LITTELFUSE INC /DE
Form 10-Q
August 02, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 29, 2013

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission file number 0-20388

LITTELFUSE, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**36-3795742** (I.R.S. Employer Identification No.)
8755 W. Higgins Road, Suite 500 **Chicago, Illinois** (Address of principal executive offices)	**60631** (Zip Code)

(773) 628-1000

(Registrant’s telephone number, including area code)

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

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

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

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ]

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

As of July 26, 2013, 22,377,702 shares of common stock, $.01 par value, of the registrant were outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

LITTELFUSE, INC.

Condensed Consolidated Balance Sheets

(In thousands of USD, except share amounts)

	June 29, 2013 (unaudited)	December 29, 2012
Assets		
Current assets:		
Cash and cash equivalents	**$ 257,672**	$235,404
Short-term investments	**8,513**	—
Accounts receivable, less allowances	**131,122**	100,559
Inventories	**83,470**	75,580
Deferred income taxes	**10,964**	11,890
Prepaid expenses and other current assets	**18,819**	16,532
Assets held for sale	**5,500**	5,500
Total current assets	**516,060**	445,465
Property, plant and equipment:		
Land	**4,054**	6,243
Buildings	**58,709**	54,559
Equipment	**346,728**	304,954
	409,491	365,756
Accumulated depreciation	**(268,358)**	(244,845)
Net property, plant and equipment	**141,133**	120,911
Intangible assets, net of amortization:		
Patents, licenses and software	**43,042**	11,144
Distribution network	**33,033**	18,964
Customer lists, trademarks and tradenames	**23,159**	18,704
Goodwill	**185,035**	133,592
Investment in unconsolidated affiliate	—	8,666
Other investments	**11,274**	10,327
Deferred income taxes	**2,917**	8,090
Other assets	**4,162**	1,865
Total assets	**$ 959,815**	$777,728

Liabilities and Equity		
Current liabilities:		
Accounts payable	**$ 36,641**	$27,226
Accrued payroll	**19,329**	20,540
Accrued expenses	**11,295**	11,062
Accrued severance	**306**	1,033
Accrued income taxes	**6,226**	11,559
Current portion of long-term debt	**138,000**	84,000
Total current liabilities	**211,797**	155,420
Long-term debt, less current portion	**95,000**	—
Accrued post-retirement benefits	**14,925**	22,338
Other long-term liabilities	**15,406**	12,412
Total equity	**622,687**	587,558
Total liabilities and equity	**$ 959,815**	$777,728

Common shares issued and outstanding of 22,429,930 and 22,029,446, at June 29, 2013, and December 29, 2012, respectively.

See accompanying notes.

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LITTELFUSE, INC.

Consolidated Statements of Net Income

(In thousands of USD, except per share amounts, unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 29, 2013	June 30, 2012	**June 29, 2013**	June 30, 2012
Net sales	**$187,766**	$175,853	**$358,684**	$336,431
Cost of sales	**114,209**	106,291	**220,521**	206,007
Gross profit	**73,557**	69,562	**138,163**	130,424
Selling, general and administrative expenses	**34,452**	31,189	**63,654**	59,598
Research and development expenses	**5,793**	4,887	**11,508**	10,048
Amortization of intangibles	**1,930**	1,390	**3,502**	2,858
	42,175	37,466	**78,664**	72,504
Operating income	**31,382**	32,096	**59,499**	57,920
Interest expense	**644**	421	**1,020**	844
Impairment and equity in net loss of unconsolidated affiliate	—	1,033	**10,678**	1,558
Other (income) expense, net	**(4,659)**	(757)	**(5,568)**	(656)
Income before income taxes	**35,397**	31,399	**53,369**	56,174
Income taxes	**8,749**	8,436	**11,927**	15,648
Net income	**$26,648**	$22,963	**$41,442**	$40,526
Net income per share (see Note 9):				
Basic	**$1.19**	$1.05	**$1.87**	$1.86
Diluted	**$1.18**	$1.04	**$1.85**	$1.84
Weighted average shares and equivalent shares outstanding:				
Basic	**22,296**	21,778	**22,197**	21,693
Diluted	**22,499**	22,074	**22,431**	22,004
Cash dividends paid per common share	**$0.20**	**$0.18**	**$0.40**	**$0.36**

See accompanying notes.

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LITTELFUSE, INC.

Consolidated Statements of Comprehensive Income

(In thousands of USD, unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 29, 2013	June 30, 2012	**June 29, 2012**	June 30, 2012
Net income	**$26,648**	$22,963	**$41,442**	$40,526
Other comprehensive income (loss):				
Pension liability adjustments (net of tax of $69 and ($11), for the three months ended 2013 and 2012, and $172 and $34 for the six months ended 2013 and 2012, respectively)	**(131)**	59	**(325)**	(7)
Unrealized (loss) gain on investments	**(540)**	1,308	**1,078**	3,120
Foreign currency translation adjustments	**(8,021)**	(9,648)	**(13,271)**	(2,252)
Comprehensive income	**$17,956**	$14,682	**$28,924**	$41,387

See accompanying notes.

