

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

LITTELFUSE INC /DE  
Form 10-Q  
November 09, 2006

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 SEPTEMBER 30, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OF 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.)

800 EAST NORTHWEST HIGHWAY  
DES PLAINES, ILLINOIS  
(Address of principal executive offices)

60016  
(Zip Code)

(847) 824-1188

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  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 September 30, 2006, 22,389,992 shares of common stock, \$.01 par value, of the Registrant were outstanding.

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

TABLE OF CONTENTS

	PAGE
	----
PART I - FINANCIAL INFORMATION	
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets as of September 30, 2006 and December 31, 2005 (unaudited).....	1
Condensed Consolidated Statements of Income for the periods ended September 30, 2006 and October 1, 2005 (unaudited).....	2
Condensed Consolidated Statements of Cash Flows for the periods ended September 30, 2006 and October 1, 2005 (unaudited).....	3
Notes to the Condensed Consolidated Financial Statements (unaudited)...	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	14
Item 3. Quantitative and Qualitative Disclosures about Market Risk.....	18
Item 4. Controls and Procedures.....	18
PART II - OTHER INFORMATION	
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.....	19
Item 6. Exhibits.....	20

LITTELFUSE, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands, unaudited)

	SEPTEMBER 30, 2006	December 31, 2005
	-----	-----
ASSETS:		
Cash and cash equivalents.....	\$ 42,889	\$ 21,947
Receivables.....	99,929	80,303
Inventories.....	66,187	63,423
Deferred income taxes.....	12,960	11,927
Assets held for sale (EFEN).....	--	17,633
Other current assets.....	11,523	7,936
	-----	-----
Total current assets	233,488	203,169
Property, plant, and equipment, net.....	128,864	125,493
Intangible assets, net.....	32,042	14,742
Goodwill.....	63,051	54,440

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

Investments.....	5,422	5,590
Long-term deferred tax asset.....	11,360	--
Other assets.....	860	497
	-----	-----
Total assets	\$475,087	\$403,931
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY:

Accounts payable.....	\$ 26,672	\$ 20,457
Accrued payroll.....	22,960	20,128
Accrued expenses.....	9,056	8,141
Accrued severance.....	28,854	7,866
Accrued income tax.....	23,498	9,920
Liabilities held for sale (EFEN).....	--	6,722
Current portion of long-term debt.....	25,927	26,682
	-----	-----
Total current liabilities	136,967	99,916
Long-term debt.....	1,863	--
Deferred income taxes.....	--	1,879
Accrued post-retirement benefits.....	21,082	19,268
Other long-term liabilities.....	5,368	5,658
Minority interest.....	143	144
Shareholders' equity.....	309,664	277,066
	-----	-----
Total liabilities and shareholders' equity	\$475,087	\$403,931
	=====	=====

Common shares issued and outstanding  
of 22,389,992 and 22,229,288,  
at September 30, 2006, and December 31,  
2005, respectively

1

LITTELFUSE, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(in thousands, except per share data, unaudited)

	For the Three Months Ended	
	SEPT 30,	Oct 1,
	2006	2005
	-----	-----
Net sales.....	\$143,471	\$122,266
Cost of sales.....	96,386	87,957
	-----	-----
Gross profit.....	47,085	34,309
Selling, general and administrative expenses.....	29,174	25,513
Research and development expenses.....	4,634	4,257
Amortization of intangibles.....	909	436
	-----	-----
Total operating expense.....	34,717	30,206
Operating income.....	12,368	4,103
Interest expense.....	480	587
Other income.....	(117)	(2,988)

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

Earnings from continuing operations before minority interest and income taxes .....	12,005	6,504
Minority interest.....	--	(40)
Income taxes.....	2,645	3,423
Earnings from continuing operations.....	9,360	3,121
Discontinued operations (net of tax).....	--	650
Net income.....	\$ 9,360	\$ 3,771
Net income per share:		
Basic:		
Continuing operations.....	\$ 0.42	\$ 0.14
Discontinued operations.....	\$ --	\$ 0.03
Net income.....	\$ 0.42	\$ 0.17
Diluted:		
Continuing operations.....	\$ 0.42	\$ 0.14
Discontinued operations.....	\$ --	\$ 0.03
Net income.....	\$ 0.42	\$ 0.17
Weighted average shares and equivalent shares outstanding:		
Basic.....	22,347	22,441
Diluted.....	22,504	22,626

2

LITTELFUSE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands, unaudited)

	For the Three Months Ended	
	SEPT 30, 2006	Oct 1, 2005
Operating activities:		
Net income.....	\$ 9,360	\$ 3,771
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation.....	8,299	7,547
Amortization.....	909	496
Stock-based compensation.....	1,199	--
Changes in operating assets and liabilities:		
Accounts receivable.....	(3,292)	(2,618)
Inventories.....	(104)	1,894
Accounts payable and accrued expenses.....	(805)	3,236

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

Prepaid expenses and other.....	98	796
	-----	-----
Net cash provided by operating activities.....	15,664	15,122
Cash used in investing activities:		
Purchases of property, plant, and equipment.....	(4,716)	(4,979)
Acquisitions of businesses.....	(6,116)	(398)
Sale of EFEN.....	--	--
	-----	-----
Net cash used in investing activities.....	(10,832)	(5,377)
Cash provided by (used in) financing activities:		
Proceeds from long-term debt.....	12,415	19,729
Payments of long-term debt.....	(10,637)	(23,901)
Proceeds from repayment of notes receivable, common stock.....	--	--
Proceeds from exercise of stock options.....	1,607	3,075
Excess tax benefit on share-based compensation.....	408	--
Purchase of treasury stock.....	(652)	(6,761)
	-----	-----
Net cash provided by (used in) financing activities.....	3,141	(7,858)
Effect of exchange rate changes on cash.....	136	(201)
	-----	-----
Increase in cash and cash equivalents.....	8,109	1,686
Cash and cash equivalents at beginning of period.....	34,780	32,647
	-----	-----
Cash and cash equivalents at end of period.....	\$ 42,889	\$ 34,333
	=====	=====

3

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) SEPTEMBER 30, 2006

#### 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, Ireland severance, the Witten building and other asset write-downs, accrued employee-related costs pursuant to contractual obligations and the Teccor net operating loss tax benefit, considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 30, 2006. 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 31, 2005.

