

LITTELFUSE INC /DE
Form 10-Q
May 02, 2018

TABLE OF CONTENTS

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 March 31, 2018**

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:

<u>Title of Each Class</u>	<u>Name of Each Exchange</u>
	<u>On Which Registered</u>
Common Stock, \$0.01 par value	NASDAQ Global Select Market SM

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.

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 April 27, 2018, the registrant had outstanding 24,966,975 shares of Common Stock, net of Treasury Shares.

Table of Contents**TABLE OF CONTENTS**

	Page
PART I FINANCIAL INFORMATION	
Item 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets as of March 31, 2018 (unaudited) and December 30, 2017</u>	3
<u>Condensed Consolidated Statements of Net Income for the three months ended March 31, 2018</u> <u>(unaudited) and April 1, 2017 (unaudited)</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31,</u> <u>2018 (unaudited) and April 1, 2017 (unaudited)</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2018</u> <u>(unaudited) and April 1, 2017 (unaudited)</u>	6
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	7
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	23
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	29
Item 4. <u>Controls and Procedures</u>	29
PART II OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	30
Item 1A. <u>Risk Factors</u>	30
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	30
Item 3. <u>Defaults Upon Senior Securities</u>	30
Item 4. <u>Mine Safety Disclosures</u>	30
Item 5. <u>Other Information</u>	30
Item 6. <u>Exhibits</u>	31
<u>Signatures</u>	32

Table of Contents**LITTELFUSE, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands)	March 31, 2018	December 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$412,458	\$429,676
Short-term investments	37	35
Trade receivables, less allowances (March 31, 2018 - \$33,746; December 30, 2017 - \$27,516)	244,905	182,699
Inventories	263,969	140,789
Prepaid income taxes and income taxes receivable	3,899	1,689
Prepaid expenses and other current assets	47,794	37,452
Total current assets	973,062	792,340
Property, plant, and equipment:		
Land	29,575	9,547
Buildings	118,170	86,599
Equipment	555,578	505,838
Accumulated depreciation and amortization	(366,118)	(351,407)
Net property, plant, and equipment	337,205	250,577
Intangible assets, net of amortization	405,406	203,850
Goodwill	840,574	453,414
Investments	31,128	10,993
Deferred income taxes	12,039	11,858
Other assets	28,096	17,070
Total assets	\$2,627,510	\$1,740,102
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$120,817	\$101,844
Accrued payroll	41,220	49,962
Accrued expenses	74,925	48,994
Accrued severance	1,367	1,459
Accrued income taxes	15,938	16,285
Current portion of long-term debt	10,111	6,250
Total current liabilities	264,378	224,794
Long-term debt, less current portion	743,437	489,361
Deferred income taxes	60,525	17,069
Accrued post-retirement benefits	35,817	18,742
Other long-term liabilities	81,379	62,580
Shareholders' equity:	251	229

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

Common stock, par value \$0.01 per share: 34,000,000 shares authorized; shares issued, March 31, 2018–24,936,931; December 30, 2017 –22,713,198		
Treasury stock, at cost: 453,571 and 439,598 shares, respectively	(44,052)	(41,294)
Additional paid-in capital	800,614	310,012
Accumulated other comprehensive income	(73,742)	(63,668)
Retained earnings	758,766	722,140
Littelfuse, Inc. shareholders' equity	1,441,837	927,419
Non-controlling interest	137	137
Total equity	1,441,974	927,556
Total liabilities and equity	\$2,627,510	\$1,740,102

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**LITTELFUSE, INC.****CONDENSED CONSOLIDATED STATEMENTS OF NET INCOME****(Unaudited)**

(in thousands, except per share data)	For the Three Months Ended	
	March 31, 2018	April 1, 2017
Net sales	\$417,813	\$285,441
Cost of sales	268,190	171,791
Gross profit	149,623	113,650
Selling, general, and administrative expenses	77,514	46,703
Research and development expenses	22,540	12,151
Amortization of intangibles	11,998	5,944
Total operating expenses	112,052	64,798
Operating income	37,571	48,852
Interest expense	5,423	3,120
Foreign exchange gain	(10,555)	(1,557)
Other (income) expense, net	(1,943)	(139)
Income before income taxes	44,646	47,428
Income taxes	8,617	8,537
Net income	\$36,029	\$38,891
Income per share:		
Basic	\$1.48	\$1.71
Diluted	\$1.45	\$1.69
Weighted-average shares and equivalent shares outstanding:		
Basic	24,339	22,748
Diluted	24,775	22,989
Cash dividends declared per common share	\$0.37	\$0.33