LITTELFUSE, INC.

Consolidated Statements of Cash Flows

(In thousands of USD, unaudited)

	For the Six Months Ended	
	June 29, 2013	June 30, 2012
Operating activities:		
Net income	**$41,442**	$40,526
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**12,748**	12,659
Amortization of intangibles	**3,502**	2,858
Stock-based compensation	**4,562**	3,725
Non-cash inventory charge	**1,725**	205
Excess tax benefit on share-based compensation	**(3,494)**	(2,246)
Loss on sale of assets	**120**	60
Impairment and equity in net loss of unconsolidated affiliate	**10,678**	1,558
Changes in operating assets and liabilities:		
Accounts receivable	**(20,246)**	(21,679)
Inventories	**3,354**	(2,150)
Accounts payable	**4,655**	7,173
Accrued expenses (including post-retirement)	**(11,477)**	(6,930)
Accrued payroll and severance	**(1,725)**	(3,163)
Accrued taxes	**(7,563)**	502
Prepaid expenses and other	**724**	(521)
Net cash provided by operating activities	**39,005**	32,577
Investing activities:		
Purchases of property, plant, and equipment	**(14,445)**	(6,747)
Acquisition of businesses, net of cash acquired	**(145,000)**	(23,521)
Purchase of investment	—	(10,000)
Purchase of short-term investments	**(8,478)**	(4,616)
Proceeds from sale of short-term investments	—	12,401
Proceeds from sale of assets	**56**	441
Net cash used in investing activities	**(167,867)**	(32,042)
FINANCING activities:		
Proceeds from term loan	**100,000**	17,000
Proceeds from revolving credit facility	**152,000**	—
Payments of revolving credit facility	**(103,000)**	(17,500)
Debt issuance costs paid	**(808)**	—
Cash dividends paid	**(8,865)**	(7,806)
Proceeds from exercise of stock options	**15,401**	10,698

Excess tax benefit on share-based compensation	**3,494**	2,246
Net cash provided by financing activities	**158,222**	4,638
Effect of exchange rate changes on cash and cash equivalents	**(7,092)**	(371)
Increase in cash and cash equivalents	**22,268**	4,802
Cash and cash equivalents at beginning of period	**235,404**	164,016
Cash and cash equivalents at end of period	**$257,672**	$168,818

See accompanying notes.

Notes to CONDENSED Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of Littelfuse, Inc. and its subsidiaries (the "company") have been prepared in accordance with U.S. *Generally Accepted Accounting Principles* (GAAP) for interim financial information, the instructions to Form 10-Q and Article 10 of Regulations 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. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the period ended June 29, 2013 are not necessarily indicative of the results that may be expected for the year ending December 28, 2013. For further information, refer to the company's consolidated financial statements and the notes thereto incorporated by reference in the company's Annual Report on Form 10-K for the year ended December 29, 2012. The company evaluated subsequent events through the date of its financial statements when filed with the Securities and Exchange Commission ("SEC").

2. Reclassifications and Adjustments

As disclosed in the Annual Report on Form 10-K for the year ended December 29, 2012, the company determined that in late-November 2012 it began to exercise significant influence over Shocking Technologies ("Shocking"). Accordingly, the company began accounting for the investment in Shocking using the equity method and in accordance with ASC 323, retroactively recorded its proportional share of Shocking's operating losses, which amounted to approximately $4.0 million in 2012. See Note 6 for additional information related to Shocking.

As a result of this retroactive application of the equity method, certain items in the company's interim results reported on their 2012 Forms 10-Q have been retrospectively restated, as shown in the following tables (in thousands except for per share amounts):

Consolidated Statements of Net Income and Comprehensive Income	For the Three Months ended June 30, 2012			For the Six Months ended June 30, 2012		
	As Previously Reported	Adjustment	As Adjusted	As Previously Reported	Adjustment	As Adjusted
Impairment and equity in net loss of unconsolidated affiliate	$—	$ 1,033	$ 1,033	$—	$ 1,558	$ 1,558

Income before income taxes	32,432	(1,033)	31,399	57,732	(1,558)	56,174
Income taxes	8,828	(392)	8,436	16,239	(591)	15,648
Net income	23,604	(641)	22,963	41,493	(967)	40,526
Basic Earnings per share	$ 1.08	$ (0.03)	$ 1.05	$ 1.91	$ (0.05)	$ 1.86
Diluted Earnings per share	$ 1.07	$ (0.03)	$ 1.04	$ 1.88	$ (0.04)	$ 1.84
Comprehensive income	$ 15,323	$ (641)	$ 14,682	$42,354	$ (967)	$ 41,387

	For the Six Months ended June 30, 2012		
	As Previously Reported	Adjustment	As Adjusted
Consolidated Statements of Cash Flows			
Net income	$41,493	$ (967)	$ 40,526
Impairment and equity in net loss of unconsolidated affiliate	—	1,558	1,558
Accrued taxes	1,093	(591)	502

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Notes to CONDENSED Consolidated Financial Statements (Unaudited)

3. Acquisition of Businesses

The company accounts for acquisitions using the purchase method in accordance with ASC 805, "Business Combinations." The results of operations of each acquisition have been included in the accompanying consolidated financial statements as of the dates of the acquisition.