#### 2. BUSINESS SEGMENT INFORMATION

The Company designs, manufactures and sells circuit protection devices throughout the world. The Company has three reportable geographic segments: Americas, Europe and Asia-Pacific. The circuit protection market in these geographical segments is categorized into three major product areas: electronic, automotive and electrical.

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

The Company evaluates the performance of each geographic segment based on its sales and net income or loss. The Company accounts for intersegment sales as if the sales were to third parties. The Company's reportable segments are the geographical regions where the revenue is earned and expenses are incurred. The Company has subsidiaries in Americas, Europe and Asia-Pacific.

Export sales to Hong Kong were 18.5% and 15.5% of consolidated sales for the three and nine months ended September 30, 2006, respectively. No other foreign country sales exceeded 10% for the three and nine months ended September 30, 2006. Export sales to Hong Kong were 7.6% and 14.0% of consolidated sales for the three and nine months ended October 1, 2005, respectively. No other foreign country sales exceeded 10% for the three and nine months ended October 1, 2005. Sales to Arrow Pemco Group were 8.9% and 10.7% of consolidated sales for the three and nine months ended September 30, 2006, respectively. Sales to no other single customer amounted to 10% or more of the Company's total revenues for the three and nine months ended September 30, 2006. Sales to no single customer amounted to 10.0% or more for the three and nine months ended October 1, 2005.

Information concerning the operations in these geographic segments for the three and nine months ended September 30, 2006, and October 1, 2005, is as follows (in thousands):

	Three Months Ended Sept 30, 2006 -----	Three Months Ended Oct 1, 2005 -----	Nine Months Ended Sept 30, 2006 -----	Nine months Ended Oct 1, 2005 -----
<b>NET SALES</b>				
Americas	\$ 54,574	\$ 51,305	\$ 166,404	\$ 150,890
Europe	27,777	24,728	85,254	75,018
Asia-Pacific	61,120	46,233	155,365	125,808
	-----	-----	-----	-----
Consolidated total	\$ 143,471	\$ 122,266	\$ 407,023	\$ 351,716
<b>INTERSEGMENT SALES</b>				
Americas	\$ 55,263	\$ 39,600	\$ 151,817	\$ 120,372
Europe	18,414	18,334	60,470	43,860
Asia-Pacific	32,145	22,550	80,931	48,695
	-----	-----	-----	-----
Combined total	105,822	80,484	293,218	212,927
Eliminations	(105,822)	(80,484)	(293,218)	(212,927)
	-----	-----	-----	-----
Consolidated total	\$ --	\$ --	\$ --	\$ --
<b>INTEREST EXPENSE</b>				
Americas	\$ 456	\$ 564	\$ 1,159	\$ 1,556
Europe	(1)	11	44	35
Asia-Pacific	25	12	49	37
	-----	-----	-----	-----
Consolidated total	\$ 480	\$ 587	\$ 1,252	\$ 1,628

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

DEPRECIATION AND AMORTIZATION				
Americas	\$ 3,908	\$ 4,512	\$ 11,544	\$ 13,357
Europe	3,285	2,878	9,656	8,236
Asia-Pacific	2,015	653	4,019	1,696
	-----	-----	-----	-----
Consolidated total	\$ 9,208	\$ 8,043	\$ 25,219	\$ 23,289
OTHER (INCOME) EXPENSE				
Americas	\$ (144)	\$ (3,106)	\$ (979)	\$ (2,924)
Europe	339	358	7	347
Asia-Pacific	(312)	(240)	(655)	(638)
	-----	-----	-----	-----
Consolidated total	\$ (117)	\$ (2,988)	\$ (1,627)	\$ (3,215)
INCOME TAXES (BENEFIT)				
Americas	\$ 2,816	\$ 2,509	\$ 3,908	\$ 3,463
Europe	(1,247)	(752)	(1,951)	849
Asia-Pacific	1,076	1,666	3,286	3,444
	-----	-----	-----	-----
Consolidated total	\$ 2,645	\$ 3,423	\$ 5,243	\$ 7,756
EARNINGS (LOSS) FROM CONTINUING OPERATIONS*				
Americas	\$ 4,768	\$ 2,655	\$ 20,792	\$ 4,960
Europe	(3,024)	(6,060)	(19,899)	(6,586)
Asia-Pacific	7,616	6,526	17,699	13,347
	-----	-----	-----	-----
Consolidated total	\$ 9,360	\$ 3,121	\$ 18,592	\$ 11,721
NET INCOME (LOSS) *				
Americas	\$ 4,768	\$ 2,655	\$ 20,792	\$ 4,960
Europe	(3,024)	(5,410)	(19,311)	(5,840)
Asia-Pacific	7,616	6,526	17,699	13,347
	-----	-----	-----	-----
Consolidated total	\$ 9,360	\$ 3,771	\$ 19,180	\$ 12,467
NET SALES *				
Electronic	\$ 101,118	\$ 80,768	\$ 279,861	\$ 228,588
Automotive	30,225	29,950	92,806	90,797
Electrical	12,128	11,548	34,356	32,331
	-----	-----	-----	-----
Consolidated total	\$ 143,471	\$ 122,266	\$ 407,023	\$ 351,716
IDENTIFIABLE ASSETS *				

	September 30, 2006	December 31, 2005
	-----	-----
Americas	\$ 352,254	\$ 280,964
Europe	161,073	208,192
Asia-Pacific	146,859	90,233
	-----	-----
Combined total	660,186	579,389
Goodwill and intangibles	95,093	69,182
Eliminations	(280,192)	(244,640)
	-----	-----
Consolidated total	\$ 475,087	\$ 403,931
	=====	=====

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

\* Certain prior year amounts have been reclassified to conform to the current year presentation.

5

### 3. INVENTORIES

The components of inventories are as follows (in thousands):

	September 30, 2006	December 31, 2005
	-----	-----
Raw material	\$15,201	\$13,010
Work in process	17,533	18,996
Finished goods	33,453	31,417
	-----	-----
Total	\$66,187	\$63,423
	=====	=====

### 4. LONG-TERM OBLIGATIONS

Total debt at the end of the third quarter 2006 totaled \$27.8 million and consisted of the following: (1) credit revolver borrowings totaling \$21.5 million, (2) foreign revolver borrowings totaling \$6.3 million.