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**LITTELFUSE, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)**

(in thousands)	For the Three Months Ended	
	March 31, 2018	April 1, 2017
Net income	\$36,029	\$38,891
Other comprehensive income (loss):		
Pension and postemployment liability adjustments (net of tax expense (benefit) of (\$60) and (\$32), respectively)	(188)	(181)
Pension and postemployment reclassification adjustments (net of tax (benefit) expense of (\$5) and \$36, respectively)	185	(101)
Unrealized (loss) gain on investments	-	947
Foreign currency translation adjustments	(276)	4,962
Comprehensive income	\$35,750	\$44,518

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**LITTELFUSE, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

(in thousands)	For the Three Months Ended	
	March 31, 2018	April 1, 2017
Operating activities		
Net income	\$36,029	\$38,891
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	11,614	9,128
Amortization of intangibles	11,998	5,944
Provision for bad debts	(13)	351
Non-cash inventory charges	17,896	—
Unrealized gain on investments	(1,864)	—
Loss on sale of property, plant, and equipment	99	600
Stock-based compensation	8,714	3,583
Deferred income taxes	842	616
Changes in operating assets and liabilities:		
Accounts receivable	(8,417)	(11,267)
Inventories	(269)	(3,296)
Accounts payable	2,990	(3,295)
Accrued expenses (including post-retirement)	12,573	4,140
Accrued payroll and severance	(18,607)	(20,221)
Accrued taxes	(1,174)	(220)
Prepaid expenses and other	(3,143)	(2,011)
Net cash provided by operating activities	69,268	22,943
Investing activities		
Acquisitions of businesses, net of cash acquired	(306,487)	(14,172)
Proceeds from maturities of short-term investments	—	3,739
Decrease in entrusted loan	—	655
Purchases of property, plant, and equipment	(17,909)	(12,377)
Proceeds from sale of property, plant, and equipment	19	57
Net cash used in investing activities	(324,377)	(22,098)
Financing activities		
Proceeds of revolving credit facility	50,000	—
Proceeds of term loan	75,000	—
Proceeds of senior notes payable	175,000	125,000

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

Payments of term loan	(2,500)	(1,563)
Payments of revolving credit facility	(47,000)	(112,500)
Net (payments) proceeds related to stock-based award activities	(116)	199
Proceeds (payments) from entrusted loan	—	(655)
Debt issuance costs	(878)	(71)
Cash dividends paid	(9,198)	(7,472)
Net cash provided by financing activities	240,308	2,938
Effect of exchange rate changes on cash and cash equivalents	(2,417)	(928)
Increase (decrease) in cash and cash equivalents	(17,218)	2,855
Cash and cash equivalents at beginning of year	429,676	275,124
Cash and cash equivalents at end of year	\$412,458	\$277,979

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

I. Summary of Significant Accounting Policies and Other Information

Nature of Operations

Littelfuse, Inc. and subsidiaries (the “Company”) is a global leader in circuit protection products with advancing platforms in power control and sensor technologies, serving customers in the electronics, automotive, and industrial markets. With a diverse and extensive product portfolio of fuses, semiconductors, polymers, ceramics, relays and sensors, the Company works with its customers to build safer, more reliable and more efficient products for the connected world in virtually every market that uses electrical energy, ranging across consumer electronics, IT and telecommunication applications, industrial electronics, automobiles and other transportation, and heavy industrial applications. 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.

Basis of Presentation

The Company’s accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”) for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and disclosures normally included in the consolidated balance sheets, statements of net income and comprehensive income 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 30, 2017*, which should be read in conjunction with the disclosures therein. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal, recurring nature. Operating results for interim periods are *not* necessarily indicative of annual operating results.

Revenue Recognition

Adoption

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

Revenue Disaggregation

The following table disaggregates the Company's revenue by primary business units for the *three* months ended *March 31, 2018*:

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

See Note 12, *Segment Information* for net sales by segment and countries.

