.1 million, or 12.6% of net sales, for the first six months of 2016. The increase in operating income is the result of the above-described increased net sales and associated margins partially offset by increased operating expenses. The improvement in operating income as a percentage of net sales reflects the impact of the prior year acquisitions costs on operating expenses.

### ***Income Before Income Taxes***

Income before income taxes was \$57.4 million, or 18.3% of net sales, for the second quarter of 2017 compared to \$34.0 million, or 12.5% of net sales, for the second quarter of 2016. In addition to the factors impacting comparative results for operating income, income before income taxes was impacted by a favorable comparative increase in the gross profit as a percentage of sales partially offset by an unfavorable increase in the foreign exchange expense. The effect of foreign exchange rate changes on various foreign currency transactions worldwide was approximately \$0.6 million of income for the second quarter of 2017 compared to \$6.2 million of income for the second quarter of 2016 and primarily reflects fluctuations in the euro against the U.S. dollar. Interest expense was \$3.3 million in the second quarter of 2017 as compared to \$1.7 million in the second quarter of 2016, primarily reflecting increased borrowings.

Income before income taxes for the first six months of 2017 was \$104.8 million, or 17.5% of net sales compared to \$61.1 million, or 12.4% of net sales, for the first six months of 2016. In addition to the factors impacting comparative results for operating income, income before income taxes was impacted by a favorable comparative increase in the gross profit as a percentage of sales partially offset by increased interest expense. The effect of foreign exchange rate changes on various foreign currency transactions worldwide was approximately \$2.1 million of income for the first six months of 2017 compared to \$2.4 million of income for the first six months of 2016. Interest expense was \$6.4 million in the first six months of 2017 as compared to \$3.7 million in the first six months of 2016, primarily reflecting increased borrowings.

### ***Income Taxes***

Income tax expense was \$8.7 million, or an effective tax rate of 15.2%, for the second quarter of 2017 compared to income tax expense of \$6.9 million, or an effective tax rate of 20.2%, for the second quarter of 2016. The effective tax rates for both the second quarter of 2017 and the second quarter of 2016 are lower than the U.S. statutory tax rate primarily due to income earned in lower tax jurisdictions. Further, the effective tax rate for the second quarter of 2017 was lower than the effective tax rate for the second quarter of 2016 primarily due to a larger amount of income earned in lower tax jurisdictions in the second quarter of 2017 compared to the second quarter of 2016, as well as the adoption on January 1, 2017 of ASU No. 2016-09 which resulted in the recognition of \$1.4 million of excess tax benefits from stock-based compensation as a discrete item in income tax expense in the second quarter of 2017.

Historically, these amounts were recorded as additional paid-in capital.



Income tax expense for the first six months of 2017 was \$17.3 million, or an effective tax rate of 16.5% compared to income tax expense of \$14.7 million, or an effective tax rate of 24.0%, for the first six months of 2016. The effective tax rates for both the first six months of 2017 and the first six months of 2016 are lower than the U.S. statutory tax rate primarily due to income earned in lower tax jurisdictions. Further, the effective tax rate for the first six months of 2017 was lower than the effective tax rate for the first six months of 2016 primarily due to a larger amount of income earned in lower tax jurisdictions in the first six months of 2017 compared to the first six months of 2016 as well as the adoption on January 1, 2017 of ASU No. 2016-09 which resulted in the recognition of \$1.9 million of excess tax benefits from stock-based compensation as a discrete item in income tax expense for the first six months of 2017.

### Segment Results of Operations

The Company reports its operations by the following segments: Electronics, Automotive and Industrial. Segment information is described more fully in Note 10, *Segment Information*, of the Notes to Consolidated Financial Statements included in this Quarterly Report.