The Company has an unsecured domestic financing arrangement consisting of a credit agreement with banks that provides a \$75.0 million revolving credit facility, with a potential increase of up to \$125.0 million upon request of the Company and agreement with the lenders, that expires on July 21, 2011. The revolving credit facility is subject to a maximum indebtedness calculation and other financial covenants. At September 30, 2006, the Company had available \$53.5 million of borrowing capability under the revolving credit facility at an interest rate of LIBOR plus 0.50% (6.01% as of September 30, 2006). The Company also had \$6.0 million in letters of credit outstanding at September 30, 2006.

The Company also has an unsecured bank line of credit that provides a Yen 0.9 billion (equivalent to \$7.6 million) revolving credit facility at an interest rate of TIBOR plus 0.875% (1.24% as of September 30, 2006). The revolving line of credit becomes due on July 21, 2011. At September 30, 2006, the Company had an equivalent \$3.8 million outstanding on the Yen facility.

The Company also has an unsecured bank line of credit that provides a Taiwanese Dollar 35.0 million (equivalent to \$1.1 million) revolving credit facility at an interest rate of two-years Time Deposit plus 0.145% (2.3% as of September 30, 2006). The revolving line of credit becomes due on August 18, 2009. At September 30, 2006, the Company had an equivalent \$1.0 million outstanding on the Taiwanese Dollar facility.

The Company also has various other foreign fixed rate loans totaling \$1.5 million with maturity dates through August 2013.

### 5. IMPAIRMENT OF LONG-LIVED ASSETS

During the second quarter of 2006, the Company wrote down the carrying value of



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

its property located in Witten, Germany, by \$2.7 million. This charge was reported as part of selling, general and administrative expenses in the European segment of the Company's financial results. The assets are also reported as part of the European segment. This write down was based upon an offer the Company received and accepted during the second quarter of 2006 for the sale of the property. The property consists of land and several buildings currently used for manufacturing and administrative offices.

During the third quarter of 2006, the Company wrote down the carrying value of certain long-term assets located in Witten, Germany, by \$1.6 million. This charge was reported as a \$0.8 million expense as part of cost of sales and a \$0.8 million expense as part of selling, general and administrative expenses in the European segment of the Company's financial results.

6

### 6. PER SHARE DATA

Net income per share amounts for the three and nine months ended September 30, 2006, and October 1, 2005, are based on the weighted average number of common and common equivalent shares outstanding during the periods as follows (in thousands, except per share data):

	Three months ended		Nine months ended	
	Sept 30, 2006	Oct 1, 2005	Sept 30, 2006	Oct 1, 2005
Net income	\$ 9,360	\$ 3,771	\$19,180	\$12,467
Average shares outstanding - Basic	22,347	22,441	22,308	22,449
Net effect of dilutive stock options and restricted shares				
- Diluted	157	185	132	222
Average shares outstanding - Diluted	22,504	22,626	22,440	22,671
Net income per share				
- Basic	\$ 0.42	\$ 0.17	\$ 0.86	\$ 0.56
- Diluted	\$ 0.42	\$ 0.17	\$ 0.85	\$ 0.55

The following potential shares of common stock were excluded from the EPS calculation because their effect would be anti-dilutive.

	Three months ended		Nine months ended	
	Sept 30, 2006	Oct 1, 2005	Sept 30, 2006	Oct 1, 2005
Stock options	1,150,052	732,430	1,059,066	538,600

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

Restricted shares	--	--	--	--
	-----	-----	-----	-----
Total	1,150,052	732,430	1,059,066	538,600

7. ACQUISITIONS

On May 6, 2004, the Company acquired 82% of the common stock of Heinrich Industrie AG ("Heinrich") for Euro 39.5 million (approximately \$47.1 million) in cash and acquisition costs of approximately \$1.8 million. Subsequent to May 6, 2004, the Company purchased additional shares of Heinrich stock for approximately \$8.7 million, bringing the total ownership to 97.2% as of January 1, 2005. During 2005 the Company acquired the remaining outstanding shares for approximately \$3.7 million, bringing the total ownership to 100% as of December 31, 2005.

Purchase accounting liabilities in connection with the Heinrich acquisition were estimated to be \$11.5 million and are primarily for redundancy costs to be paid through 2006 related to manufacturing operations and selling, general and administrative functions. The Company began formulating its plan to incur these costs as of the acquisition date. Additions to the Heinrich purchase accounting liability during 2005 relate to redundancy costs recognized after 100% ownership was achieved. As of September 30, 2006, \$10.5 million has been paid related to these liabilities.

A summary of the purchase accounting liability activity is as follows:

7

Purchase accounting liability (in thousands)

-----	
Balance, May 6, 2004	\$ 7,281
Payments	(85)
	-----
Balance, January 1, 2005	7,196
Additions	4,179
Payments	(8,685)
	-----
Balance, December 31, 2005	2,690
Payments	(136)
	-----
Balance, April 1, 2006	2,554
Payments	(658)
	-----
Balance, July 1, 2006	1,896
Payments	(891)
	-----
Balance, September 30, 2006	\$ 1,005
	=====

Increases in the purchase accounting reserve pertain to additional liabilities anticipated at the acquisition date and recognized in conjunction with the registration of the domination agreement needed to obtain control of the company and related requirement to purchase remaining shares from minority shareholders. These additional liabilities are primarily for redundancy costs to be paid

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

through 2006 related to manufacturing operations and selling, general and administrative functions.

On February 3, 2006, the Company acquired SurgX Corporation ("SurgX") for \$2.5 million. All of the assets of SurgX were classified as patents in the Americas segment with an average useful life of seven years. Pro forma financial information is not presented due to amounts not being materially different than actual results.

On May 30, 2006, the Company acquired all of the common stock of Concord Semiconductor ("Concord") for \$23.8 million in cash and acquisition costs of approximately \$0.2 million. The Company funded the acquisition with \$14.0 million in cash and \$10.0 million of borrowings on an existing revolving line of credit.

Littelfuse has continued to operate Concord's electronics business subsequent to the acquisition. The Concord acquisition expands the Company's product offering and strengthens the Company's position in the circuit protection industry.

The acquisition was accounted for using the purchase method of accounting and the operations of Concord are included in the Company's operations from the date of acquisition. The following table sets forth the purchase price allocation for the acquisition of Concord in accordance with the purchase method of accounting with adjustments to record the acquired assets and liabilities of Concord at their estimated fair market or net realizable values.