Hamlin, Inc.

On May 31, 2013, the company acquired 100% of Hamlin, Inc. ("Hamlin") from Key Safety Systems, for $145.0 million (net of cash acquired). Hamlin is a manufacturer of sensor technology providing standard products and custom solutions for leading global manufacturers in the automotive and electronic industries. The acquisition allows the company to expand its automotive and electronics product offerings in the global sensor market in both the Automotive and Electronics business segments. Hamlin is headquartered in Lake Mills, Wisconsin and has manufacturing, engineering and sales offices in the U.S., Mexico, Europe and Asia. The company funded the acquisition with available cash raised from borrowings on the company's new credit arrangement. (See Note 7).

The following table sets forth the preliminary purchase price allocation, as of June 29, 2013, for Hamlin acquisition-date net assets, in accordance with the purchase method of accounting with adjustments to record the acquired net assets at their estimated fair values.

Hamlin preliminary purchase price allocation (in thousands):	
Cash	$15,473
Current assets, net	31,257
Property, plant and equipment	22,767
Goodwill	53,082
Distribution network	33,098
Patents and licenses	15,365
Trademarks	6,483
Non-current assets	1,390
Current liabilities	(8,816)
Non-current liabilities	(9,626)
	$160,473

All Hamlin goodwill and other assets and liabilities were recorded in the Automotive and Electronics business unit segments and reflected in the Americas, Europe and Asia-Pacific geographical areas. The distribution network, trademarks and patents and licenses are all 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 Hamlin's products with the company's existing product offerings. A portion of the goodwill for the acquisition is not expected to be deductible for tax purposes.

As required by purchase accounting rules, the company recorded a $2.1 million step-up of inventory to its fair value as of the acquisition date. During the second quarter of 2013, as a portion of this inventory was sold, cost of goods sold included $1.7 million of non-cash charges for this step-up.

Notes to CONDENSED Consolidated Financial Statements (Unaudited)

3. Acquisition of Businesses, continued

The following unaudited pro forma results are provided below for the company's acquisition of Hamlin and assume that the acquisition of Hamlin had been completed as of the beginning of fiscal year 2012.

	(In thousands except for per share amounts)			
	For the three months ended		For the six months ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
	(Unaudited)	(As restated) (Unaudited)	(Unaudited)	(As restated) (Unaudited)
Revenues	$201,346	$ 190,215	$390,055	$ 368,242
Net income	$26,239	$ 23,700	$41,962	$ 41,765
Net income per share:				
Basic	$1.17	$ 1.08	$1.88	$ 1.92
Diluted	$1.16	$ 1.07	$1.86	$ 1.90
Weighted-average shares and equivalent shares outstanding:				
Basic	22,296	21,778	22,197	21,693
Diluted	22,499	22,074	22,431	22,004

For the three and six months ended June 29, 2013, Hamlin added approximately $7.0 million in revenue and a $0.8 million net loss to the company's consolidated results.

Accel AB

On May 31, 2012, the company acquired 100% of ACCEL AB ("Accel"), a manufacturer of advanced electromechanical products, including sensors and switches primarily for the automotive industry, for approximately $23.9 million. The acquisition allows the company to expand its automotive product offering and establish a presence in the growing automotive sensor market within its Automotive business unit segment. Accel is based in Vänersborg, Sweden with a manufacturing facility located in Kaunas, Lithuania. The company funded the acquisition with available cash.

The following table sets forth the final purchase price allocation, as of June 29, 2013, for Accel acquisition-date net assets, in accordance with the purchase method of accounting with adjustments to record the acquired net assets at their estimated fair values.

Accel AB purchase price allocation (in thousands):	
Cash	$344
Current assets, net	8,643
Property, plant and equipment	3,731
Other assets	7
Goodwill	11,536
Distribution network	1,321
Trademarks	1,259
Patents and licenses	2,435
Current liabilities	(5,411)
	$23,865

All Accel goodwill and other assets and liabilities were recorded in the Automotive business unit segment and reflected in the Europe geographical area. The distribution network is being amortized over three to 10 years. Trademarks are being amortized over five years. Patents and licenses 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 Accel’s products with the company’s existing product offerings. Goodwill for the above acquisition is not expected to be deductible for tax purposes.

Notes to CONDENSED Consolidated Financial Statements (Unaudited)

3. Acquisition of Businesses, continued

As required by purchase accounting rules, the company recorded a $0.4 million step-up of inventory to its fair value as of the acquisition date. During the third quarter of 2012, as the inventory was sold, cost of goods sold included $0.4 million of non-cash charges for this step-up.