The following table is a summary of the Company's net sales by segment:

|             | Second Quarter |            |           |             | First Six Months |            |            |             |
|-------------|----------------|------------|-----------|-------------|------------------|------------|------------|-------------|
|             | 2017           | 2016       | Change    | %<br>Change | 2017             | 2016       | Change     | %<br>Change |
| Electronics | \$ 169,387     | \$ 132,170 | \$ 37,217 | 28.2%       | \$ 323,154       | \$ 230,966 | \$ 92,188  | 39.9%       |
| Automotive  | 116,457        | 111,370    | 5,087     | 4.6%        | 224,297          | 203,303    | 20,994     | 10.3%       |
| Industrial  | 27,511         | 28,372     | (861 )    | (3.0%)      | 51,346           | 57,041     | (5,695 )   | (10.0%)     |
| Total       | \$ 313,355     | \$ 271,912 | \$ 41,443 | 15.2%       | \$ 598,797       | \$ 491,310 | \$ 107,487 | 21.9%       |

### *Electronics Segment*

The Electronics segment net sales increased \$37.2 million, or 28%, in the second quarter of 2017 compared to the second quarter of 2016 with incremental net sales related to the ON Portfolio acquisition in the prior year. Excluding the impact of the acquisition, the increased Electronics segment net sales were primarily the result of increased net sales of passive, semiconductor and PolySwitch products.

The Electronics segment net sales increased \$92.2 million, or 40%, in the first six months of 2017 compared to the first six months of 2016 primarily due to incremental net sales related to the PolySwitch and ON Portfolio acquisitions

in the prior year. Excluding the impact of the acquisitions, the increased Electronics segment net sales were primarily the result of increased net sales across all product lines.

### *Automotive Segment*

The Automotive segment net sales increased \$5.1 million, or 5%, in the second quarter of 2017 compared to the second quarter of 2016 primarily due to increased net sales in the passenger car and commercial vehicle businesses, both of which were partially offset by a decrease in the automotive sensor business. The segment also experienced unfavorable foreign exchange impacts of \$1.7 million, primarily related to net sales denominated in euros and Chinese renminbi.

The Automotive segment net sales increased \$21.0 million, or 10%, in the first six months of 2017 compared to the first six months of 2016 primarily due to incremental net sales related to the PolySwitch and Menber's acquisitions in the prior year. The segment also experienced unfavorable foreign exchange impacts of \$3.4 million, primarily related to net sales denominated in euros and Chinese renminbi. Excluding the impact of prior year acquisitions and foreign currency, slight increases in net sales of passenger car products and commercial vehicle products were offset by a decrease in sensor net sales.

### *Industrial Segment*

The Industrial segment net sales decreased \$0.9 million, or 3%, in the second quarter of 2017 compared to the second quarter of 2016 primarily due to the divestiture of a non-core product line in the fourth quarter of 2016, and decreased net sales in the custom products operations.

The Industrial segment net sales decreased \$5.7 million, or 10%, in the first six months of 2017 compared to the first six months of 2016 primarily due to the divestiture of two non-core product lines, one in the first quarter of 2016 and the other in the fourth quarter of 2016, and decreased net sales in the custom products operations.

**Geographic Net Sales Information**

Net sales by geography represent net sales to customer or distributor locations. The following table is a summary of the Company's net sales by geography:

|              | Second Quarter |            |           |             | First Six Months |            |            |             |
|--------------|----------------|------------|-----------|-------------|------------------|------------|------------|-------------|
|              | 2017           | 2016       | Change    | %<br>Change | 2017             | 2016       | Change     | %<br>Change |
| Americas     | \$ 115,039     | \$ 107,297 | \$ 7,742  | 7%          | \$ 213,064       | \$ 207,120 | \$ 5,944   | 3%          |
| Europe       | 60,263         | 54,406     | 5,857     | 11%         | 119,168          | 97,219     | 21,949     | 23%         |
| Asia-Pacific | 138,053        | 110,209    | 27,844    | 25%         | 266,565          | 186,971    | 79,594     | 43%         |
| Total        | \$ 313,355     | \$ 271,912 | \$ 41,443 | 15%         | \$ 598,797       | \$ 491,310 | \$ 107,487 | 22%         |

***Americas***

Net sales in the Americas increased \$7.7 million, or 7%, in the second quarter of 2017 compared to the second quarter of 2016. Increased net sales resulting from acquisitions in 2016 and increased net sales in the semiconductor and passives businesses in the Electronics segment and the passenger car and commercial vehicle businesses in the Automotive segment were partially offset by decreased net sales in the Automotive segment's sensor products and the divestiture of a non-core product line in our Industrial segment.