### Purchase price allocation (in thousands)

Current assets	\$ 9,842
Property, plant and equipment	7,771
Patents and licenses	4,299
Distribution network	6,444
Goodwill	6,284
Current liabilities	(5,717)
Deferred taxes	(2,343)
Other long-term liabilities	(2,594)
	-----
	\$23,986
	=====

All goodwill and intangible assets are recorded in the Asian segment. Patents and licenses have an average estimated useful life of approximately 12 years. The distribution network has an average estimated useful life of approximately 17 years. The fair values are estimates and subject to revision as the Company completes its fair value analysis. Pro forma financial information is not presented due to amounts not being materially different than actual results.

On June 26, 2006, the Company acquired Catalina Performance Accessories, Inc. ("Catalina") for \$4.5 million. The Company acquired \$0.4 million of accounts receivable, \$0.5 million of inventory and a \$3.6 million customer list. The customer list was reported in the Americas segment with a useful life of ten years. Pro forma financial information is not presented due to amounts not being materially different than actual results.

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

On August 1, 2006 the Company acquired the gas discharge tube (GDT) assets of SRC Devices, Inc. ("SRC"), for \$6.0 million in cash, subject to post-closing purchase price adjustments. The Company acquired \$0.3 million of inventory, \$0.9 million of fixed assets and a \$4.8 million customer list. The customer list was reported in the Americas segment with a useful life of ten years. The fair values are estimates and subject to revision as the Company completes its fair value analysis. Pro forma financial information is not presented due to amounts not being materially different than actual results. The Company plans to move production of the GDT product line from the SRC manufacturing facility in Mexico to its existing operation in Suzhou, China.

### 8. RESTRUCTURING CHARGES

During the first quarter of 2006, the Company recorded a \$2.1 million charge related to the downsizing of the European segment's Heinrich operations. These charges are primarily for redundancy costs to be paid through 2007. Manufacturing related charges of \$0.9 million are recorded as part of cost of sales and non-manufacturing related charges of \$1.2 million are recorded as part of selling, general and administrative expenses. Employees affected by this downsizing include technical, production, administrative and support employees. In the second quarter of 2006, additional expense was recognized primarily as part of selling, general and administrative expenses. In the third quarter of 2006, additional expense was recognized as \$1.3 million as part of cost of sales and \$1.0 million as part of selling, general and administrative expenses. A summary of activity of this liability is as follows:

#### Heinrich restructuring (in thousands)

Balance, December 31, 2005	\$ --
Additions	2,080
	-----
Balance, April 1, 2006	2,080
Additions	518
Payments	(693)
	-----
Balance, July 1, 2006	1,905
Additions	2,397
Payments	--
	-----
Balance, September 30, 2006	\$4,302
	=====

During 2005, the Company announced a downsizing of its European segment's Ireland operation and outsourcing of more of its varistor manufacturing to lower cost Asian subcontractors. A liability of \$4.9 million was recorded as part of cost of sales related to redundancy costs for the manufacturing operation associated with this downsizing. This restructuring impacts approximately 35 associates in various production and support related roles. In the second quarter of 2006, an additional \$17.1 million, consisting of \$20.0 million of accrued severance less a government rebate of \$2.9 million recorded as a current asset, was recorded as part of cost of sales related to the closure of the entire facility. This portion of the restructuring impacts approximately 131 employees. Restructuring charges are based upon each associate's current salary and length of service with the Company. A summary of activity of this liability is as follows:

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

Ireland restructuring (in thousands)

Balance, October 1, 2005	\$ 4,900
Payments	(897)
	-----
Balance, December 31, 2005	4,003
Payments	(858)
	-----
Balance, April 1, 2006	3,145
Additions	20,019
Payments	(1,609)
	-----
Balance, July 1, 2006	21,555
Additions	204
Payments	(52)
	-----
Balance, September 30, 2006	\$21,707
	=====

9

9. DISCONTINUED OPERATIONS

In February 2006, the Company sold the EFEN product line that consists of production and sales facilities in Uebigau and Eltville, Germany and Kaposvar, Hungary. The Company obtained EFEN as part of its acquisition of Heinrich in May 2004. Results of operations for EFEN have been reclassified and presented as discontinued operations for 2006 and 2005.

EFEN's operating results are summarized as follows (in thousands):

	For the Three Months Ended		For the Nine Months Ended	
	Sept 30, 2006	Oct 1, 2005	Sept 30, 2006	Oct 1, 2005
	-----	-----	-----	-----
Net sales	\$--	\$8,784	\$3,789	\$24,890
Income before taxes	--	827	773	1,324
Income taxes	--	177	324	578
	---	-----	-----	-----
Net income (loss)	\$--	\$ 650	\$ 449*	\$ 746
	===	=====	=====	=====

\* Additionally, for the nine months ended September 30, 2006, other Heinrich companies incurred a gain of \$139 related to discontinuing the EFEN operation.

The EFEN product line was sold for Euro 9.5 million (approximately \$11.6 million). In connection with the sale, a pretax loss of approximately \$0.0 million, resulting in an after tax gain of \$0.1 million after recognizing a tax benefit on the sale of \$0.1 million.

10. PENSIONS

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

The components of net periodic benefit cost for the three and nine months ended September 30, 2006, compared with the three and nine months ended October 1, 2005, were (in thousands):

	Three Months Ended		Nine Months Ended		Three Months Ended		Nine
	U.S. Pension Benefits				Foreign Plans		
	2006	2005	2006	2005	2006	2005	2005
Service cost	\$ 798	\$ 815	\$ 2,394	\$ 2,445	\$ 361	\$ 303	\$ 1,0
Interest cost	950	916	2,850	2,748	495	493	1,4
Expected return on plan assets	(1,037)	(932)	(3,110)	(2,796)	(496)	(420)	(1,4
Amortization of prior service cost	2	3	7	9	(3)	(3)	
Amortization of transition asset	--	--	--	--	(27)	(28)	(
Amortization of net loss	14	102	43	306	74	43	2
Total cost of the plan	727	904	2,184	2,712	404	388	1,2
Expected plan participants' contribution	--	--	--	--	(89)	(98)	(2
Net periodic benefit cost	\$ 727	\$ 904	\$ 2,184	\$ 2,712	\$ 315	\$ 290	\$ 9

The expected rate of return on pension assets is 8.50% and 8.50% in 2006 and 2005, respectively.