Revenue Recognition

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

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

Table of Contents

Revenue and Billing

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

Ship and Debit Program

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

Return to Stock

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

Volume Rebates

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

Recently Adopted Accounting Standards

In *March 2017*, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) *No. 2017-07* “Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-Retirement Benefit Cost,” which changed the presentation of net periodic pension and post-retirement benefit cost (net benefit cost) within the Statement of Income. Under the previous guidance, net benefit cost was reported as an employee cost within operating income. The amendment required the bifurcation of net benefit cost, with the service cost component to be presented with other employee compensation costs in operating income while the other components will be reported separately outside of income from operations. ASU *No. 2017-07* was effective for the *first* quarter of *2018* with the Company adopting the new standard on *December 31, 2017*.

In *January 2016*, the FASB issued ASU *No. 2016-01*, “Financial Instruments-Recognition and Measurement of Financial Assets and Financial Liabilities” which addressed certain aspects of the recognition, measurement, presentation and disclosure of financial instruments. The ASU requires the Company to recognize any changes in the fair value of certain equity investments in net income. Previously these changes were recognized in other comprehensive income (“OCI”). The Company adopted the new standard on *December 31, 2017*, on a modified retrospective basis, recognizing the cumulative effect as a \$9.8 million increase to retained earnings. As a result of the adoption of the new standard and change in fair value of our equity investments, for the *three* months ended *March 31, 2018*, the Company recognized an unrealized gain of \$1.9 million in Other (income) expense, net in the Condensed Consolidated Statements of Net Income.

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. The Company adopted the new standard on *December 31, 2017* using the modified retrospective method, however, *no* adjustment to retained earnings was needed. The new guidance did *not* have a material effect on the Company’s Condensed Consolidated Statements of Income. See the *Revenue Recognition* section above for further discussion.

Table of Contents

In *October 2016*, the FASB issued ASU No. 2016-16, "Income Taxes" (Topic 740). This ASU update requires entities to recognize the income tax consequences of many intercompany asset transfers at the transaction date. The seller and buyer will immediately recognize the current and deferred income tax consequences of an intercompany transfer of an asset other than inventory. The tax consequences were previously deferred. The Company adopted the new standard on *December 31, 2017* and it did *not* have a material impact.

Recently Issued Accounting Standards

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 will adopt the standard in the *first* quarter of *2019*. The Company is currently evaluating the impact of ASU 2016-02.

In *January 2018*, the FASB released guidance on the accounting for tax on the global intangible low-taxed income ("GILTI") provisions in the Tax Act. The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The guidance indicates that either accounting for deferred taxes related to GILTI inclusions or treating any taxes on GILTI inclusions as period cost are both acceptable methods subject to an accounting policy election. The Company has *not* yet completed its assessment and therefore has *not* yet elected an accounting policy.

In *February 2018*, the FASB issued ASU No. 2018-02 "Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," which permits the reclassification of tax effects stranded in accumulated other comprehensive income to retained earnings as a result of the Tax Act. The standard also requires entities to disclose whether or *not* they elected to reclassify the tax effects related to the Tax Act as well as their policy for releasing income tax effects from accumulated other comprehensive income. The standard allows the option of applying either a retrospective adoption, meaning the standard is applied to all periods in which the effect of the Tax Act is recognized, or applying the amendments in the period of adoption, meaning an adjustment is made to shareholder's equity as of the beginning of the reporting period. ASU 2018-02 will be effective in the *first* quarter of *2019*; however early adoption is permitted for interim and annual periods, including the reporting period in which the Tax Act was enacted. The Company is currently evaluating the impact of ASU 2018-02 on the Consolidated Financial Statements.

2. Acquisitions

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

IXYS Corporation

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

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

Based on the \$207.5 per share opening price of Littelfuse common stock on *January 17, 2018*, the consideration IXYS stockholders received in exchange of their IXYS common stock in the acquisition had a value of \$814.8 million comprised of \$380.5 million of cash and \$434.2 million of Littelfuse stock. In addition to the consideration transferred related to IXYS common stock, the value of consideration transferred, and included in the purchase price, related to IXYS stock options that were converted to Littelfuse stock options, or cash settled, had a value of \$41.7 million. As a result, total consideration was valued at \$856.5 million.