Net sales in the Americas increased \$5.9 million, or 3%, in the first six months of 2017 compared to the first six months of 2016. Increased net sales resulting from acquisitions in 2016 and increased net sales in the semiconductor and passives businesses in the Electronics segment and the passenger car and commercial vehicle businesses in the Automotive segment were partially offset by decreased net sales in the Automotive segment's sensor products and the divestiture of a non-core product line in our Industrial segment.

***Europe***

European net sales increased \$5.9 million, or 11%, in the second quarter of 2017 compared to the second quarter of 2016 primarily due to incremental net sales related to the ON Portfolio acquisition in the prior year partially offset by \$1.5 million in unfavorable currency effects primarily results from sales denominated in euros.

European net sales increased \$21.9 million, or 23%, in the first six months of 2017 compared to the first six months of 2016 primarily due to incremental net sales related to prior year acquisitions. There was also \$3.2 million in unfavorable currency effects primarily results from sales denominated in euros.

### *Asia-Pacific*

Asia-Pacific net sales increased \$27.8 million, or 25%, in the first quarter of 2017 compared to the first quarter of 2016, primarily due to incremental net sales from the prior year ON Portfolio acquisition. The Asia-Pacific net sales increase also reflects increased net sales in all of the Electronics segment's and Automotive segment's business units.

Asia-Pacific net sales increased \$79.6 million, or 43%, in the first six months of 2017 compared to the first six months of 2016, primarily due to incremental net sales from prior year acquisitions. The Asia-Pacific net sales increase also reflects increased net sales in all of the Electronics segment's and Automotive segment's business units.

### **Liquidity and Capital Resources**

The Company has historically supported its liquidity needs through cash flows from operations. Management expects that the Company's (i) current level of cash, cash equivalents, and marketable securities, (ii) current and forecasted cash flows from operations, (iii) availability under existing funding arrangements, and (iv) access to capital in the capital markets will provide sufficient funds to support the Company's operations, capital expenditures, investments, and debt obligations on both a short-term and long-term basis.

#### *Revolving Credit Facility/Term Loan*

On March 4, 2016, the Company entered into a new five-year credit agreement with a group of lenders for up to \$700.0 million. The new credit agreement consists of an unsecured revolving credit facility of \$575.0 million and an unsecured term loan credit facility of up to \$125.0 million. In addition, the Company has the ability, from time to time, to increase the size of the revolving credit facility and the term loan facility by up to an additional \$150.0 million, in the aggregate, in each case in minimum increments of \$25.0 million, subject to certain conditions and the agreement of participating lenders. For the term loan credit facility, the Company is required to make quarterly principal payments of \$1.6 million through March 31, 2018 and \$3.1 million from June 30, 2018 through December 31, 2020 with the remaining balance due on March 4, 2021.

Outstanding borrowings under the credit agreement bear interest, at the Company's option, at either LIBOR, fixed for interest periods of one, two, three or six month periods, plus 1.00% to 2.00%, or at the bank's Base Rate, as defined,

plus 0.00% to 1.00%, based upon the Company's Consolidated Leverage Ratio, as defined. The Company is also required to pay commitment fees on unused portions of the credit agreement ranging from 0.15% to 0.30%, based on the Consolidated Leverage Ratio, as defined. The effective interest rate on outstanding borrowings under the credit facility was 2.72% at July 1, 2017. As of July 1, 2017, the Company had \$0.1 million outstanding in letters of credit and had available \$574.9 million of borrowing capacity under the revolving credit facility. Further information regarding the Company's credit agreement is provided in Note 4, *Debt*, of the Notes to Consolidated Financial Statements included in this Quarterly Report.

*Senior Notes*

On December 8, 2016, the Company entered into a Note Purchase Agreement, pursuant to which the Company issued and sold €212 million aggregate principal amount of senior notes in two series. The funding date for the Euro denominated senior notes occurred on December 8, 2016 for €117 million in aggregate amount of 1.14% Senior Notes, Series A, due December 8, 2023, and €95 million in aggregate amount of 1.83% Senior Notes, Series B due December 8, 2028 (together, the “Euro Senior Notes”). Interest on the Euro Senior Notes is payable semiannually on June 8 and December 8, commencing June 8, 2017.