11. COMPREHENSIVE INCOME

Total comprehensive income for the three months ended September 30, 2006, and October 1, 2005, was approximately \$10.9 million and \$9.8 million, respectively, and for the nine months ended September 30, 2006, and October 1, 2005, was approximately \$25.0 million and \$13.8 million, respectively. The adjustment for comprehensive income consists of deferred gains and losses from foreign currency translation adjustments and losses on available-for-sale securities for the three and nine months ended September 30, 2006 and deferred gains and losses from foreign currency translation adjustments and qualified cash flow hedges and unrealized gains and losses on available-for-sale securities for the three and nine months ended October 1, 2005. Foreign currency translation adjustment accounts for \$6.5 million and \$1.0 million of the difference between other comprehensive income and net income for the nine months ended September 30, 2006 and October 1, 2005, respectively.

12. INCOME TAXES

Income taxes for the three and nine months ended September 30, 2006 was \$2.6 million and \$5.2 million, respectively. Income taxes for the three months ended September 30, 2006 includes a \$1.2 million favorable tax reserve adjustment. Income taxes for the nine months ended September 30, 2006 includes a \$1.2

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

million favorable tax reserve adjustment, a \$2.8 million benefit related to the recognition of certain previous years net operating losses from the Teccor acquisition partially offset by \$0.9 million of charges.

### 13. STOCK-BASED COMPENSATION

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 123(R), "Share-Based Payment" ("SFAS 123(R)"). SFAS 123(R) requires public companies to recognize compensation expense for the cost of awards of equity compensation using a fair value method. The Company adopted SFAS 123(R) on January 1, 2006 (i.e., the first quarter of 2006) using the modified prospective method. The Company recognized the compensation cost of all share-based awards as an expense on a straight-line basis over the vesting period of the award. Under SFAS 123(R), benefits of tax deductions in excess of recognized compensation expense are now reported as a financing cash flow, rather than an operating cash flow as prescribed under the prior accounting rules. Prior to October 1, 2005, the Company applied Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") to account for its stock-based compensation plans. Under APB 25, no compensation expense was recognized for non-qualified stock option awards as long as the exercise price of the awards on the date of grant was equal to the current market price of the Company's stock. However, the Company did recognize compensation expense in connection with the issuance of restricted stock. The adoption of SFAS 123(R) primarily resulted in compensation expense being recorded for stock options.

The following table shows total stock-based compensation expense included in the Condensed Consolidated Statements of Income:

(in thousands, except per share amounts)

	Three months ended	Nine months ended
	----- Sept 30, 2006 -----	----- Sept 30, 2006 -----
Pre-tax stock-based compensation	\$1,199	\$ 3,903
Income tax	(456)	(1,483)
	-----	-----
Stock-based compensation expense, net	\$ 743	\$ 2,420
Basic earnings per share impact	\$ 0.03	\$ 0.11
Diluted earnings per share impact	\$ 0.03	\$ 0.11

Results for fiscal 2005 have not been restated to reflect the adoption of SFAS 123(R). The following table discloses the Company's pro forma net income and diluted net income per share for the three and nine months ended October 1, 2005, had the fair value recognition method under SFAS 123 been used for the Company's stock option grants. The table also discloses the weighted average assumptions used in estimating the fair value using the Black-Scholes option pricing model.

(in thousands, except per share amounts)

	Three months ended	Nine months ended
	-----	-----

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

	October 1, 2005 -----	October 1, 2005 -----
Net income as reported	\$3,771	\$12,467
Stock option compensation expense under fair value method, net of tax	(720)	(2,191)
	-----	-----

11

Pro forma net income	\$3,051	\$10,276
Basic net income per share		
As reported	\$ 0.17	\$ 0.56
Pro forma	\$ 0.14	\$ 0.46
Diluted net income per share		
As reported	\$ 0.17	\$ 0.56
Pro forma	\$ 0.13	\$ 0.45
Assumptions:		
Expected dividend yield	0%	0%
Expected stock price volatility	38.6%	38.6%
Risk-free interest rate	4.66%	4.66%
Expected life of option (years)	7	7

During the nine-month period ended September 30, 2006, options on 373,750 shares with a strike price equal to the market price on the date of the grant were awarded to employees and directors. These options expire seven years after the grant date, and vest ratably over four and five years for employees and directors, respectively. The Company used the Black-Scholes option valuation model to determine the fair value of awards granted during the nine-month period ended September 30, 2006. The weighted average fair value of and related assumptions for options granted were as follows:

	Three months ended ----- Sept 30, 2006 -----	Nine months ended ----- Sept 30, 2006 -----
Weighted average fair value of options granted at fair value of underlying stock	\$13.75	\$13.91
Assumptions:		
Expected dividend yield	0%	0%
Expected stock price volatility	39.0%	39.0%
Risk-free interest rate	4.82%	4.82%
Expected life of option (years)	4.8	4.8

Forfeitures are estimated at a rate that would yield 10% over the life of the awards.

The Company has stock option plans authorizing the granting of both incentive and nonqualified options and other stock rights of common stock to employees and directors. The stock options issued prior to 2002 vest over a five-year period and are exercisable over a 10-year period commencing from the date of vesting.



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

The Company changed its policy in 2002 whereby the stock options vest over a five-year period and are exercisable over a 10-year period commencing from the date of the grant. This change was not made to stock options already granted. The Company also has a performance share agreement in which a target amount of performance share awards are granted based on the Company attaining certain financial performance goals relating to return on net tangible assets and earnings before interest, taxes, depreciation and amortization. These shares vest over a three-year period commencing from the date of issuance. A reconciliation of outstanding stock options and performance shares for the period ending September 30, 2006, are shown below:

### RECONCILIATION OF STOCK OPTIONS OUTSTANDING

	Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (\$ Thousands)
	-----	-----	-----	-----
Outstanding December 31, 2005	1,820,010	\$27.82	7.7	4,470
Granted	373,750	34.07	--	--
Forfeited	(25,703)	30.43	--	--
Exercised	(166,577)	22.00	--	1,827
Outstanding September 30, 2006	2,001,480	29.43	6.9	11,877
Exercisable September 30, 2006	1,000,780	27.46	6.2	7,891

12

### RECONCILIATION OF PERFORMANCE SHARES OUTSTANDING

	Stock Price	Performance Shares	Weighted Average Grant- Date Fair Value	Projected Performance Share Award Ratio	Agg In (\$ T
	-----	-----	-----	-----	-----
Outstanding December 31, 2005	\$27.25	45,500	\$27.95	42.2%	
Granted	--	26,000	34.33	100%	
Forfeited	--	--	--	--	
Vested	--	--	--	--	
Outstanding September 30, 2006	34.70	71,500	30.27	63.2%	

At September 30, 2006, the unrecognized compensation cost for options and performance shares was \$14.4 million before tax, and will be recognized over a weighted average period of 3.3 years.