The total purchase price of \$856.5 million has been allocated, on a preliminary basis, to assets acquired and liabilities assumed, as of the completion of the acquisition, based on preliminary estimated fair values. The purchase price allocation is preliminary because the evaluations necessary to assess the fair values of the net assets acquired are still in process. The primary areas that are *not* yet finalized relate to the completion of the valuations of certain acquired

income tax assets and liabilities, including the impact of the adoption of the Tax Cuts and Job Act (“Tax Act”) and certain acquired investments. As a result, these allocations are subject to change during the purchase price allocation period as the valuations are finalized.

Table of Contents

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

(in thousands)	Purchase Price	Allocation
Total purchase consideration:		
Cash, net of cash acquired	\$ 302,865	
Cash settled stock options	3,622	
Littelfuse stock	434,192	
Converted stock options	38,109	
Total purchase consideration	\$ 778,788	
Allocation of consideration to assets acquired and liabilities assumed:		
Current assets, net	\$ 154,254	
Property, plant, and equipment	76,580	
Intangible assets	211,600	
Goodwill	381,599	
Other non-current assets	31,570	
Other non-current liabilities	(76,815)	
	\$ 778,788	

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

Included in the Company's Condensed Consolidated Statements of Net Income for the *three* months ended *March 31, 2018* are net sales of approximately \$86.3 million and a loss before income taxes of approximately \$17.8 million since the *January 17, 2018* acquisition of IXYS. The Company recognized approximately \$5.9 million of stock compensation expense related to IXYS stock options converted to Littelfuse stock options during the *three* months ended *March 31, 2018* of which \$4.5 million was recognized immediately as it related to prior services periods.

As required by purchase accounting rules, the Company recorded a \$36.9 million step-up of inventory to its fair value as of the acquisition date based on the preliminary valuation. The step-up is being amortized as a non-cash charge to cost of goods sold during the *first* and *second* quarters of *2018*, as the acquired inventory is sold, and reflected as other non-segment costs. During the *three* months ended *March 31, 2018*, the Company recognized a charge of \$17.9 million for the amortization of this fair value inventory step-up.

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

2017 Acquisitions

U.S. Sensor

On *July 7, 2017*, the Company acquired the assets of U.S. Sensor Corporation (“U.S. Sensor”). The acquisition purchase price of *\$24.3* million, net of the finalization of an income tax gross up which was settled in the *fourth* quarter of *2017*, was funded with available cash. The acquired business expands the Company’s existing sensor portfolio in several key electronics and industrial end markets. U.S. Sensor manufactures a variety of high quality negative temperature coefficient thermistors as well as thermistor probes and assemblies. Product lines also include thin film platinum resistance temperature detectors (“RTDs”) and RTD assemblies.

Table of Contents

The following table summarizes the purchase price allocation of the fair value of assets acquired and liabilities assumed in the U.S. Sensor acquisition:

(in thousands)	Purchase Price
	Allocation
Total purchase consideration:	
Cash	\$ 24,340
Allocation of consideration to assets acquired and liabilities assumed:	
Current assets, net	\$ 4,635
Patented and unpatented technologies	1,090
Trademarks and tradenames	200
Non-compete agreement	50
Customer relationships	2,830
Goodwill	16,075
Current liabilities	(540)
	\$ 24,340

Included in U.S. Sensor's current assets, net was approximately \$1.5 million of receivables. All U.S. Sensor 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 U.S. Sensor's products and technology with the Company's existing electronics product portfolio. Goodwill for the above acquisition is expected to be deductible for tax purposes.

As required by purchase accounting rules, the Company recorded a \$1.6 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 *third* quarter of 2017, as the acquired inventory was sold, and reflected as other non-segment costs.

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 (“Securities Purchase Agreement”) and conditioned on Monolith achieving a product development milestone and other provisions, the Company acquired *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. During the *first* quarter of *2018*, Monolith met the next set of technical and sales targets. As a result, and pursuant to the Securities Purchase Agreement, in *April 2018* the Company acquired an additional *19%* of the outstanding common stock of Monolith for *\$5* million. Consideration for the purchase of the remaining *19%* outstanding common stock will be either *\$0.5* million or *\$5* million, based on Monolith meeting the remaining technical and sales targets, and will be paid *no* later than *June 30, 2019*.