On December 8, 2016, the Company entered into a Note Purchase Agreement, pursuant to which the Company issued and sold \$125 million aggregate principal amount of senior notes in two series. On February 15, 2017, \$25 million in aggregate principal amount of 3.03% Senior Notes, Series A, due February 15, 2022, and \$100 million in aggregate principal amount of 3.74% Senior Notes, Series B, due February 15, 2027 (together, the “U.S. Senior Notes,” and together with the Euro Senior Notes, the “Senior Notes”) were funded. Interest on the U.S. Senior Notes will be payable semiannually on February 15 and August 15, commencing August 15, 2017. Further information regarding the Company’s Senior Notes is provided in Note 4, *Debt*, of the Notes to Consolidated Financial Statements included in this Quarterly Report.

*Cash Flow Overview*

| <b>(in thousands)</b>  | <b>First Six Months</b> |             |
|--|-------------------------|-------------|
|  | <b>2017</b>             | <b>2016</b> |
| Net cash provided by operating activities                    | \$93,573                | \$35,276    |
| Net cash used in investing activities                        | (36,117 )               | (374,203)   |
| Net cash used in financing activities                        | (10,069 )               | 188,787     |
| Effect of exchange rate changes on cash and cash equivalents | (618 )                  | 815         |
| Increase (decrease) in cash and cash equivalents             | 46,769                  | (149,325)   |
| Cash and cash equivalents at beginning of period             | 275,124                 | 328,786     |
| Cash and cash equivalents at end of period                   | \$321,893               | \$179,461   |

*Cash Flow from Operating Activities*

Net cash provided by operating activities was \$93.6 million for the first six months of 2017 reflecting \$87.5 million in net income and \$43.3 million in non-cash adjustments (primarily \$30.7 million in depreciation and amortization) offset by \$37.2 million in net changes to various operating assets and liabilities.

Changes in operating assets and liabilities for the first six months of 2017 (including short-term and long-term items) that impacted cash flows negatively consisted of increases in accounts receivable (\$32.0 million), inventory (\$8.7 million) and decreases in accrued payroll and severance (\$13.2 million). The increase in accounts receivable was due to increased net sales in the first six months of 2017. The decrease in accrued payroll and severance was due primarily to payouts for the 2016 management incentive plan which occurred in the first quarter. Changes having a positive impact on cash flows were increases in accounts payable (\$8.0 million), accrued expenses (\$3.9 million), accrued and deferred taxes (\$0.5 million) and decreases in prepaid and other assets (\$4.3 million).

#### *Cash Flow from Investing Activities*

Net cash used in investing activities was \$36.1 million and primarily related to the acquisition of the Monolith business (\$14.2 million), net of cash acquired, and capital expenditures (\$28.2 million) both of which were partially offset by proceeds from maturities of short-term investments (\$3.7 million), a decrease in the entrusted loan (\$2.4 million) and proceeds from the sale of other assets, net (\$0.2 million). The decrease in cash used in investing activities is due to cash used in the acquisition of PolySwitch in the first quarter of 2016.

#### *Cash Flow from Financing Activities*

Net cash used in financing activities was \$10.1 million and included dividends paid of \$15.0 million and \$2.1 million from the exercise of stock options including tax benefits both of which were partially offset by \$7.0 million in net proceeds on borrowings. The decrease in cash provided by financing activities is due to the Company entering into the new credit agreement and term loan credit facility in the first quarter of 2016.

#### **Share 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, 2017 to April 30, 2018 ("Share Repurchase Program"). The Company did not repurchase any shares of its common stock during the second quarter of 2017.

### **Off-Balance Sheet Arrangements**

As of July 1, 2017, the Company did not have any off-balance sheet arrangements, as defined under SEC rules. Specifically, the Company was not liable for guarantees of indebtedness owed by third parties, the Company was not directly liable for the debt of any unconsolidated entity and the Company did not have any retained or contingent interest in assets. The Company does not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities.

### **Recent Accounting Pronouncements**

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" (Topic 606) which supersedes the revenue recognition requirements in ASC 605, "Revenue Recognition." This ASU provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most current revenue recognition guidance. The guidance permits two implementation approaches, one requiring retrospective application of the new standard with restatement of prior years and one requiring prospective application of the new standard with disclosure of results under old standards. In August, 2015, the FASB issued ASU No. 2015-14, which postponed the effective date of ASU No. 2014-09 to fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted on the original effective date of fiscal years beginning after December 15, 2016. The Company is in the process of performing its initial assessment of the potential impact on its consolidated financial statements, and currently anticipates adopting this standard using the modified retrospective method. While the Company is currently assessing the impact of the new standards, the Company's revenue is primarily generated from the sale of finished products to customers. Sales predominantly contain a single delivery element and revenue is recognized at a single point in time when ownership, risks, and rewards transfer. These are largely un-affected by the new standard. The Company does not expect this new guidance to have a material impact on the amount of overall sales recognized; however, the timing of sales on certain projects may be affected. The Company has not yet quantified this potential impact.

In February 2016, the FASB issued ASU No. 2016-02, "Leases" (Topic 842). This ASU requires lessees to recognize, on the balance sheet, assets and liabilities for the rights and obligations created by leases of greater than twelve months. The accounting by lessors will remain largely unchanged. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. Adoption will require a modified retrospective transition. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles-Goodwill and Other" (Topic 350). This ASU modifies the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. An entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning the



fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. Because the update will eliminate Step 2 from the goodwill impairment test, it should reduce the cost and complexity of evaluating goodwill for impairment. This ASU is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2020, with early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company expects to adopt the new standard in 2017.

### **Critical Accounting Policies and Estimates**

The Company's Consolidated Financial Statements are prepared in accordance with U.S. GAAP. In connection with the preparation of the Consolidated Financial Statements, the Company uses estimates and makes judgments and assumptions about future events that affect the reported amounts of assets, liabilities, revenue, expenses, and the related disclosures. The assumptions, estimates, and judgments are based on historical experience, current trends, and other factors the Company believes are relevant at the time it prepares the Consolidated Financial Statements.

The significant accounting policies and critical accounting estimates are consistent with those discussed in Note 1, Summary of Significant Accounting Policies and Other Information, to the consolidated financial statements and the MD&A section of the Company's Annual Report on Form 10-K for the year ended December 31, 2016. During the three months ended July 1, 2017, there were no significant changes in the application of critical accounting policies.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

See Item 7A, Quantitative and Qualitative Disclosures about Market Risk, of our Annual Report on Form 10-K for the year ended December 31, 2016. During the three months ended July 1, 2017, there have been no material changes in our exposure to market risk.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### ***(a) Evaluation of Disclosure Controls and Procedures***

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

In connection with the preparation of this report, management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of July 1, 2017. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the quarter ended July 1, 2017, our disclosure controls and procedures were effective.

#### ***(b) Changes in Internal Control over Financial Reporting***

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15 and 15d-15 under the Exchange Act that occurred during the quarter ended July 1, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II – OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

None.

**ITEM 1A. RISK FACTORS**

During the three months ended July 1, 2017, there have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K for our year ended December 31, 2016.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

*Recent Sales of Unregistered Securities*

None.

*Purchases of Equity Securities*

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

**ITEM 5. OTHER INFORMATION**

None.

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**ITEM 6. EXHIBITS**

Exhibit Description

- 10.1\* Amended and Restated Employment Agreement, effective as of April 18, 2017, between Littelfuse, Inc. and Dieter Roeder.
- 10.2 Amended and Restated Littelfuse, Inc. Long-Term Incentive Plan (filed as Exhibit 10.1 to the company's Current Report on Form 8-K filed May 1, 2017, Commission File No. 20388).
- 10.3 Form of 2017 Restricted Stock Unit Award Agreement (filed as Exhibit 10.2 to the company's Current Report on Form 8-K filed May 1, 2017, Commission File No. 20388).
- 10.4 Form of 2017 Stock Option Award Agreement (filed as Exhibit 10.3 to the company's Current Report on Form 8-K filed May 1, 2017, Commission File No. 20388).
- 31.1\* Certification of David W. Heinzmann, 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 1, 2017, to be signed on its behalf by the undersigned thereunto duly authorized.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Littelfuse, Inc.

By /s/ Meenal A. Sethna  
Meenal A. Sethna  
Executive Vice President and Chief  
Financial Officer

(Principal Financial and Principal  
Accounting Officer)

Date: August 2, 2017