#### 14. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 ("FIN48"), Accounting for Uncertainty in Income Taxes, which is an interpretation of SFAS No. 109, Accounting for Income Taxes. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the

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

financial statements. FIN 48 provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We will implement this interpretation in the fiscal year starting January 1, 2007. We cannot reasonably estimate the impact of this interpretation at this time.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132. SFAS 158 will require recognizing in the condensed consolidated balance sheets the overfunded and underfunded status of defined benefit postretirement plans. The overfunded or underfunded status is defined as the difference between the fair value of plan assets and the benefit obligation. SFAS 158 also requires the recognition the actuarial gains and losses and the prior service costs and credits that arise during the period as a component of other comprehensive income. We are required to adopt the statement for our fiscal year ended December 30, 2006. We are currently evaluating the effect that this Statement will have on our consolidated financial statements.

13

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

Net Sales by Geography and Market\*  
(in millions)

	THIRD QUARTER			YEAR-TO-DATE		
	2006	2005	% CHANGE	2006	2005	% CHANGE
GEOGRAPHY						
AMERICAS	\$ 55.4	\$ 51.3	8%	\$167.9	\$150.9	11%
EUROPE	27.9	23.6	18%	84.7	75.0	13%
ASIA-PACIFIC	60.1	47.4	27%	154.4	125.8	23%
TOTAL	\$143.4	\$122.3	17%	\$407.0	\$351.7	16%

	THIRD QUARTER			YEAR-TO-DATE		
	2006	2005	% CHANGE	2006	2005	% CHANGE
MARKET						
ELECTRONICS	\$101.1	\$ 80.8	25%	\$279.9	\$228.6	22%
AUTOMOTIVE	30.2	30.1	0%	92.8	90.8	2%
ELECTRICAL	12.1	11.4	6%	34.3	32.3	6%
TOTAL	\$143.4	\$122.3	17%	\$407.0	\$351.7	16%

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

\* Certain prior year amounts have been reclassified to conform to the current year presentation. Sales by geography represent sales to customer or distributor locations.

### Results of Operations

#### Third Quarter, 2006

Sales increased \$21.1 million or 17% to \$143.4 million in the third quarter of 2006, compared to \$122.3 million in the third quarter of 2005 due to improved sales across all geographic segments. The Concord Semiconductor acquisition added \$4.0 million of sales to the Asia-Pacific segment for the third quarter of 2006.

On a geographic basis, sales in the Americas increased \$4.1 million or 8% in the third quarter of 2006, compared to the third quarter of last year. The electronics business was the largest contributor to the sales increase reflecting strong demand from North American distributors driven by improvement in the markets for telecommunications and consumer electronics. The electrical business also contributed to growth in the Americas due to continued improvement in industrial manufacturing and realization of price increases. Automotive sales in the Americas declined primarily due to a weaker domestic automotive market and continued price erosion. Europe sales increased \$4.3 million or 18% in the third quarter of 2006 compared to the third quarter of 2005. The increase in European sales was primarily due to increased sales to electronics distributors and to a lesser extent improvement in automotive sales. Asia-Pacific sales increased \$12.7 million or 27% compared to the prior year third quarter. The increase in Asia-Pacific sales was mainly due to strong demand for digital consumer and telecommunications products throughout the region. Increases in automotive sales also contributed to the Asia-Pacific growth reflecting share gain in the growing Asian markets outside of Japan. Exchange rates had a favorable \$1.4 million effect on sales in the third quarter of 2006 compared to the prior year quarter primarily due to changes in the Euro.

Gross profit was \$47.1 million or 32.8% of sales for the third quarter of 2006, compared to \$34.3 million or 28.1% of sales in the same quarter last year. The third quarter 2006 gross margin increased compared to the prior year quarter due to higher sales across all geographies and the related favorable operating leverage, partially offset by higher commodity prices for zinc and copper. The third quarter of 2006 also includes \$2.1 million of charges

14

related to asset write-downs and employee-related cost pursuant to contract obligations while the third quarter of 2005 includes \$4.8 million for Ireland severance.

Total operating expense was \$34.7 million or 24.2% of sales for the third quarter of 2006 compared to \$30.2 million or 24.7% of sales for the same quarter in the prior year. The increase in operating expense reflects additional research and development spending to support the Company's solution selling strategy, stock-based compensation expense of \$1.2 million, higher bonus expense, \$0.8 million for asset write-downs and \$1.0 million of employee-related cost pursuant to contract obligations.

Operating income was \$12.4 million or 8.6% of sales for the third quarter of 2006 compared to \$4.1 million or 3.4% of sales for the same quarter of last year. The increase in operating income compared to the prior year was due to

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

higher sales and operating leverage and lower severance related expenses partially offset higher commodity prices for zinc and copper.

Interest expense was \$0.5 million in the third quarter of 2006 compared to \$0.6 million in the third quarter of the prior year reflecting a lower average debt balance in 2006 compared to the prior year quarter. Other income was \$0.1 million for the third quarter of 2006 compared to other income of \$3.0 million in the third quarter of last year. Other income in 2005 includes favorable changes in exchange rates and a gain of \$1.4 million related to the sale of a 40% interest in a wafer fabrication facility in Swindon, England.

Earnings from continuing operations before minority interest and income taxes was \$12.0 million for the third quarter 2006 compared to \$6.5 million for the third quarter of 2005. Income taxes were \$2.6 million or a 22% effective rate, for the third quarter of 2006 compared to \$3.4 million, in the third quarter of last year. Income taxes in the current year quarter include a \$1.2 million benefit related to a favorable tax reserve adjustment.

Net income for the third quarter of 2006 was \$9.4 million or \$0.42 per diluted share compared to \$3.8 million or \$0.17 per diluted share for the same quarter of last year due to the factors discussed above.

### Nine Months, 2006

Sales for the first nine months of 2006 increased 16% to \$407.0 million from \$351.7 million for the first nine months of last year. On a geographic basis, sales in the Americas increased \$17.0 million or 11% in the first nine months of 2006 compared to the prior year due primarily to increased North American electronics distributor sales partially offset by lower automotive sales. Europe sales increased \$9.7 million or 13% in the first nine months of 2006 compared to the prior year largely due to increased electronics demand and to a lesser extent increased automotive sales. Asia-Pacific sales increased \$28.6 million or 23% for the first nine months of 2006 compared to the same period in the prior year primarily due to increased electronics sales throughout the region driven largely by improvements in the markets for digital consumer and telecommunications products. Automotive sales also increased over the prior year quarter reflecting share gain in the growing Asian markets outside of Japan. Changes in exchange rates had the effect of decreasing sales by \$1.6 million for the first nine months of 2006 compared to the prior year.

Gross profit was \$123.2 million or 30.3% of sales for the first nine months of 2006 compared to \$106.6 million or 30.3% of sales for the first nine months of last year. The 2006 gross margin percentage was flat compared to the prior year as higher sales volume and related operating leverage was offset by Ireland severance charges of \$17.1 million, higher zinc and copper commodity prices, \$2.2 million of employee-related cost pursuant to contract obligations, and \$0.8 million of charges related to asset write-downs, while 2005 includes \$7.5 million for Ireland severance.

Total operating expense was \$99.7 million or 24.5% of sales for the first nine months of 2006 compared to \$88.8 million or 25.2% of sales last year. The increase in operating expense reflects additional research and development spending of \$1.3 million to support the Company's solution selling strategy, stock-based compensation expense of \$3.9 million, higher bonus expense, \$3.5 million related to asset write-downs and \$1.0 million of accrued employee related costs pursuant to contract obligations.

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

Operating income for the first nine months of 2006 was \$23.5 million or 5.8% of sales compared to \$17.9 million or 5.1% of sales for the prior year. The improvement in operating income compared to the prior year was due to higher sales and improved operating leverage partially offset by Ireland restructuring charges, asset write-downs, accrued employee related costs pursuant to contract obligations, higher commodity prices and the inclusion of stock-based compensation expense in 2006

Interest expense was \$1.3 million for the first nine months of 2006 compared to \$1.6 million last year due to lower average debt levels. Other income was \$1.6 million for the first nine months of 2006 compared to \$3.2 million for the same period last year with the decrease due to a 2005 gain of \$1.4 million related to the sale of a 40% interest in a wafer fabrication facility in Swindon, England.

Earnings from continuing operations before minority interest and income taxes was \$23.8 million for the first nine months of 2006 compared to \$19.4 million the first nine months of last year. Income taxes were \$5.2 million for the first nine months of 2006 compared to \$7.8 million for the first nine months of last year. Income taxes for the first nine months of 2006 include a \$2.8 million benefit related to the recognition of certain previous years net operating losses from the Teccor acquisition and a \$1.2 million favorable tax reserve adjustment partially offset by \$0.9 million of charges.

Net income for the first nine months of 2006 was \$19.2 million compared to \$12.5 million for the same period last year. Earnings per share for the first nine months of 2006 was \$0.85 per diluted share compared to \$0.55 per diluted share last year.

### Liquidity and Capital Resources

Assuming no material adverse changes in market conditions or interest rates, management expects that the Company will have sufficient cash from operations to support both its operations and its current debt obligations for the foreseeable future.

The EFEN business, which is presented as a discontinued operation, did not contribute significantly to cash from operations for the first, second and third quarters of 2006 or 2005.

Littelfuse started the 2006 year with \$21.9 million of cash and cash equivalents. Net cash provided by operations was \$54.4 million for the first nine months. Net cash provided by operations includes net income of \$19.2 million, stock based compensation of \$3.9 million, depreciation of \$23.2 million and amortization of \$2.0 million in addition to various working capital and other items. Accounts receivable increased \$13.9 million due primarily to the increase in sales during the current year. Inventory, excluding inventory increases as a result of 2006 acquisitions, decreased \$0.4 million. Accounts payable, accrued expenses, prepaid expenses and other items contributed \$19.6 million to cash flow, primarily due to the recognition of restructuring liabilities, partially offset by the payment of management bonuses and restructuring charges that were previously accrued. Net cash used in investing activities included \$14.1 million in net purchases of property, plant and equipment, \$24.0 million for the purchase of Concord, \$4.5 million for the purchase of Catalina, \$6.0 million for the purchase of SRC and \$3.2 million of other acquisition activity primarily for the purchase of SurgX, partially offset by \$11.6 million received from the sale of EFEN. In addition, net cash provided by financing activities included stock option exercises of \$6.0 million and excess tax benefits on shared-based compensation of \$0.4 million partially offset by net payments of debt of \$0.7 million and the purchase of \$0.6 million of treasury stock. The effects of exchange rate changes increased cash by \$1.7 million. The net cash provided by operations and financing activities less investing activities plus the effects of exchange rate changes resulted in a

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

\$20.9 million net increase in cash. This left the Company with a cash balance of \$42.9 million at September 30, 2006.

The ratio of current assets to current liabilities was 1.7 to 1 at the end of the third quarter of 2006 compared to 1.9 to 1 at the end of the third quarter of 2005. The days sales in receivables was approximately 63 days at the end of the third quarter of 2006, compared to 63 days at the end of fiscal 2005 and 60 days at the end of the third quarter of 2005. The increase in days sales in receivables from the third quarter of the prior year was due primarily to a higher percentage of Asian sales, which typically have longer payment cycles. The days inventory outstanding was approximately 63 days at the end of the third quarter of 2006 compared to 75 days at the end of

16

2005 and 73 days at end of the third quarter of 2005. The improvement in days inventory outstanding was due to lean manufacturing and logistics initiatives and improved production planning.

The Company's capital expenditures, net of cash from asset sales, were \$4.7 million for the third quarter of 2006 compared to \$5.0 million for the third quarter of 2005. Most of the spending in 2006 relates to manufacturing process improvements, new product introductions and capacity expansion.

Total debt at the end of the third quarter 2006 totaled \$27.8 million and consisted of the following: (1) credit revolver borrowings totaling \$21.5 million, (2) foreign revolver borrowings totaling \$6.3 million.

The Company has an unsecured domestic financing arrangement consisting of a credit agreement with banks that provides a \$75.0 million revolving credit facility that expires on July 21, 2011. The revolving credit facility is subject to a maximum indebtedness calculation and other financial covenants. At September 30, 2006, the Company had available \$53.5 million of borrowing capability under the revolving credit facility at an interest rate of LIBOR plus 0.50% (6.01% as of September 30, 2006). The Company also had \$6.0 million in letters of credit outstanding at September 30, 2006.

The Company also has an unsecured bank line of credit that provides a Yen 0.9 billion (equivalent to \$7.6 million) revolving credit facility at an interest rate of TIBOR plus 0.875% (1.24% as of September 30, 2006). The revolving line of credit becomes due on July 21, 2011. At September 30, 2006, the Company had an equivalent \$3.8 million outstanding on the Yen facility. The Company intends to renew this line of credit upon maturity.

The Company also has an unsecured bank line of credit that provides a Taiwanese Dollar 35.0 million (equivalent to \$1.1 million) revolving credit facility at an interest rate of two-years Time Deposit plus 0.145% (2.3% as of September 30, 2006). The revolving line of credit becomes due on August 18, 2009. At September 30, 2006, the Company had an equivalent \$1.0 million outstanding on the Taiwanese Dollar facility. The Company intends to renew this line of credit upon maturity.

The Company also has various other foreign fixed rate loans totaling \$1.5 million with maturity dates through August 2013.

### Outlook

Fourth quarter sales are forecasted to be down at least 10% sequentially, and maybe as much as 15%, reflecting an electronics inventory correction on top of the normal fourth quarter seasonal decline. At these sales levels, earnings per

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

share would be expected to be in the \$0.18 to \$0.25 range, reflecting negative operating leverage, continued costs related to acquisition integrations and manufacturing transitions and a temporary increase in the tax rate to 36-38%. Price increases have been implemented that will partially offset the higher commodity prices, but because of existing contracts, some of the largest increases will not take effect until early next year.

"Safe Harbor" Statement Under the Private Securities Litigation Reform Act of 1995

The statements in this section and in the other sections of this report which are not historical facts contained in this report are intended to be forward-looking statements that involve risks and uncertainties, including, but not limited to, product demand and market acceptance risks, the effect of economic conditions, the impact of competitive products and pricing, the integration of acquisitions, product development and patent protection, commercialization and technological difficulties, capacity and supply constraints or difficulties, the impact of changes in commodity prices, exchange rate fluctuations, actual purchases under agreements, the effect of the Company's accounting policies, labor disputes, restructuring costs in excess of expectations, costs related to former coal mining activities, pension plan asset returns less than expected, and other risks which may be detailed in the Company's Securities and Exchange Commission filings. Should one or more of these risks or uncertainties materialize or should the underlying assumptions prove incorrect, actual results and outcomes may differ materially from those indicated or implied in the forward-looking statements. This report should be read in conjunction with information provided in

17

the financial statements appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

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

The Company is exposed to market risk from changes in foreign exchange rates, commodities and, to a lesser extent, interest rates. Management believes that the Company's exposure to foreign exchange rates and interest rates is immaterial and not significant enough to warrant disclosure of quantitative information regarding market risk.

The Company had \$27.8 million of debt outstanding at September 30, 2006 in the form of lines of credit with variable rates of interest. Approximately \$1.5 million of the Company's debt is at fixed rates.

A portion of the Company's operations consists of manufacturing and sales activities in foreign countries. The Company has foreign manufacturing facilities in Mexico, England, Ireland, China, Germany and the Philippines. Substantially all sales in Europe are denominated in Euro, U.S. Dollar and British Pound Sterling, and substantially all sales in the Asia-Pacific region are denominated in U.S. Dollar, Japanese Yen and South Korean Won.

The Company's identifiable foreign exchange exposures result from the purchase and sale of products from affiliates, repayment of intercompany trade and loan amounts and translation of local currency amounts in consolidation of financial results. Changes in foreign currency exchange rates or weak economic conditions in the foreign countries in which it manufactures and distributes products could affect the Company's sales, accounts receivable values and financial results. The Company uses netting and offsetting intercompany account management

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

techniques to reduce known foreign currency exposures deemed to be material.

A risk management policy has been implemented by the Company that establishes the procedures and controls over derivative financial instruments. Under the policy, the Company does not use derivative financial instruments for trading purposes and the use of such instruments is subject to the approval of senior officers. Typically, the use of such derivative instruments is limited to hedging activities related to specific foreign currency cash flows. The Company's exposure related to such transactions is, in the aggregate, not material to the Company's financial position, results of operations and cash flows.

The Company uses various metals in the production of its products, including zinc, copper and silver. The Company's earnings are exposed to fluctuations in the prices of these commodities. The Company does not currently use derivative financial instruments to mitigate this commodity price risk. A 10% increase in the price of zinc and copper would reduce pre-tax profit by approximately \$1.0 million and \$1.1 million, respectively.

### Item 4. Controls and Procedures

As of September 30, 2006, the Chief Executive Officer and Chief Financial Officer of the Company evaluated the effectiveness of the disclosure controls and procedures of the Company and concluded that these disclosure controls and procedures are effective to ensure that material information relating to the Company and its consolidated subsidiaries has been made known to them by the employees of the Company and its consolidated subsidiaries during the period preceding the filing of this Report. There were no significant changes in the Company's internal controls during the period covered by this Report that could materially affect these controls or could reasonably be expected to materially affect the Company's internal control reporting, disclosures and procedures subsequent to the last day they were evaluated by the Company's Chief Executive Officer and Chief Financial Officer.

18

## PART II - OTHER INFORMATION

### Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

- (c) The table below provides information with respect to purchases by the Company of shares of its common stock during each fiscal month of the third quarter of fiscal 2006:

#### ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of that May Yet Be Pu Under the Plans or
-----	-----	-----	-----	-----
July 2006	--	--	--	1
August 2006	25,000	--	--	
September 2006	--	--	--	
Total	--	--	--	



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

The Company's Board of Directors authorized the repurchase of up to 1,000,000 shares under a program for the period May 1, 2006 to April 30, 2007.

19

Item 6: Exhibits

Exhibit	Description
10.1	Littelfuse Credit Agreement dated July 21, 2006
31.1	Certification of Gordon Hunter, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Philip G. Franklin, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, to be signed on its behalf by the undersigned thereunto duly authorized.

LITTELFUSE, INC.

Date: November 9, 2006

By /s/ Philip G. Franklin

-----  
Philip G. Franklin  
Vice President, Operations Support and  
Chief Financial Officer  
(As duly authorized officer and as  
the principal financial and accounting  
officer)

20