Terra Power Systems, LLC

On September 26, 2012, the company acquired 100% of Terra Power Systems, LLC ("Terra Power"), a U.S. manufacturer of electromechanical components including power distribution modules and fuse holders for commercial vehicle products for $10.6 million. The acquisition allows the company to strengthen its position in the commercial vehicle products market by adding new products and new customers within its Automotive business unit segment. Terra Power is based in Bellingham, Washington. The company funded the acquisition with available cash.

All Terra Power goodwill and other assets and liabilities were recorded in the Automotive business unit segment and reflected in the Americas geographical area. The goodwill resulting from this acquisition consists largely of the company's expected future product sales and synergies from combining Terra Power's products with the company's existing commercial vehicle product offerings. Goodwill for the above acquisition is expected to be deductible for tax purposes.

The following table sets forth the preliminary purchase price allocation for Terra Power acquisition-date net assets, in accordance with the purchase method of accounting with adjustments to record the acquired net assets at their estimated fair values. The preliminary purchase price allocation reflected below is based on internal estimates and is expected to be finalized in the third quarter of 2013 although further adjustments are not anticipated to be significant.

Terra Power preliminary purchase price allocation (in thousands):	
Cash	$ 105
Current assets, net	1,625
Property, plant and equipment	457
Goodwill	4,562
Other intangibles	4,064

Current liabilities	(213)
	$10,600

Pro forma financial information is not presented for the company's 2012 business acquisitions described above due to amounts not being materially different than actual results.

4. Inventories

The components of inventories at June 29, 2013 and December 29, 2012 are as follows (in thousands):

	June 29, 2013	December 29, 2012
Raw material	**$26,671**	$ 21,689
Work in process	**15,028**	11,868
Finished goods	**41,771**	42,023
Total inventories	**$83,470**	$ 75,580

5. Other Investments

The company's other investments represent shares of Polytronics Technology Corporation Ltd. ("Polytronics"), a Taiwanese company. The Polytronics investment was acquired as part of the Heinrich Companies acquisition in 2004. The fair value of the Polytronics investment was €8.6 million (approximately $11.3 million) at June 29, 2013 and €7.8 million (approximately $10.3 million) at December 29, 2012. Included in 2013 other comprehensive income is an unrealized gain of $1.1 million, due to the increase in fair market value of the Polytronics investment. The remaining movement was due to the impact of changes in exchange rates.

Notes to CONDENSED Consolidated Financial Statements (Unaudited)

6. Impairment of Investment in Unconsolidated Affiliate

During the first quarter of 2013, the company fully impaired its investment in and loan receivable from Shocking owing to their filing for Chapter 7 bankruptcy on March 12, 2013. The impairment charge of approximately $10.7 million consisted of the remaining equity method investment of $8.7 million and a $2.0 million loan receivable, and reduces the carrying value of both the investment and loan receivable to zero at both March 30 and June 29, 2013.

The loss was recorded as a component of impairment and equity loss of unconsolidated affiliate in the Consolidated Statements of Net Income for the six months ended June 29, 2013.

7. Debt

The carrying amounts of long-term debt at June 29, 2013 and December 29, 2012 are as follows (in thousands):

	June 29, 2013	December 29, 2012
Term loan	**$100,000**	$ —
Revolving credit facility	**133,000**	84,000
	233,000	84,000
Less: Current maturities	**138,000**	84,000
Total long-term debt	**$95,000**	$ —

On May 31, 2013, the company entered into a new credit agreement with J.P. Morgan Securities LLC for up to $325.0 million which consists of an unsecured revolving credit facility of $225.0 million and an unsecured term loan of $100.0 million. The new credit agreement is for a five year period. At June 29, 2013, the company had available $91.4 million of borrowing capacity under the revolving credit agreement at an interest rate of LIBOR plus 1.25% (1.44% as of June 29, 2013).The company incurred debt issuance costs of $0.8 million which are to be amortized over the life of the new credit agreement.

The credit agreement replaces the company's previous credit agreement dated June 13, 2011 which was terminated on May 31, 2013.

The company assumed three credit lines with the acquisition of Hamlin totaling RMB 41.0 million (approximately $6.6 million) as of June 29, 2013 with expiration dates from August 23, 2013 through April 23, 2014. No amounts were drawn under these lines at June 29, 2013.

The company assumed an agreement for the sale of debts to HSBC Invoice Finance (UK) Ltd. with the acquisition of Hamlin totaling $1.8 million GBP (approximately $2.7 million) as of June 29, 2013. The company plans to terminate this agreement during the third quarter of 2013. No debts had been sold as of June 29, 2013.

8. Fair Value of Assets and Liabilities

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

Notes to CONDENSED Consolidated Financial Statements (Unaudited)

8. Fair Value of Assets and Liabilities, continued

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

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

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

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

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

Investment in Polytronics

The company holds an investment in the equity securities of Polytronics as described in Note 5. Equity securities listed on a national market or exchange are valued at the last sales price. Such securities are classified within Level 1 of the valuation hierarchy.

Investment in Shocking Technologies, Inc.

The company holds an investment in an unconsolidated affiliate, Shocking Technologies, Inc. (“Shocking”), as described in Note 6, for which the valuation model that was used to determine the fair value of Shocking at December 29, 2012, was a discounted cash flow model to value Shocking’s equity and then an option pricing method to allocate the equity value to the various classes of stock in Shocking's capital structure, including Series C and common shares held by the company. Significant unobservable inputs used included an expected two years until liquidity event, a volatility of 35% and a risk free rate of 0.44%. The investment was categorized as Level 3.

There were no changes during the quarter ended June 29, 2013 to the company's valuation techniques used to measure asset and liability fair values on a recurring basis. As of June 29, 2013 and December 29, 2012 the company held no non-financial assets or liabilities that are required to be measured at fair value on a recurring basis.

The following table presents assets and liabilities measured at fair value by classification within the fair value hierarchy as of June 29, 2013 (in thousands):

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Investment in Polytronics	$11,274	$ —	$ —	$11,274
Total	$11,274	$ —	$ —	$11,274

Notes to CONDENSED Consolidated Financial Statements (Unaudited)

8. Fair Value of Assets and Liabilities, continued

The following table presents assets measured at fair value by classification within the fair value hierarchy as of December 29, 2012 (in thousands):

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investment in Polytronics	$10,327	$ —	$ —	$10,327
Investment in unconsolidated affiliate	—	—	8,666	8,666
Total	$10,327	$ —	$ 8,666	$18,993

The company’s other financial instruments include cash and cash equivalents, short-term investments, accounts receivable, accounts payable and debt. The carrying amounts of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and debt approximate their fair values. The company’s debt fair value approximates book value at June 29, 2013 and December 29, 2012, respectively, as the variable interest rates fluctuate along with market interest rates.

9. Earnings Per Share

The company computes earnings per share using the two-class method. The two-class method includes an earnings allocation formula that determines earnings per share for each class of common stock according to dividends declared and undistributed earnings for the period. The company’s reported net earnings is reduced by the amount allocated to participating securities to arrive at the earnings allocated to common stock shareholders for purposes of calculating earnings per share.

The dilutive effect of participating securities is calculated using the more dilutive of the treasury stock or the two-class method. The company has determined the two-class method to be the more dilutive. As such, the earnings allocated to common stock shareholders in the basic earnings per share calculation is adjusted for the reallocation of undistributed earnings to participating securities to arrive at the earnings allocated to common stock shareholders for calculating the diluted earnings per share.

Notes to CONDENSED Consolidated Financial Statements (Unaudited)

9. Earnings Per Share, continued

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

(in thousands except per share amounts)	For the Three Months Ended		For the Six Months Ended	
	June 29, 2013	June 30, 2012	**June 29, 2013**	June 30, 2012
Net income as reported	**$26,648**	$22,963	**$41,442**	$40,526
Less: Distributed earnings available to participating securities	**(10)**	(6)	**(18)**	(12)
Less: Undistributed earnings available to participating securities	**-**	(30)	**(16)**	(78)
Numerator for basic earnings per share —				
Undistributed and distributed earnings available to common shareholders	**$26,638**	$22,927	**$41,408**	$40,436
Add: Undistributed earnings allocated to participating securities	**-**	30	**15**	78
Less: Undistributed earnings reallocated to participating securities	**-**	(30)	**(15)**	(77)
Numerator for diluted earnings per share —				
Undistributed and distributed earnings available to common shareholders	**$26,638**	$22,927	**$41,408**	$40,437
Denominator for basic earnings per share —				
Weighted-average shares	**22,296**	21,778	**22,196**	21,693
Effect of dilutive securities:				
Common stock equivalents	**203**	296	**234**	310
Denominator for diluted earnings per share —				
Adjusted for weighted-average shares & assumed conversions	**22,499**	22,074	**22,431**	22,004
Basic earnings per share	**$1.19**	$1.05	**$1.87**	$1.86
Diluted earnings per share	**$1.18**	$1.04	**$1.85**	$1.84

10. Income Taxes

The effective tax rate for the second quarter of 2013 was 24.7% compared to an effective tax rate of 27.2% in the second quarter of 2012. The effective tax rate for the six months ended June 29, 2013 was 22.3% as compared to an effective tax rate of 28.1% for the six months ended June 30, 2012. The effective tax rates for both the second quarter and six month periods of 2013 and 2012 are lower than the U.S. statutory tax rate primarily due to the result of more income earned in low tax jurisdictions.