The additional investment, in the *first* quarter of *2017*, 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 Statements 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 Sheets. The original investment of *\$3.5* million, additional cash consideration of *\$14.2* million (net of cash acquired), and the non-cash consideration of the fair value of the commitment to purchase the non-controlling interest of *\$9.0* million resulted in a purchase price of *\$26.7* million. 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.

March 2017
31,

2018

Net sales	\$434,526	\$368,813
Income before income taxes	81,924	11,021
Net income	63,933	17,462
Net income per share — basic	2.57	0.70
Net income per share — diluted	2.53	0.69

Table of Contents

Pro forma results presented above primarily reflect the following adjustments:

(in thousands)	For the Three Months Ended	
	March 31, 2018	April 1, 2017
Amortization ^(a)	\$1,902	\$(6,276)
Depreciation	—	(94)
Transaction costs ^(b)	9,976	(9,976)
Amortization of inventory step-up ^(c)	17,896	(22,156)
Stock compensation ^(d)	4,479	(5,013)
Interest expense ^(e)	—	(2,582)
Income tax impact of above items	(7,701)	15,374

The amortization adjustment for the *three* months ended *March 31, 2018* primarily reflects the reduction of amortization expense in the period related to the Order backlog intangible asset. The Order backlog has a useful (a) life of *twelve* months and will be fully amortized in the fiscal *2017* pro forma results. The amortization adjustment for the *three* months ended *April 1, 2017* reflects incremental amortization resulting for the measurement of intangibles at their fair values.

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

The amortization of inventory step-up adjustment reflects the reversal of the amount recognized during the *three* (c) months ended *March 31, 2018* and the recognition of a full quarter of the amortization during the *three* months end *April 1, 2017*. The inventory step-up is being amortized over *five* months as the inventory is sold.

The stock compensation adjustment reflects the reversal of the portion of stock compensation for IXYS stock (d) options that were converted to Littelfuse stock options and expensed immediately during the *three* months ended *March 31, 2018*. The adjustment for the *three* months ended *April 1, 2017* reflect the incremental stock compensation for the converted stock options.

(e) The interest expense adjustment reflects incremental interest expense related to the financing of the transaction.

3. Inventories

The components of inventories at *March 31, 2018* and *December 30, 2017* are as follows:

(in thousands)	March 31,	December 30,
----------------	--------------	-----------------

	2018	2017
Raw materials	\$66,259	\$39,030
Work in process	96,826	27,454
Finished goods	100,884	74,305
Total	\$263,969	\$140,789

4. Goodwill and Other Intangible Assets

The amounts for goodwill and changes in the carrying value by segment for the *three* months ended *March 31, 2018* are as follows:

(in thousands)	Electronics	Automotive	Industrial	Total
As of December 30, 2017	\$ 278,959	\$ 135,829	\$ 38,626	\$453,414
Additions ^(a)	381,599	—	—	381,599
Currency translation	2,455	3,195	(89)	5,561
As of March 31, 2018	\$ 663,013	\$ 139,024	\$ 38,537	\$840,574

(a)The additions resulted from the acquisition of IXYS.

The components of other intangible assets at *March 31, 2018* are as follows:

(in thousands, except weighted average useful life)	Weighted Average Useful Life	Gross Carrying Value	Accumulated Amortization	Net Book Value
Patents, licenses and software	10.6	\$193,622	\$ 64,012	\$129,610
Distribution network	12.6	44,473	33,434	11,039
Customer relationships, trademarks, and tradenames	18.1	314,452	59,591	254,861
Order backlog	1.0	12,400	2,504	9,896
Total		\$564,947	\$ 159,541	\$405,406

Table of Contents

During the *three* months ended *March 31, 2018*, the Company recorded additions to other intangible assets of \$211.6 million, related to the IXYS acquisition, the components of which were as follows:

(in thousands, except weighted average useful life)	Weighted	
	Average	
	Useful	Amount
	Life	
Patents, licenses and software	8.0	\$51,500
Customer relationships, trademarks, and tradenames	17.2	147,700
Order backlog	1.0	12,400
Total		\$211,600

During the *three* months ended *March 31, 2018* and *April 1, 2017*, the Company recorded amortization expense of \$12.0 million and \$5.9 million, respectively for intangible assets with definite lives.