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Notes to CONDENSED Consolidated Financial Statements (Unaudited)

11. Pensions

The components of net periodic benefit cost for the three and six and months ended June 29, 2013, compared with the three and six months ended June 30, 2012, were (in thousands):

	U.S. Pension Benefits				Foreign Plans			
	Three Months Ended		Six Months Ended		Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	**June 29, 2013**	June 30, 2012	**June 29, 2013**	June 30, 2012	**June 29, 2013**	June 30, 2012
Service cost	**$150**	$150	**$300**	$300	**$268**	$191	**$523**	$383
Interest cost	**892**	1,241	**1,783**	2,481	**299**	196	**482**	391
Expected return on plan assetsassets	**(1,340)**	(1,655)	**(2,680)**	(3,310)	**(197)**	(121)	**(271)**	(242)
Amortization of net loss	**235**	84	**471**	169	**38**	17	**77**	34
Total cost (credit) of the plan	**(63)**	(180)	**(126)**	(360)	**408**	283	**811**	566
Expected plan participants' contribution	**-**	-	**-**	-	**-**	-	**-**	-
Net periodic benefit cost (credit)	**$(63)**	$(180)	**$(126)**	$(360)	**$408**	$283	**$811**	$566

The expected rate of return assumption on domestic pension assets is approximately 6.8% and 7.8% in 2013 and 2012, respectively. The expected return on foreign pension assets is approximately 3.7% and 4.5% in 2013 and 2012, respectively.

12. Business Unit Segment Information

The company and its subsidiaries design, manufacture and sell circuit protection devices throughout the world. The company reports its operations by the following business unit segments: Electronics, Automotive, and Electrical. Each operating segment is directly responsible for sales, marketing and research and development. Manufacturing, purchasing, logistics, customer service, finance, information technology and human resources are shared functions that are allocated back to the three operating segments. The CEO 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. All other functions are shared by the operating segments and expenses for these shared functions are allocated to the operating segments and included in the operating results reported below. The company does not report inter-segment revenue because the operating segments do not record it. The company does not allocate interest and other income, interest expense, or taxes to operating segments. Although the CEO 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.

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").

Notes to CONDENSED Consolidated Financial Statements (Unaudited)

12. Business Unit Segment Information, continued

Business unit segment information for the three and six months ended June 29, 2013 and June 30, 2012 are summarized as follows (in thousands):

	For the Three Months Ended		For the Six Months Ended	
	June 29, 2013	June 30, 2012	**June 29, 2013**	June 30, 2012
Net sales				
Electronics	**$91,450**	$89,508	**$170,865**	$166,562
Automotive	**64,548**	51,450	**123,933**	104,076
Electrical	**31,768**	34,895	**63,886**	65,793
Total net sales	**$187,766**	$175,853	**$358,684**	$336,431
Depreciation and amortization				
Electronics	**$5,131**	$5,112	**$9,992**	$10,598
Automotive	**2,319**	1,502	**4,303**	2,951
Electrical	**997**	952	**1,956**	1,968
Total depreciation and amortization	**$8,447**	$7,566	**$16,251**	$15,517
Operating income (loss)				
Electronics	**$19,779**	$15,778	**$31,922**	$25,889
Automotive	**8,913**	6,965	**18,396**	16,471
Electrical	**5,623**	9,353	**12,114**	15,560
Other[1]	**(2,933)**	—	**(2,933)**	—
Total operating income	**31,382**	32,096	**59,499**	57,920
Interest expense	**644**	421	**1,020**	844
Impairment, loan loss and equity in net loss or unconsolidated affiliate [2]	—	1,033	**10,678**	1,558
Other (income) expense, net	**(4,659)**	(757)	**(5,568)**	(656)
Income before income taxes[3]	**$35,397**	$31,399	**$53,369**	$56,174

(1) “Other” consists of acquisition related costs. (2) During the first quarter of 2013, the company recorded approximately $10.7 million related to the impairment of its investment in Shocking Technologies. (See Note 6). (3) 2012 Income before income taxes has been restated to reflect the company’s retroactive equity losses from Shocking Technologies. (See Note 2).

The company's significant net sales by country for the three and six months ended June 29, 2013 and June 30, 2012 are summarized as follows (in thousands):

	For the Three Months Ended(a)		For the Six Months Ended(a)	
	June 29, 2013	June 30, 2012	**June 29, 2013**	June 30, 2012
United States	**$68,633**	$59,370	**$126,547**	$114,610
China	**37,694**	37,677	**71,308**	68,127
Other countries	**81,439**	78,806	**160,829**	153,694
Total	**$187,766**	$175,853	**$358,684**	$336,431

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

The company's significant long-lived assets by country as of June 29, 2013 and December 29, 2012 are summarized as follows (in thousands):

	Long-lived assets[b]	
	June 29, 2013	December 29, 2012
United States	**$28,484**	$14,433
China	**42,444**	41,504
Canada	**14,420**	13,839
Other countries	**55,785**	51,135
Total	**$141,133**	$120,911

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

Notes to CONDENSED Consolidated Financial Statements (Unaudited)

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

In February, 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2013-02 which requires companies to report, in one place, information about reclassifications out of accumulated other comprehensive income (AOCI). The new guidance allows companies to present this information on the face of the financial statements, if certain requirements are met. Otherwise, the information must be presented in the notes. If a company is unable to identify the line item of net income affected by any significant amount reclassified out of AOCI during a reporting period (including when all reclassifications for the period are not to net income in their entirety), the information must be reported in the notes. In addition, ASU 2013-02 requires detailed reporting about changes in AOCI balances. It requires companies to present details of current-period changes in AOCI for each component of other comprehensive income on the face of the financial statements or in the notes. The company adopted the new guidance on December 30, 2012 and will be applied prospectively. There was no impact on its consolidated financial statements upon adoption other than presentation.

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

AOCI component	Balance at December 29, 2012	**Other comprehensive income (loss) activity**	**Balance at June 29, 2013**
Pension liability adjustment[(a)]	$ (20,879)	**$ (325)**	**$ (21,204)**
Unrealized gain on investments[(b)]	7,867	**1,078**	**8,945**
Foreign currency translation adjustment	29,560	**(13,271)**	**16,289**
Total	$ 16,548		**$ 4,030**

(a) Balances are net of tax of $12,003 and $11,819 for 2013 and 2012, respectively.

(b) Balances are net of tax of $0 and $0 for 2013 and 2012, respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Littelfuse Overview

Littelfuse, Inc. and its subsidiaries (the "company" or "Littelfuse") is the worldwide leader in circuit protection offering the industry's broadest and deepest portfolio of circuit protection products and solutions. The company's devices protect products in virtually every market that uses electrical energy, from consumer electronics to automobiles to industrial equipment. The company's worldwide revenue in 2012 was $667.9 million and net earnings were $75.3 million. The company conducts its business through three reportable segments, which are defined by markets and consist of Electronics, Automotive, and Electrical. The company's customer base includes original equipment manufacturers, tier one automotive suppliers and distributors.

In addition to protecting and growing its core circuit protection business, Littelfuse has been investing in power control and sensing technologies. These newer platforms combined with the company's strong balance sheet and operating cash flow, provide opportunities for increased organic and acquisition growth. The company has set a target to grow 15% per year, 5% organically and 10% through acquisitions.

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

Grow organically faster than its markets;

Double the pace of acquisitions;

Sustain high-teens operating margins;

Improve return on investment; and

Return excess cash to shareholders.

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

Electronics Segment

The Electronics segment sells passive and semiconductor components and modules primarily into the global consumer electronics, general industrial and telecommunications markets. The core electronics markets are characterized by significant Asia competition and price erosion. As a result the company is focusing additional efforts on higher growth, less price sensitive niche markets such as LED lighting and higher-power industrial applications. The Hamlin acquisition expands the company's product offering into reed switches which are used in a wide variety of electronic products and go through the same channels as the company's core electronics products.

Automotive Segment

The Automotive segment is comprised of passenger vehicle circuit protection, commercial vehicle products and sensors. The primary growth drivers for these businesses are increasing global demand for passenger and commercial vehicles and increasing content per vehicle for both circuit protection and sensing products. The move away from internal combustion engines to hybrid and electric drive systems that require more circuit protection is expected to be an additional growth driver. The Hamlin acquisition significantly expands the company's position in automotive sensors.

Electrical Segment

The Electrical segment derives its revenues from power fuses, protection relays and custom products selling primarily into the industrial, mining, solar and oil and gas markets. The power fuse business continues to perform well with sales growing in the high single digits or better for six consecutive quarters.. Custom products sales, after several years of strong growth, have begun to decline due to several large Canadian potash mining projects nearing completion. The company intends to expand this business by moving into new markets such as non-potash mining and oil and gas. Protection relay sales have also slowed due to the general slowdown in the global mining market.

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

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

	Second Quarter			Year-to-Date		
	2013	**2012**	**% Change**	**2013**	**2012**	**% Change**
Business Unit						
Electronics	**$91,450**	$89,508	2 %	**$170,865**	$166,562	3 %
Automotive	**64,548**	51,450	25 %	**123,933**	104,076	19 %
Electrical	**31,768**	34,895	(9 %)	**63,886**	65,793	(3 %)
Total	**$187,766**	$175,853	7 %	**$358,684**	$336,431	7 %

	Second Quarter			Year-to-Date		
	2013	**2012**	**% Change**	**2013**	**2012**	**% Change**
Geography[(a)]						
Americas	**$86,531**	$80,888	7 %	**$164,355**	$154,933	6 %
Europe	**33,484**	27,051	24 %	**64,870**	54,810	18 %
Asia-Pacific	**67,751**	67,914	0 %	**129,459**	126,688	2 %
Total	**$187,766**	$175,853	7 %	**$358,684**	$336,431	7 %

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

Results of Operations – Second Quarter, 2013 compared to 2012

The following table summarizes the company's consolidated results of operations for the periods presented. The results include incremental activity from the company's business acquisitions as described, where applicable, in the below analysis. There were also additional expenses and accounting adjustments during 2013. These include a $1.7 million inventory adjustment, as described in Note 3, and $1.2 million in acquisition related operating expenses, both related to the Hamlin acquisition. There was also $3.7 million of favorable foreign currency revaluation primarily related to U.S. dollar gains against the Philippine peso.

(In thousands, unaudited)	**Second Quarter**	**Year-to-Date**

	2013	2012	% Change	**2013**	2012	% Change
Sales	**$187,766**	$175,853	7 %	**$358,684**	$336,431	7 %
Gross Profit	**73,557**	69,562	6 %	**138,163**	130,424	6 %
Operating expense	**42,175**	37,466	13 %	**78,664**	72,504	8 %
Operating income	**31,382**	32,096	(2 %)	**59,499**	57,920	3 %
Other (income) expense, net	**(4,015)**	697	(676 %)	**6,130**	1,746	251 %
Income before income taxes	**35,397**	31,399	13 %	**53,369**	56,174	(5 %)
Net income	**$26,648**	$22,963	16 %	**$41,442**	$40,526	2 %

Net sales increased $11.9 million or 7% to $187.8 million in the second quarter of 2013 compared to $175.9 million in the second quarter of 2012 due primarily to an incremental $12.7 million from business acquisitions and growth in automotive sales offset by a decline in both electrical and electronics sales. Sales were not significantly impacted by currency effects in the second quarter of 2013 as compared to the second quarter of 2012. Excluding incremental sales from acquisitions, net sales decreased $0.8 million or less than 1% year-over-year.

Electronics sales increased $2.0 million or 2% to $91.5 million in the second quarter of 2013 compared to $89.5 million in the second quarter of 2012 due to incremental sales of $3.4 million from the company’s acquisition of Hamlin. The electronics segment experienced $0.3 million in unfavorable currency effects in the second quarter of 2013 primarily from sales denominated in Japanese yen. Excluding the impact from incremental sales and currency effects, sales decreased $1.1 million 1%. The lower sales resulted primarily from weaker sales in Taiwan, Japan and Korea due to softness in consumer electronics.

Automotive sales increased $13.0 million or 25% to $64.5 million in the second quarter of 2013 compared to $51.5 million in the second quarter of 2012 due primarily to an incremental $9.3 million of sales from acquisitions and growth in the passenger vehicle business. This was partially offset by a decline in the commercial vehicle business which, while showing signs of recovery, still declined 1% as compared to the second quarter of 2012. The automotive segment experienced $0.4 million in favorable currency effects in the second quarter of 2013 primarily due to sales denominated in euros. Excluding incremental sales from acquisitions and currency effects, net sales increased $3.4 million or 7% year-over-year.

Electrical sales decreased $3.1 million or 9% to $31.8 million in the second quarter of 2013 compared to $34.9 million in the second quarter of 2012 due to a decline in custom product and relay sales partially offset by growth in power fuses. The decline in custom product and relay sales primarily reflects lower sales to Canadian potash customers as well as a general slow-down in the global mining industry. The increase in power fuse sales is primarily due to success in the solar and HVAC markets. The electrical segment experienced $0.1 million in unfavorable currency effects in the second quarter of 2013 primarily from sales denominated in Canadian dollars.

On a geographic basis, sales in the Americas increased $5.6 million or 7% to $86.5 million in the second quarter of 2013 compared to $80.9 million in the second quarter of 2012 mainly due to incremental sales of $5.3 million from the Accel and Hamlin acquisitions offset slightly by $0.1 million in unfavorable currency effects from sales denominated in Canadian dollars. Excluding acquisition sales and currency effects, America’s sales increased 1% year-over-year primarily due to an increase in demand for automotive and electronics products partially offset by a decrease in sales of electrical products.

Europe sales increased $6.4 million or 24% to $33.5 million in the second quarter of 2013 compared to $27.1 million in the second quarter of 2012 mainly due to incremental sales of $5.6 million from Accel and Hamlin and $0.5 million in favorable currency effects offset by lower demand for electrical products. Excluding incremental sales and currency effects, Europe sales increased 1% year-over-year primarily due to a an increase in demand for automotive and electronics products.

Asia-Pacific sales decreased $0.2 million or less than 1% to $67.8 million in the second quarter of 2013 compared to $67.9 million in the second quarter of 2012 primarily due to lower demand for electronics and electrical products offset by increased sales of automotive products, incremental sales from Hamlin of $1.7 million and $0.4 million in unfavorable currency effects primarily from sales denominated in Japanese yen. Excluding incremental sales from Hamlin and currency effects, net sales decreased $1.5 million or 2% year-over-year.

Gross profit was $73.6 million or 39% of net sales for the second quarter of 2013 compared to $69.6 million or 40% of net sales in the same quarter last year. Gross profit