Estimated annual amortization expense related to intangible assets with definite lives as of *March 31, 2018* is as follows:

(in thousands)	Amount
2018	\$54,938
2019	42,005
2020	41,747
2021	39,928
2022	38,918
2023 and thereafter	197,914
Total	\$415,450

5. Debt

The carrying amounts of debt at *March 31, 2018* and *December 30, 2017* are as follows:

(in thousands)	March	December
	31,	30,

	2018	2017
Revolving Credit Facility	\$3,000	\$—
Term Loan	195,000	122,500
Euro Senior Notes, Series A due 2023	144,041	139,623
Euro Senior Notes, Series B due 2028	116,956	113,369
U.S. Senior Notes, Series A due 2022	25,000	25,000
U.S. Senior Notes, Series B due 2027	100,000	100,000
U.S. Senior Notes, Series A due 2025	50,000	—
U.S. Senior Notes, Series B due 2030	125,000	—
Other	111	—
Unamortized debt issuance costs	(5,560)	(4,881)
Total debt	753,548	495,611
Less: Current maturities	(10,111)	(6,250)
Total long-term debt	\$743,437	\$489,361

Revolving Credit Facility / Term Loan

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

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

Outstanding borrowings under the Credit Agreement bear interest, at the Company’s option, at either LIBOR, fixed for interest periods of one, two, *three* or *six-month* periods, plus *1.00%* to *2.00%*, or at the bank’s Base Rate, as defined, plus *0.00%* to *1.00%*, based upon the Company’s Consolidated Leverage Ratio, as defined. The Company is also required to pay commitment fees on unused portions of the credit agreement ranging from *0.15%* to *0.25%*, based on the Consolidated Leverage Ratio, as defined. The credit agreement includes representations, covenants and events of default that are customary for financing transactions of this nature. The effective interest rate on outstanding borrowings under the credit facility was *3.13%* at *March 31, 2018*.

Table of Contents

As of *March 31, 2018*, the Company had *\$0.1* million outstanding in letters of credit and had available *\$696.9* million of borrowing capacity under the Revolving Credit Facility. At *March 31, 2018*, 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* (“Euro Senior Notes, Series A due 2023”), and *€95* million in aggregate amount of *1.83%* Senior Notes, Series B due *December 8, 2028* (“Euro Senior Notes, Series B due 2028”) (together, the “Euro Senior Notes”). Interest on the Euro Senior Notes is payable semiannually on *June 8* and *December 8*, commencing *June 8, 2017*.

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

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

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

The Senior Notes are subject to certain customary covenants, including limitations on the Company’s ability, with certain exceptions, to engage in mergers, consolidations, asset sales and transactions with affiliates, to engage in any

business that would substantially change the general business of the Company, and to incur liens. In addition, the Company is required to satisfy certain financial covenants and tests relating to, among other matters, interest coverage and leverage. At *March 31, 2018*, the Company was in compliance with all covenants under the Senior Notes.

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

6. Fair Value of Assets and Liabilities

For assets and liabilities measured at fair value on a recurring and nonrecurring basis, a *three*-level hierarchy of measurements based upon observable and unobservable inputs is used to arrive at fair value. Observable inputs are developed based on market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions about valuation based on the best information available in the circumstances. Depending on the inputs, the Company classifies each fair value measurement 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.

Table of Contents

Investments in Equity Securities

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

Mutual Funds

The Company has a non-qualified Supplemental Retirement and Savings Plan which provides additional retirement benefits for certain management employees and named executive officers by allowing participants to defer a portion of their annual compensation. The Company maintains accounts for participants through which participants make investment elections. The marketable securities are classified as Level 1 under the fair value hierarchy as they are maintained in mutual funds with readily determinable fair value.

There were *no* changes during the quarter ended *March 31, 2018* to the Company's valuation techniques used to measure asset and liability fair values on a recurring basis. As of *March 31, 2018* and *December 30, 2017*, 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 *March 31, 2018*: