

LITTELFUSE INC /DE  
Form 10-Q  
November 03, 2008

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**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 27, 2008**  
**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**

**36-3795742**

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

**800 East Northwest Highway  
Des Plaines, Illinois**

**60016**

(Address of principal executive offices)

(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, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

Littelfuse, Inc. had 21,712,017 shares of common stock, \$.01 par value, outstanding as of September 27, 2008.

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## PART I FINANCIAL INFORMATION

**Item 1. Financial Statements**

**LITTELFUSE, INC.**  
**Condensed Consolidated Balance Sheets**  
(in thousands, unaudited)

|   | <b>September 27,<br/>2008</b> | December 29,<br>2007 |
|---|-------------------------------|----------------------|
| Assets                                    |                               |                      |
| Current assets:                           |                               |                      |
| Cash and cash equivalents                 | \$ 67,364                     | \$ 64,943            |
| Accounts receivable                       | 90,373                        | 85,607               |
| Inventories                               | 64,598                        | 58,845               |
| Deferred income taxes                     | 10,607                        | 10,986               |
| Prepaid expenses and other current assets | 11,936                        | 14,789               |
| Total current assets                      | 244,878                       | 235,170              |
| Property, plant and equipment:            |                               |                      |
| Land                                      | 11,067                        | 12,573               |
| Buildings                                 | 57,744                        | 49,321               |
| Equipment                                 | 294,284                       | 282,416              |
|   | 363,095                       | 344,310              |
| Accumulated depreciation                  | (207,468)                     | (199,748)            |
| Net property, plant and equipment         | 155,627                       | 144,562              |
| Intangible assets, net of amortization:   |                               |                      |
| Patents, licenses and software            | 8,435                         | 9,231                |
| Distribution network                      | 12,395                        | 13,823               |
| Customer lists, trademarks and tradenames | 3,141                         | 1,192                |
| Goodwill                                  | 80,673                        | 73,462               |
|   | 104,644                       | 97,708               |
| Investments                               | 4,733                         | 6,544                |
| Deferred income taxes                     | 7,387                         | 6,141                |
| Other assets                              | 1,153                         | 1,240                |
| Total Assets                              | \$ 518,422                    | \$ 491,365           |
| Liabilities and Shareholders' Equity      |                               |                      |
| Current liabilities:                      |                               |                      |
| Accounts payable                          | \$ 25,427                     | \$ 27,889            |
| Accrued payroll                           | 17,814                        | 19,441               |
| Accrued expenses                          | 14,184                        | 11,595               |
| Accrued severance                         | 12,440                        | 21,092               |

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|   |                   |                   |
|---|-------------------|-------------------|
| Accrued income taxes                              | <b>1,701</b>      | 4,484             |
| Current portion of long-term debt                 | <b>37,517</b>     | 12,086            |
| <b>Total current liabilities</b>                  | <b>109,083</b>    | 96,587            |
| Long-term debt, less current portion              |                   | 1,223             |
| Accrued severance                                 | <b>7,641</b>      | 8,912             |
| Accrued post-retirement benefits                  | <b>19,480</b>     | 18,371            |
| Other long-term liabilities                       | <b>11,473</b>     | 12,715            |
| Minority interest                                 | <b>143</b>        | 143               |
| <b>Total shareholders' equity</b>                 | <b>370,602</b>    | 353,414           |
| <b>Total Liabilities and Shareholders' Equity</b> | <b>\$ 518,422</b> | <b>\$ 491,365</b> |

Common shares issued and outstanding of 21,712,017 and 21,869,824, at September 27, 2008 and December 29, 2007, respectively

See accompanying notes.

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**LITTELFUSE, INC.**  
**Consolidated Statements of Income**  
(in thousands, except per share data, unaudited)

|  | For the Three Months Ended |            | For the Nine Months Ended |            |
|--|----------------------------|------------|---------------------------|------------|
|  | <b>September</b>           | September  | <b>September</b>          | September  |
|  | <b>27,</b>                 | 29,        | <b>27,</b>                | 29,        |
|  | <b>2008</b>                | 2007       | <b>2008</b>               | 2007       |
| Net sales  | <b>\$ 141,448</b>          | \$ 140,215 | <b>\$ 424,982</b>         | \$ 401,178 |
| Cost of sales  | <b>105,548</b>             | 93,926     | <b>303,139</b>            | 272,297    |
| Gross profit   | <b>35,900</b>              | 46,289     | <b>121,843</b>            | 128,881    |
| Selling, general and administrative expenses               | <b>26,594</b>              | 27,578     | <b>79,216</b>             | 76,938     |
| Research and development expenses                          | <b>6,265</b>               | 5,644      | <b>18,101</b>             | 16,237     |
| Gain on sale of Ireland property                           |                            | (8,037)    |                           | (8,037)    |
| Amortization of intangibles                                | <b>1,030</b>               | 877        | <b>2,923</b>              | 2,413      |
| Operating income   | <b>2,011</b>               | 20,227     | <b>21,603</b>             | 41,330     |
| Interest expense   | <b>346</b>                 | 207        | <b>1,048</b>              | 1,037      |
| Other expense (income), net                                | <b>(3,246)</b>             | 195        | <b>(2,890)</b>            | (690)      |
| Income before income taxes                                 | <b>4,911</b>               | 19,825     | <b>23,445</b>             | 40,983     |
| Income taxes   | <b>923</b>                 | 5,531      | <b>6,204</b>              | 12,086     |
| Net income   | <b>\$ 3,988</b>            | \$ 14,294  | <b>\$ 17,241</b>          | \$ 28,897  |
| Net income per share:                                      |                            |            |                           |            |
| Basic  | <b>\$ 0.18</b>             | \$ 0.64    | <b>\$ 0.79</b>            | \$ 1.30    |
| Diluted  | <b>\$ 0.18</b>             | \$ 0.64    | <b>\$ 0.79</b>            | \$ 1.29    |
| Weighted average shares and equivalent shares outstanding: |                            |            |                           |            |
| Basic  | <b>21,703</b>              | 22,359     | <b>21,724</b>             | 22,272     |
| Diluted  | <b>21,855</b>              | 22,499     | <b>21,871</b>             | 22,445     |

See accompanying  
notes.

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**LITTELFUSE, INC.**  
**Consolidated Statements of Cash Flows**  
(in thousands, unaudited)

|   | For the Nine Months Ended |           |
|---|---------------------------|-----------|
|   | <b>September</b>          | September |
|   | <b>27,</b>                | 29,       |
|   | <b>2008</b>               | 2007      |
| Operating activities:   |                           |           |
| Net income  | \$ 17,241                 | \$ 28,897 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                           |           |
| Depreciation  | 20,843                    | 18,503    |
| Amortization of intangibles   | 2,923                     | 2,413     |
| Stock-based compensation  | 3,770                     | 3,795     |
| Gain on sale of property, plant and equipment                                     | (305)                     | (8,037)   |
| Pension settlement expense  | 5,725                     | 1,847     |
| Changes in operating assets and liabilities:                                      |                           |           |
| Accounts receivable   | (5,669)                   | (5,356)   |
| Inventories   | (6,190)                   | 7,182     |
| Accounts payable and accrued expenses   | (223)                     | (6,615)   |
| Accrued payroll and severance   | (11,552)                  | (2,582)   |
| Accrued taxes   | (5,932)                   | (4,373)   |
| Prepaid expenses and other  | 7,082                     | (4,400)   |
| Net cash provided by operating activities   | 27,713                    | 31,274    |
| Investing activities:   |                           |           |
| Purchases of property, plant, and equipment                                       | (36,956)                  | (26,215)  |
| Purchases of businesses, net of cash acquired                                     | (9,280)                   | (4,507)   |
| Sale of property, plant and equipment   | 3,384                     | 8,593     |
| Net cash used in investing activities   | (42,852)                  | (22,129)  |
| Financing activities:   |                           |           |
| Proceeds from debt  | 75,500                    | 41,700    |
| Payments of debt  | (51,412)                  | (59,866)  |
| Notes receivable, common stock  | 5                         |           |
| Purchases of common stock   | (6,623)                   |           |
| Proceeds from exercise of stock options   | 1,687                     | 6,205     |
| Excess tax benefit on share-based compensation                                    | 136                       | 1,005     |
| Net cash provided by (used in) financing activities                               | 19,293                    | (10,956)  |
| Effect of exchange rate changes on cash   | (1,733)                   | 2,823     |
| Increase in cash and cash equivalents   | 2,421                     | 1,012     |
| Cash and cash equivalents at beginning of period                                  | 64,943                    | 56,704    |



|  |           |           |
|--|-----------|-----------|
| Cash and cash equivalents at end of period | \$ 67,364 | \$ 57,716 |
|--|-----------|-----------|

See accompanying  
notes.

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**Notes to Condensed Consolidated Financial Statements  
(Unaudited)  
September 27, 2008**

**1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of Littelfuse, Inc. and its subsidiaries (the Company ) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, severance, pension settlement and accrued employee-related costs pursuant to contractual obligations, considered necessary for a fair presentation have been included. Certain items in the 2007 financial statements have been reclassified to conform to the 2008 presentation. Operating results for the three and nine months ended September 27, 2008 are not necessarily indicative of the results that may be expected for the year ending December 27, 2008. For further information, refer to the Company s consolidated financial statements and the notes thereto incorporated by reference in the Company s Annual Report on Form 10-K for the year ended December 29, 2007.

**2. Business Segment Information**

Statement of Financial Accounting Standards ( SFAS ) No. 131, Disclosures about Segments of an Enterprise and Related Information ( SFAS 131 ), establishes annual and interim reporting standards for an enterprise s operating segments and related disclosures about its products, services, geographic areas and major customers. An operating segment is defined as a component of an enterprise that engages in business activities from which it may earn revenues and incur expenses, and about which separate financial information is regularly evaluated by the Chief Operating Decision Maker ( CODM ) in deciding how to allocate resources. The CODM, as defined by SFAS 131, is the Company s President and Chief Executive Officer ( CEO ).

Littelfuse, Inc. and its subsidiaries design, manufacture, and sell circuit protection devices throughout the world. The Company reports its operations by the following business unit segments: electronics, automotive, and electrical. Each operating segment is directly responsible for sales, marketing and research and development. Manufacturing, purchasing, logistics, customer service, finance, information technology and human resources are shared functions that are allocated back to the three operating segments. The CEO allocates resources to and assesses the performance of each operating segment using information about its revenue and operating income (loss) before interest and taxes, but does not evaluate the operating segments using discrete asset information.

Sales, marketing and research and development expenses are charged directly into each operating segment. All other functions are shared by the operating segments and expenses for these shared functions are allocated to the operating segments and included in the operating results reported below. The Company does not report inter-segment revenue because the operating segments do not record it. The Company does not allocate interest and other income, interest expense, or taxes to operating segments. Although the CEO uses operating income to evaluate the segments, operating costs included in one segment may benefit other segments. Except as discussed above, the accounting policies for segment reporting are the same as for the Company as a whole.

**Table of Contents****2. Business Segment Information, continued**

Business unit segment information for the three and nine months ended September 27, 2008 and September 29, 2007 is summarized as follows (in thousands):

|                                | For the Three Months Ended |                       | For the Nine Months Ended |                       |
|--------------------------------|----------------------------|-----------------------|---------------------------|-----------------------|
|                                | September<br>27, 2008      | September 29,<br>2007 | September<br>27, 2008     | September 29,<br>2007 |
| <b>Net sales</b>               |                            |                       |                           |                       |
| Electronics                    | \$ 95,788                  | \$ 92,439             | \$ 276,147                | \$ 260,744            |
| Automotive                     | 28,878                     | 33,882                | 104,109                   | 101,418               |
| Electrical                     | 16,782                     | 13,894                | 44,726                    | 39,016                |
| Total net sales                | \$ 141,448                 | \$ 140,215            | \$ 424,982                | \$ 401,178            |
| <b>Operating income (loss)</b> |                            |                       |                           |                       |
| Electronics                    | \$ 4,825                   | \$ 6,209              | \$ 11,955                 | \$ 17,224             |
| Automotive                     | (1,399)                    | 5,168                 | 8,994                     | 14,561                |
| Electrical                     | 5,130                      | 3,294                 | 11,589                    | 8,938                 |
| Other*                         | (6,545)                    | 5,556                 | (10,935)                  | 607                   |
| Total operating income         | 2,011                      | 20,227                | 21,603                    | 41,330                |
| Interest expense               | 346                        | 207                   | 1,048                     | 1,037                 |
| Other expense (income), net    | (3,246)                    | 195                   | (2,890)                   | (690)                 |
| Income before income taxes     | \$ 4,911                   | \$ 19,825             | \$ 23,445                 | \$ 40,983             |

\* Included in Other Operating income (loss) for the three months ended September 27, 2008 are the Ireland pension settlement charge (\$5.7 million) and the Swindon severance charge (\$0.8 million), compared to the gain on sale of property in Ireland included

in other operating income for the three months ended September 29, 2007. Included in the total for the nine months ended September 27, 2008 are restructuring charges related to the closure of the Company's Matamoros, Mexico facility.

Export sales to Hong Kong were 22% and 20% of consolidated net sales for the three and nine months ended September 27, 2008, respectively, compared to 20% and 18% in the comparable prior year periods. No other foreign country sales exceeded 10% of consolidated net sales for the three and nine months ended September 27, 2008 or September 29, 2007. Sales to no single customer amounted to 10% or more of the Company's net sales for the three months ended September 27, 2008. Sales to Arrow Pemco Group were 10% of net sales for the nine months ended September 27, 2008. Sales to no single customer amounted to 10% or more of the Company's net sales in the comparable prior year periods.

The Company's net sales and identifiable assets (total assets less intangible assets and investments) by geographical area for the periods ended September 27, 2008 and September 29, 2007 are summarized as follows (in thousands):

|                            | For the Three Months Ended |                    | For the Nine Months Ended |                    |
|----------------------------|----------------------------|--------------------|---------------------------|--------------------|
|                            | September 27, 2008         | September 29, 2007 | September 27, 2008        | September 29, 2007 |
| <b>Net sales</b>           |                            |                    |                           |                    |
| Americas                   | \$ 51,967                  | \$ 52,851          | \$ 156,749                | \$ 155,408         |
| Europe                     | 28,926                     | 28,220             | 98,079                    | 88,834             |
| Asia-Pacific               | 60,555                     | 59,144             | 170,154                   | 156,936            |
| Total net sales            | \$ 141,448                 | \$ 140,215         | \$ 424,982                | \$ 401,178         |
| <b>Identifiable assets</b> |                            |                    |                           |                    |
| Americas                   | \$ 170,622                 | \$ 206,308         |                           |                    |
| Europe                     | 85,441                     | 134,126            |                           |                    |
| Asia-Pacific               | 187,412                    | 165,081            |                           |                    |
| Combined total             | 443,475                    | 505,515            |                           |                    |
| Eliminations               | (34,430)                   | (122,085)          |                           |                    |
| Consolidated total         | \$ 409,045                 | \$ 383,430         |                           |                    |

### 3. Inventories

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

|                   | <b>September 27,<br/>2008</b> | December 29,<br>2007 |
|-------------------|-------------------------------|----------------------|
| Raw material      | \$ 21,680                     | \$ 19,758            |
| Work in process   | 14,489                        | 11,292               |
| Finished goods    | 28,429                        | 27,795               |
| Total inventories | \$ 64,598                     | \$ 58,845            |

**Table of Contents****4. Debt**

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, which expires on July 21, 2011. At September 27, 2008, the Company had \$37.5 million outstanding and \$37.5 million of available borrowing capability under the revolving credit facility at an interest rate of LIBOR plus 0.50% (3.39% as of September 27, 2008). The Company also had \$2.8 million available in letters of credit at September 27, 2008. No amounts were outstanding under these letters of credit at September 27, 2008.

The domestic bank credit agreement contains covenants that, among other matters, impose limitations on the incurrence of additional indebtedness, future mergers, sales of assets, payment of dividends, and changes in control, as defined in the agreement. In addition, the Company is required to satisfy certain financial covenants and tests relating to, among other matters, interest coverage, working capital, leverage and net worth. At September 27, 2008, the Company was in compliance with all covenants in this domestic bank credit agreement.

The Company has an unsecured bank line of credit in Japan that provides a 700 million yen (an equivalent of \$6.6 million) revolving credit facility at an interest rate of TIBOR plus 0.625% (1.57% as of September 27, 2008). The revolving line of credit becomes due on July 21, 2011. The Company had no outstanding borrowings on the yen facility at September 27, 2008.

The Company had an unsecured bank line of credit in Taiwan that provided a 35.0 million Taiwanese dollar revolving credit facility at an interest rate of two-years time deposit plus 0.145%. The revolving line of credit was due on August 18, 2009. The Company also had a foreign fixed rate mortgage loan outstanding totaling approximately 32.0 million Taiwanese dollar with maturity dates through August 2013. The Company chose to repay the outstanding balances on both debt instruments in June 2008 resulting in uses of cash totaling the equivalent of \$1.7 million. As a result, the line of credit was closed on June 28, 2008.

**5. Per Share Data**

Net income per share amounts for the three and nine months ended September 27, 2008, and September 29, 2007, 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):

|  | For the Three Months Ended<br><b>September</b><br>27,<br>2008 |                          | For the Nine Months Ended<br><b>September</b><br>27,<br>2008 |                          |
|--|---|--------------------------|--|--------------------------|
|  | September<br>29,<br>2007                                      | September<br>29,<br>2007 | September<br>29,<br>2007                                     | September<br>29,<br>2007 |
| Net income   | \$ 3,988  | \$ 14,294                | \$ 17,241  | \$ 28,897                |
| Average shares outstanding Basic                           | 21,703  | 22,359                   | 21,724   | 22,272                   |
| Net effect of dilutive stock options and restricted shares | 152   | 140                      | 147  | 173                      |
| Average shares outstanding Diluted                         | 21,855  | 22,499                   | 21,871   | 22,445                   |
| Net income per share                                       |   |                          |  |                          |
| Basic  | \$ 0.18   | \$ 0.64                  | \$ 0.79  | \$ 1.30                  |
| Diluted  | \$ 0.18   | \$ 0.64                  | \$ 0.79  | \$ 1.29                  |

Potential shares of common stock relating to stock options excluded from the earnings per share calculation because their effect would be anti-dilutive were 1,282,868 and 1,185,317 for the three and nine months ended September 27,

2008, respectively, and 1,200,127 and 840,917 for the three and nine months ended September 29, 2007, respectively. The Company started the 2008 year with 21,869,824 common shares outstanding. During the nine months ended September 27, 2008, the Company repurchased 218,000 shares, 53,161 stock options were exercised and 7,032 shares of common stock were granted, which left the Company with 21,712,017 common shares outstanding at September 27, 2008.

**Table of Contents****6. Acquisitions**

In June 2006, the Company announced that it had signed a definitive agreement to acquire the assets of Song Long Electronics Co., Ltd. ( Song Long ). On July 31, 2007, the Company acquired the assets of Song Long for approximately \$5.5 million and acquisition costs of approximately \$0.5 million, of which approximately \$0.8 million was paid in 2006. The Company funded the acquisition with cash and has continued to operate Song Long's electronics business subsequent to the acquisition. The Song Long acquisition strengthens the Company's position in the circuit protection industry, moving operations closer to customers in the Asia-Pacific region while lowering production costs. The acquisition was accounted for using the purchase method of accounting and the operations of Song Long are included in the Company's consolidated results from the date of the acquisition. At the acquisition date, the purchase price allocations were based on preliminary estimates. These estimates were subject to revision after the Company completed final negotiation of working capital adjustments to the purchase price and fair value analysis. During the fourth quarter of 2007, the Company completed the final negotiation, which resulted in an addition to the purchase price of approximately \$0.3 million of acquisition costs, the assumption of \$1.5 million of accounts payable and the holdback of \$1.0 million subject to the fulfillment of certain contractual obligations by the seller. These obligations were fulfilled and payments totaling \$1.0 million were made during the first quarter of 2008.

At June 28, 2008, the Company completed its final purchase price allocations and determined that no material value was obtained from other identifiable intangible assets. All Song Long goodwill and assets are recorded in the electronics business unit segment and reflected in the Asia-Pacific geographical area. Pro forma financial information is not presented due to amounts not being materially different than actual results. Goodwill for the acquisition is expected to be deductible for tax purposes. The following table sets forth the purchase price allocation for the acquisition of Song Long in accordance with the purchase method of accounting with adjustments to record the acquired assets and liabilities of Song Long at their estimated fair market or net realizable values.

|  |          |
|--|----------|
| Purchase price allocation (in thousands) |          |
| Inventory                                | \$ 1,186 |
| Property, plant and equipment            | 1,290    |
| Goodwill                                 | 5,311    |
| Current liabilities                      | (1,500)  |
|  | \$ 6,287 |

On February 29, 2008, the Company acquired Shock Block Corporation ( Shock Block ), a leading manufacturer in ground fault technology located in Dallas, Texas, for \$9.2 million less a holdback of \$0.9 million subject to the fulfillment of certain contractual obligations by the seller. The Company primarily acquired certain intellectual property rights including customer lists, trademarks and tradenames. The Company funded the acquisition with cash and has continued to operate Shock Block's electrical business subsequent to the acquisition. The Shock Block acquisition expands the Company's portfolio of protection products for commercial and industrial applications 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 Shock Block were included in the Company's consolidated results from the date of the acquisition. The following table sets forth the preliminary purchase price allocations for Shock Block's assets in accordance with the purchase method of accounting with adjustments to record the acquired assets at their estimated fair market or net realizable values.

|  |          |
|--|----------|
| Purchase price allocation (in thousands) |          |
| Goodwill                                 | \$ 7,595 |
| Customer lists                           | 2,442    |
| Other assets, net                        | 91       |
| Deferred tax liability                   | (928)    |



All Shock Block goodwill and other assets are recorded in the electrical business unit segment and reflected in the Americas geographical area based on preliminary estimates of fair values during the first quarter of 2008. These estimates are subject to revision after the Company completes final negotiation of working capital adjustments to the purchase price and preliminary fair value analysis, which may result in an allocation to identifiable intangible assets. Pro forma financial information is not presented due to amounts not being materially different than actual results. Goodwill for the above acquisition is not expected to be deductible for tax purposes.

**Table of Contents****7. Financial Instruments, Derivatives and Fair Value Measures**

In September 2006, the Financial Accounting Standards Board ( FASB ) released SFAS No. 157, Fair Value Measurements ( SFAS 157 ), which provides a standard definition of fair value as it applies to assets and liabilities, establishes a framework for measuring fair value and expands disclosures about fair value measurements, but it does not require any new fair value measurements. SFAS 157 clarifies the application of other accounting pronouncements that require or permit fair value measurements and sets out a fair value hierarchy that distinguishes between assumptions based on market data obtained from independent sources (observable inputs) and those based on an entity's own assumptions (unobservable inputs).

Under SFAS 157, fair value measurements are disclosed by level within that hierarchy, with the highest priority assigned to quoted prices in active markets for identical assets or liabilities (Level 1), the next priority using observable prices that are based on inputs not quoted on active markets, but corroborated by market data (Level 2) and the lowest priority assigned to unobservable inputs (Level 3). SFAS 157 must be applied prospectively beginning January 1, 2008.

**Securities Available for Sale**

Included in the Company's investments are shares of Polytronics Technology Corporation Ltd. ( Polytronics ), a Taiwanese company whose shares are traded on the Taiwan Stock Exchange, and which is designated as a Level 1 financial instrument under SFAS 157. The investment in Polytronics was acquired as part of the Heinrich Industrie AG acquisition ( Heinrich ). The Company's shares held represent approximately 8.2% of total Polytronics shares outstanding at September 27, 2008 and December 29, 2007.

The fair value of this investment was \$4.7 million at September 27, 2008 and \$6.5 million at December 29, 2007, based on the quoted market price at the close of business corresponding to each date. Unrealized gains (losses), net of taxes related to this investment are included in other comprehensive income. The remaining movement in the fair value of this investment is due to the impact of changes in exchange rates, which is included as a component of the currency translation adjustments in other comprehensive income. At September 27, 2008, the Company's investment in Polytronics had a fair value below its historical cost. However, at September 27, 2008, management did not believe the decline in market value incurred during the third quarter of 2008 to be other than temporary. Management will closely monitor the fair value of the investment during the fourth quarter of 2008 and should the fair value not exceed historical cost at the end of the fiscal year 2008, management will reconsider whether such decline in market value is other than temporary at that time.

**Commodity Risk Management**

In June 2008, the Company entered into an immaterial swap agreement to manage its exposure to fluctuations in the cost of a raw material that is used extensively in the manufacturing process of certain products. The swap agreement is recognized in the consolidated balance sheet at fair value and is designated as a Level 2 financial instrument under SFAS 157. Furthermore, the swap agreement is designated as a cash flow hedge in accordance with SFAS No. 133,

Accounting for Derivative Instruments and Hedging Activities ( SFAS 133 ), with changes in fair value included in other comprehensive income to the extent the hedge is effective. The Company does not hold derivative instruments for trading or speculative purposes. As of September 27, 2008, the fair value of the swap agreement was immaterial. In March 2008, FASB released SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities ( SFAS 161 ). The new standard requires enhanced disclosure about a company's derivatives and hedging to help investors understand their impact on a company's financial position, financial performance and cash flows. SFAS 161 is effective for periods beginning after November 15, 2008, with early application encouraged. The Company is evaluating the impact of adopting SFAS 161 on its Consolidated Financial Statements.

**Table of Contents****8. Restructuring**

During 2006, the Company announced the closure of its Ireland facility, resulting in restructuring charges of \$17.1 million, consisting of \$20.0 million of accrued severance less a statutory rebate of \$2.9 million recorded as a current asset, that were recorded as part of cost of sales. This restructuring, which impacts approximately 131 associates, is part of the Company's strategy to expand operations in the Asia-Pacific region in order to be closer to current and potential customers and take advantage of lower manufacturing costs. Restructuring charges are based upon each associate's current salary and length of service with the Company. The additions (reductions) in 2008 and 2007 primarily relate to retention costs that will be incurred over the remaining transition period. These costs will be paid through 2009. All charges related to the closure of the Ireland facility are recorded in Other Operating Income (Loss) for business unit segment reporting purposes. A summary of activity of this liability is as follows:

|                                      |           |
|--------------------------------------|-----------|
| Ireland restructuring (in thousands) |           |
| Balance at December 30, 2006         | \$ 22,608 |
| Additions                            | 977       |
| Payments                             | (3,801)   |
| Exchange rate impact                 | 1,977     |
| Balance at December 29, 2007         | 21,761    |
| Additions                            | 217       |
| Payments                             | (2,189)   |
| Exchange rate impact                 | 1,537     |
| Balance at March 29, 2008            | 21,326    |
| Reductions                           | (18)      |
| Payments                             | (5,378)   |
| Exchange rate impact                 | 386       |
| Balance at June 28, 2008             | 16,316    |
| Additions                            | 12        |
| Payments                             | (9,686)   |
| Exchange rate impact                 | (1,038)   |
| Balance at September 27, 2008        | \$ 5,604  |

During 2006, the Company recorded a \$5.0 million charge related to the downsizing of the Heinrich operations. Manufacturing related charges of \$2.3 million were recorded as part of cost of sales and non-manufacturing related charges of \$2.7 million were recorded as part of selling, general and administrative expenses. These charges were primarily for redundancy costs and will be paid through 2008. The additions in 2008 and 2007 primarily relate to retention costs that will be incurred over the remaining transition period. All charges related to this downsizing are recorded in Other Operating Income (Loss) for business unit segment reporting purposes. This restructuring impacts approximately 52 associates in various technical, production, administrative and support roles. A summary of activity of this liability is as follows:

|                                       |          |
|---------------------------------------|----------|
| Heinrich restructuring (in thousands) |          |
| Balance at December 30, 2006          | \$ 4,363 |
| Additions                             | 850      |
| Payments                              | (4,733)  |
| Balance at December 29, 2007          | 480      |

|                               |       |
|-------------------------------|-------|
| Additions                     | 54    |
| Payments                      | (110) |
| Balance at March 29, 2008     | 424   |
| Additions                     |       |
| Payments                      | (101) |
| Balance at June 28, 2008      | 323   |
| Additions                     |       |
| Payments                      | (278) |
| Balance at September 27, 2008 | \$ 45 |

**Table of Contents****8. Restructuring, continued**

During 2006, the Company announced the closure of its Irving, Texas facility and the transfer of its semiconductor wafer manufacturing from Irving, Texas to Wuxi, China in a phased transition from 2007 to 2010. A liability of \$1.9 million was recorded related to redundancy costs for the manufacturing operation associated with this downsizing. This charge was recorded as part of cost of sales and is included in Other Operating Income (Loss) for business unit segment reporting purposes. The total cost expected to be incurred through 2010 is \$6.5 million. The additions in 2008 and 2007, as well as the amounts not yet recognized, primarily relate to retention costs that will be incurred over the remaining transition period. This restructuring impacts approximately 180 associates in various production and support related roles and will be paid through 2010. A summary of activity of this liability is as follows:

|  |          |
|--|----------|
| Irving, Texas restructuring (in thousands) |          |
| Balance at December 30, 2006               | \$ 1,890 |
| Additions                                  | 1,446    |
| Payments                                   | (362)    |
| Balance at December 29, 2007               | 2,974    |
| Additions                                  | 686      |
| Payments                                   | (145)    |
| Balance at March 29, 2008                  | 3,515    |
| Additions                                  | 457      |
| Payments                                   | (83)     |
| Balance at June 28, 2008                   | 3,889    |
| Additions                                  | 319      |
| Payments                                   |          |
| Balance at September 27, 2008              | \$ 4,208 |

During March 2007, the Company announced the closure of its Des Plaines and Elk Grove, Illinois facilities and the transfer of its manufacturing from Des Plaines, Illinois to the Philippines and Mexico in a phased transition from 2007 to 2009. A liability of \$3.5 million was recorded related to redundancy costs for the manufacturing and distribution operations associated with this downsizing. Manufacturing related charges of \$3.0 million were recorded as part of cost of sales and non-manufacturing related charges of \$0.5 million were recorded as part of selling, general and administrative expenses. All charges related to this downsizing are recorded in Other Operating Income (Loss) for business unit segment reporting purposes. The total cost expected to be incurred through 2009 is \$7.1 million. The additions in 2008 and 2007, as well as the amounts not yet recognized, primarily relate to retention costs that will be incurred over the remaining transition period. This restructuring impacts approximately 307 associates in various production and support related roles and will be paid through 2009. A summary of activity of this liability is as follows:

|  |        |
|--|--------|
| Des Plaines and Elk Grove, Illinois restructuring (in thousands) |        |
| Balance at December 30, 2006                                     | \$ 102 |
| Additions  | 4,963  |
| Payments   | (355)  |
| Balance at December 29, 2007                                     | 4,710  |
| Additions  | 374    |

|                               |          |
|-------------------------------|----------|
| Payments                      | (12)     |
| Balance at March 29, 2008     | 5,072    |
| Additions                     | 503      |
| Payments                      | (423)    |
| Balance at June 28, 2008      | 5,152    |
| Additions                     | 999      |
| Payments                      | (1,079)  |
| Balance at September 27, 2008 | \$ 5,072 |

**Table of Contents****8. Restructuring, continued**

In March 2008, the Company announced the closure of its Matamoros, Mexico facility and the transfer of its semiconductor assembly and test operation from Matamoros, Mexico to its Wuxi, China facility and various subcontractors in the Asia-Pacific region in a phased transition over two years. A total liability of \$4.4 million was recorded related to redundancy costs for the manufacturing operations associated with this downsizing, of which \$0.4 million related to associates located at the Company's Irving, Texas facility and which are reflected in corresponding restructuring liability above. This charge was recorded as part of cost of sales and is included in Other Operating Income (Loss) for business unit segment reporting purposes. The total cost expected to be incurred through 2009 is \$6.3 million. The additions in 2008, as well as the amounts not yet recognized, primarily relate to retention costs that will be incurred over the remaining transition period. This restructuring impacts approximately 950 associates in various production and support related roles and will be paid through 2009. A summary of activity of this liability is as follows:

|  |          |
|--|----------|
| Matamoros, Mexico restructuring (in thousands) |          |
| Balance at March 29, 2008                      | \$ 4,041 |
| Additions                                      | 288      |
| Payments                                       |          |
| Balance at June 28, 2008                       | 4,329    |
| Additions                                      | 91       |
| Payments                                       | (367)    |
| Balance at September 27, 2008                  | \$ 4,053 |

In September 2008, the Company announced the closure of its Swindon, England facility, resulting in restructuring charges of \$0.8 million, consisting of \$0.3 million that was recorded as part of cost of sales and \$0.5 million that was recorded as part of research and development expenses. These charges, which impact 10 associates, were primarily for redundancy costs and will be paid through 2009. Restructuring charges are based upon each associate's current salary and length of service with the Company. All charges related to the closure of the Swindon facility are recorded in Other Operating Income (Loss) for business unit segment reporting purposes. The total cost expected to be incurred through 2009 is \$1.1 million. Amounts not yet recognized primarily relate to retention costs that will be incurred over the remaining transition period. A summary of activity of this liability is as follows:

|   |        |
|---|--------|
| Swindon, England restructuring (in thousands) |        |
| Balance at December 29, 2007                  | \$ 79  |
| Additions                                     | 820    |
| Payments                                      | (58)   |
| Balance at September 27, 2008                 | \$ 841 |

**Table of Contents****9. Pensions**

The components of net periodic benefit cost for the three and nine months ended September 27, 2008, compared with the three and nine months ended September 29, 2007, were (in thousands):

|   | U.S. Pension Benefits |                |                   |                | Foreign Plans      |                |                   |                |
|---|-----------------------|----------------|-------------------|----------------|--------------------|----------------|-------------------|----------------|
|   | Three Months Ended    |                | Nine Months Ended |                | Three Months Ended |                | Nine Months Ended |                |
|   | Sept. 27, 2008        | Sept. 29, 2007 | Sept. 27, 2008    | Sept. 29, 2007 | Sept. 27, 2008     | Sept. 29, 2007 | Sept. 27, 2008    | Sept. 29, 2007 |
| Service cost                            | \$ 832                | \$ 798         | \$ 2,496          | \$ 2,394       | \$ 284             | \$ 281         | \$ 870            | \$ 843         |
| Interest cost                           | 1,017                 | 950            | 3,051             | 2,850          | 562                | 511            | 1,748             | 1,533          |
| Expected return on plan assets          | (1,174)               | (1,057)        | (3,522)           | (3,171)        | (350)              | (529)          | (1,106)           | (1,587)        |
| Amortization of prior service cost      | 2                     | 3              | 6                 | 9              | (4)                | (3)            | (12)              | (9)            |
| Amortization of transition asset        |                       |                |                   |                | (22)               | (28)           | (68)              | (84)           |
| Amortization of net (gain) loss         | 4                     | 14             | 12                | 42             | 129                | 77             | 389               | 231            |
| Settlement cost*                        |                       |                |                   |                | 5,725              | 1,847          | 5,725             | 1,847          |
| Total cost of the plan                  | 681                   | 708            | 2,043             | 2,124          | 6,324              | 2,156          | 7,546             | 2,774          |
| Expected plan participants contribution |                       |                |                   |                | 377                | (81)           | 1,131             | (243)          |
| Net periodic benefit cost               | \$ 681                | \$ 708         | \$ 2,043          | \$ 2,124       | \$ 6,701           | \$ 2,075       | \$ 8,677          | \$ 2,531       |

\* Included in Settlement cost for the three and nine months ended September 27, 2008 is the non-cash charge associated with the Ireland pension plan recorded in accordance with SFAS No. 88, Employer's Accounting for Settlements and



Curtailments of Defined Benefit Pension Plans for Termination Benefits. A comparable charge was recorded for the three and nine months ended September 29, 2007 associated with the wind down of the U.K. pension plan.

The expected rate of return on U.S. pension assets is 8.5% in each of 2008 and 2007. The expected rate of return on foreign pension assets is 4.0% and 6.7% in 2008 and 2007, respectively.

#### 10. Income Taxes

The effective tax rate for the third quarter of 2008 was 18.8% compared to an effective tax rate of 27.9% in the third quarter of 2007. The current quarter effective tax rate was favorably impacted by the mix of income earned in lower tax jurisdictions.

#### 11. Comprehensive Income

The following table sets forth the computation of comprehensive income (loss) for the three and nine months ended September 27, 2008 and September 29, 2007, respectively (in thousands):

|  | For the Three Months Ended |           | For the Nine Months Ended |           |
|--|----------------------------|-----------|---------------------------|-----------|
|  | September                  | September | September                 | September |
|  | 27,                        | 29,       | 27,                       | 29,       |
|  | 2008                       | 2007      | 2008                      | 2007      |
| Net income   | \$ 3,988                   | \$ 14,294 | \$ 17,241                 | \$ 28,897 |
| Other comprehensive income (loss):   |                            |           |                           |           |
| Currency translation adjustments   | (9,403)                    | 5,483     | (853)                     | 8,832     |
| Minimum pension liability adjustment, net of income taxes                    | 3,517                      |           | 3,700                     |           |
| Net gain on derivatives, net of income taxes                                 | 432                        |           | 354                       |           |
| Unrealized gain (loss) on available-for-sale securities, net of income taxes | (755)                      | 24        | (1,897)                   | 666       |
| Comprehensive income (loss)  | \$ (2,221)                 | \$ 19,801 | \$ 18,545                 | \$ 38,395 |

**Table of Contents****12. Subsequent Events***Loan Agreement*

On September 29, 2008, the Company entered into a Loan Agreement with various lenders that provides the Company with a five-year term loan facility of up to \$80.0 million for the purposes of (i) refinancing certain existing indebtedness; (ii) funding working capital needs; and (iii) funding capital expenditures and other lawful corporate purposes, including permitted acquisitions. The Loan Agreement also contains an expansion feature, pursuant to which the Company may from time to time request incremental loans in an aggregate principal amount not to exceed \$40.0 million.

At the Company's option, any loan under the Loan Agreement bears interest at a rate equal to the applicable rate, as determined in accordance with the pricing grid set forth in the Loan Agreement, plus one of the following indexes: (i) LIBOR or (ii) the Base Rate (defined as the higher of (a) the prime rate publicly announced from time to time by the Agent under the Loan Agreement and (b) the federal funds rate plus 0.50%). Overdue amounts bear a fee of 2.0% per annum above the applicable rate. The Loan Agreement requires the Company to meet certain financial tests, including a consolidated leverage ratio and a consolidated interest coverage ratio. The Loan Agreement also contains additional affirmative and negative covenants which, among other things, impose certain limitations on the Company's ability to merge with other companies, create liens on its property, incur additional indebtedness, enter into transactions with affiliates except on an arm's length basis, dispose of property, or issue dividends or make distributions. The new Loan Agreement does not impact the existing debt covenants defined in the domestic bank credit agreement described in Footnote 4.

*Acquisition*

On September 17, 2008, the Company announced that it had signed a definitive agreement to acquire the stock of Startco Engineering Ltd. ( Startco ), a leading manufacturer in ground-fault protection products and custom-power distribution centers located in Saskatchewan, Canada. On September 30, 2008, the Company completed the purchase of Startco for approximately \$39.0 million. The Company funded the acquisition with proceeds from the Loan Agreement referenced above.

The Startco acquisition strengthens the Company's position in the industrial ground-fault protection business and provides industrial power distribution design and manufacturing capabilities that strengthen the Company's position within the growing mining industry. The acquisition will be accounted for using the purchase method of accounting and the operations of Startco will be included in the Company's consolidated results from the date of the acquisition, reported in the electrical business unit for segment reporting purposes.

*Interest Rate Swap Transaction*

On October 29, 2008, the Company entered into a one-year interest rate swap transaction with JPMorgan Chase Bank, N.A. to manage its exposure to fluctuations in the adjustable interest rate of the Loan Agreement. The interest rate swap is for a notional amount of \$65.0 million and requires the Company to pay a fixed annual rate of 2.85% and JPMorgan to pay a floating rate tied to the one-month U.S. dollar LIBOR.

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

Littelfuse, Inc. and its subsidiaries (the Company) design, manufacture, and sell circuit protection devices for use in the electronics, automotive and electrical markets throughout the world. The following table is a summary of the Company's net sales by business unit and geography:

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

|                      | Third Quarter   |                 |             | Year-to-Date    |                 |             |
|----------------------|-----------------|-----------------|-------------|-----------------|-----------------|-------------|
|                      | 2008            | 2007            | %<br>Change | 2008            | 2007            | %<br>Change |
| <b>Business Unit</b> |                 |                 |             |                 |                 |             |
| Electronics          | \$ 95.8         | \$ 92.4         | 4%          | \$ 276.2        | \$ 260.7        | 6%          |
| Automotive           | 28.9            | 33.9            | (15%)       | 104.1           | 101.5           | 3%          |
| Electrical           | 16.8            | 13.9            | 21%         | 44.7            | 39.0            | 15%         |
| <b>Total</b>         | <b>\$ 141.5</b> | <b>\$ 140.2</b> | <b>1%</b>   | <b>\$ 425.0</b> | <b>\$ 401.2</b> | <b>6%</b>   |

|                   | Third Quarter   |                 |             | Year-to-Date    |                 |             |
|-------------------|-----------------|-----------------|-------------|-----------------|-----------------|-------------|
|                   | 2008            | 2007            | %<br>Change | 2008            | 2007            | %<br>Change |
| <b>Geography*</b> |                 |                 |             |                 |                 |             |
| Americas          | \$ 51.9         | \$ 52.9         | (2%)        | \$ 156.7        | \$ 155.5        | 1%          |
| Europe            | 29.0            | 28.2            | 3%          | 98.1            | 88.8            | 10%         |
| Asia-Pacific      | 60.6            | 59.1            | 3%          | 170.2           | 156.9           | 8%          |
| <b>Total</b>      | <b>\$ 141.5</b> | <b>\$ 140.2</b> | <b>1%</b>   | <b>\$ 425.0</b> | <b>\$ 401.2</b> | <b>6%</b>   |

\* Sales by geography represent sales to customer or distributor locations.

**Results of Operations – Third Quarter, 2008**

Net sales increased \$1.3 million or 1% to \$141.5 million in the third quarter of 2008 compared to \$140.2 million in the third quarter of 2007, reflecting strong sales in the electrical business unit and modest growth in the electronics business unit offset by weakness in the automotive business unit.

Sales in the electronics business unit increased \$3.4 million or 4% to \$95.8 million in the third quarter of 2008 compared to \$92.4 million in the third quarter of 2007, reflecting stronger demand in the Europe region and to a lesser extent in Asia-Pacific. Automotive sales decreased \$5.0 million or 15% to \$28.9 million in the third quarter of 2008 compared to \$33.9 million in the third quarter of 2007, primarily due to the weakened passenger car market across all geographies resulting in sharp declines in global car production. Electrical sales increased \$2.9 million or 21% to \$16.8 million in the third quarter of 2008 compared to \$13.9 million in the third quarter of 2007 primarily due to new OEM business and price increases.

On a geographic basis, sales in the Americas decreased \$1.0 million or 2% to \$51.9 million in the third quarter of 2008 compared to \$52.9 million in the third quarter of 2007, primarily due to lower automotive sales partially offset

by higher sales of electrical products. Europe sales increased \$0.8 million or 3% to \$29.0 million in the third quarter of 2008 compared to \$28.2 million in the third quarter of 2007 mainly due to the foreign currency translation effects of the euro (\$2.5 million) offset by lower automotive sales. Asia-Pacific sales increased \$1.5 million or 3% to \$60.6 million in the third quarter of 2008 compared to \$59.1 million in the third quarter on 2007, primarily due to growth in the electronics market.

Gross profit was \$35.9 million or 25% of net sales for the third quarter of 2008, compared to \$46.3 million or 33% of net sales in the same quarter last year. The decrease in gross profit in the third quarter of 2008 reflects the \$5.7 million non-cash charge related to settlement of the Ireland pension plan, recorded in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 88, Employer s Accounting for Settlements and Curtailments of Defined Benefit Pension Plans for Termination Benefits. The decrease also reflects higher costs for transportation, materials and utilities driven primarily by the increase in the price of oil.

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Total operating expense was \$33.9 million or 24% of net sales for the third quarter of 2008 compared to \$26.1 million or 19% of net sales for the same quarter in 2007. The 2007 period includes an \$8.0 million gain on the sale of property in Ireland.

Operating income was \$2.0 million or 1% of net sales for the third quarter of 2008 compared to \$20.2 million or 14% of net sales for the same quarter in 2007. The decrease in operating income in the current year quarter reflects the decline in automotive sales and special charges related to the Ireland pension settlement previously mentioned along with the one-time gain on the sale of property in Ireland included in the prior year quarter.

Interest expense was \$0.3 million in the third quarter of 2008 compared to \$0.2 million for the same quarter in 2007.

Other expense (income), net, consisting of interest income, royalties, non-operating income and foreign currency items, was (\$3.2) million for the third quarter of 2008 compared to \$0.2 million in the third quarter of 2007. The results for the 2008 quarter were due primarily to the impact from foreign exchange gains and revaluations driven by improvement in the relative value of the U.S. dollar.

Income before income taxes was \$4.9 million for the third quarter of 2008 compared to \$19.8 million for the third quarter of 2007. Income tax expense was \$0.9 million with an effective tax rate of 18.8% for the third quarter of 2008 compared to \$5.5 million with an effective tax rate of 27.9% in the third quarter of 2007. The current quarter effective tax rate was favorably impacted by the mix of income earned in lower tax jurisdictions.

Net income for the third quarter of 2008 was \$4.0 million or \$0.18 per diluted share compared to \$14.3 million or \$0.64 per diluted share for the same quarter of 2007.

*Results of Operations Nine Months, 2008*

Net sales increased \$23.8 million or 6% to \$425.0 million in the first nine months of 2008 compared to \$401.2 million in the first nine months of 2007, reflecting higher sales in all three business units and favorable currency effects.

Sales in the electronics business unit increased \$15.5 million or 6% to \$276.2 million in the first nine months of 2008 compared to \$260.7 million in the first nine months of 2007, reflecting strong demand in the Asia-Pacific region.

Automotive sales increased \$2.6 million or 3% to \$104.1 million in the first nine months of 2008 compared to \$101.5 million in the first nine months of 2007, primarily due to the continued strength of the euro, offset by declining sales primarily in the Americas. Electrical sales increased \$5.7 million or 15% to \$44.7 million in the first nine months of 2008 compared to \$39.0 million in the first nine months of 2007 primarily due to new OEM business and price increases.

On a geographic basis, sales in the Americas increased \$1.2 million or 1% to \$156.7 million in the first nine months of 2008 compared to \$155.5 million in the first nine months of 2007, primarily due to strong sales of electrical products offset by weaker sales of automotive products. Europe sales increased \$9.3 million or 10% to \$98.1 million in the first nine months of 2008 compared to \$88.8 million in the first nine months of 2007 mainly due to the effects of a strong euro, partially offset by lower sales of electronics products. Asia-Pacific sales increased \$13.3 million or 8% to \$170.2 million in the first nine months of 2008 compared to \$156.9 million in the first nine months on 2007, primarily due to growth in the electronics market.

Gross profit was \$121.8 million or 29% of net sales for the first nine months of 2008, compared to \$128.9 million or 32% of net sales in the same period last year. The decrease in gross margin was mainly attributable to the \$5.7 million charge related to the Ireland pension settlement recorded in the current year combined with higher costs for transportation, materials and utilities driven primarily by increases in the prices of oil and commodity metals. Higher costs related to plant transfer activities also contributed to the margin decline.

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The Company recorded approximately \$5.2 million of restructuring charges in cost of sales in the current year, primarily due to the closure of the Matamoros, Mexico manufacturing facility, along with severance and retention expense at the Irving, Texas, Des Plaines, Illinois and Swindon, England facilities, compared to \$4.3 million of restructuring charges in the prior year primarily related to the closure of the Des Plaines, Illinois manufacturing facility, along with severance and retention expense in Ireland and Germany.

Total operating expense was \$100.2 million or 24% of net sales for the first nine months of 2008 compared to \$87.6 million or 22% of net sales for the same period in 2007. The 2007 period includes an \$8.0 million gain on the sale of property in Ireland. The increase in operating expense primarily reflects the unfavorable effects of foreign currency denominated costs (primarily the euro, Chinese yuan, Korean won, Philippine peso and Mexican peso) and increased selling and distribution expenses to support the higher sales levels in 2008, as well as increased research and development spending on new products.

Operating income was \$21.6 million or 5% of net sales for the first nine months of 2008 compared to \$41.3 million or 10% of net sales for the same period in 2007. The decrease in operating income in the current year reflects the special charges related to the Ireland pension settlement previously mentioned along with the one-time gain on the sale of property in Ireland included in the prior year period.

Interest expense was \$1.0 million for both the first nine months of 2008 and 2007. Other expense (income), net, consisting of interest income, royalties, non-operating income and foreign currency items, was (\$2.9) million for the first nine months of 2008 compared to (\$0.7) million in the first nine months of 2007. The results for the 2008 period were primarily due to the impact from foreign exchange gains and revaluations driven by improvement in the relative value of the U.S. dollar.

Income before income taxes was \$23.4 million for the first nine months of 2008 compared to \$41.0 million for the first nine months of 2007. Income tax expense was \$6.2 million with an effective tax rate of 26.5% for the first nine months of 2008 compared to \$12.1 million with an effective tax rate of 29.5% in the first nine months of 2007.

Income taxes for the first nine months of 2007 were higher than for the first nine months of 2008 due to less income earned in lower tax jurisdictions.

Net income for the first nine months of 2008 was \$17.2 million or \$0.79 per diluted share compared to \$28.9 million or \$1.29 per diluted share for the same period last year.

*Liquidity and Capital Resources*

The Company historically has financed capital expenditures through cash flows from operations. Despite the recent adverse changes in market conditions, management expects that cash flows from operations and available lines of credit will be sufficient to support both the Company's operations and its debt obligations for the foreseeable future. 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, which expires on July 21, 2011. At September 27, 2008, the Company had \$37.5 million outstanding and \$37.5 million of available borrowing capability under the revolving credit facility at an interest rate of LIBOR plus 0.50% (3.39% as of September 27, 2008). The Company also had \$2.8 million available in letters of credit at September 27, 2008. No amounts were outstanding under these letters of credit at September 27, 2008.

The domestic bank credit agreement contains covenants that, among other matters, impose limitations on the incurrence of additional indebtedness, future mergers, sales of assets, payment of dividends, and changes in control, as defined in the agreement. In addition, the Company is required to satisfy certain financial covenants and tests relating to, among other matters, interest coverage, working capital, leverage and net worth. At September 27, 2008, the Company was in compliance with all covenants in this domestic bank credit agreement.

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The Company has an unsecured bank line of credit in Japan that provides a 700 million yen (an equivalent of \$6.6 million) revolving credit facility at an interest rate of TIBOR plus 0.625% (1.57% as of September 27, 2008). The revolving line of credit becomes due on July 21, 2011. The Company had no outstanding borrowings on the yen facility at September 27, 2008.

The Company had an unsecured bank line of credit in Taiwan that provided a 35.0 million Taiwanese dollar revolving credit facility at an interest rate of two-years time deposit plus 0.145%. The revolving line of credit was due on August 18, 2009. The Company also had a foreign fixed rate mortgage loan outstanding totaling approximately 32.0 million Taiwanese dollar with maturity dates through August 2013. The Company chose to repay the outstanding balances on both debt instruments in June 2008 resulting in uses of cash totaling the equivalent of \$1.7 million. As a result, the line of credit was closed at June 28, 2008.

The Company entered into an unsecured domestic financing arrangement on September 29, 2008 consisting of a Loan Agreement with banks that provides a five-year term loan facility of up to \$80.0 million, with an expansion feature pursuant to which the Company may from time to time request incremental loans in an aggregate principal amount not to exceed \$40.0 million. At the Company's option, any loan under the Loan Agreement bears interest at a rate equal to the applicable rate, as determined in accordance with the pricing grid set forth in the Loan Agreement, plus one of the following indexes: (i) LIBOR or (ii) the Base Rate (defined as the higher of (a) the prime rate publicly announced from time to time by the Agent under the Loan Agreement and (b) the federal funds rate plus 0.50%).

The Company started the 2008 year with \$64.9 million of cash and cash equivalents. Net cash provided by operating activities was \$27.7 million for the first nine months of 2008, reflecting net income of \$17.2 million and a \$5.7 million non-cash adjustment related to the Ireland pension settlement. Changes in various operating assets and liabilities that negatively impacted cash flows, including increases to accounts receivable (\$5.7 million) and inventory (\$6.2 million) and decreases to accrued payroll and severance (\$11.6 million), were offset by non-cash adjustments, including depreciation (\$20.8 million) and amortization of intangibles (\$2.9 million).

Net cash used in investing activities was \$42.9 million, including \$37.0 million in capital spending, related to the Company's plant expansion in the Asia-Pacific region, manufacturing process improvements and new product introductions, and \$9.3 million for the purchases of businesses, primarily related to Shock Block, during the first quarter of 2008. The Company also sold two production facilities it owned, one in Eltville, Germany (related to the Efen business, which discontinued its operations in 2006) and the other in Arcola, Illinois (which transferred its operations to a leased facility), resulting in net cash provided from investing activities of \$2.8 million and \$0.6 million, respectively.

Net cash provided by financing activities was \$19.3 million, including net proceeds from debt of \$24.1 million and stock option exercises of \$1.7 million, partially offset by stock repurchases of \$6.6 million. The net proceeds from debt includes \$75.5 million in gross proceeds less \$51.4 million in payments, the vast majority of which relates to short-term activity under the Company's domestic revolving credit facility.

The effects of exchange rate changes decreased cash by approximately \$1.7 million. The net cash used in investing activities less net cash provided by operating activities and financing activities and the effects of exchange rate changes resulted in a \$2.4 million increase in cash, which left the Company with a cash balance of \$67.4 million at September 27, 2008.

The ratio of current assets to current liabilities was 2.2 to 1 at the end of the third quarter of 2008 compared to 2.4 to 1 at year-end 2007 and 2.8 to 1 at the end of the third quarter of 2007. The change in the current ratio at the end of the third quarter in 2008 compared to the prior year period reflected increased current liabilities in 2008, primarily related to increased current debt to support investing activities described above. Days sales outstanding in accounts receivable was approximately 58 days at the end of the third quarter of 2008 compared to 58 days at year-end 2007 and 59 days at the end of the third quarter of 2007. Days inventory outstanding was approximately 56 days at the end of the third quarter of 2008 compared to 59 days at the year-end 2007 and 57 days at end of the third quarter of 2007. The decrease in the number of days inventory outstanding at the end of the third quarter in 2008 compared to the prior year period reflects continued progress with lean manufacturing and streamlined logistics.

**Table of Contents***Off-Balance Sheet Arrangements*

As of September 27, 2008, the Company did not have any off-balance sheet arrangements, as defined under the U.S. Securities and Exchange Commission rules. Specifically, the Company was not liable for guarantees of indebtedness owed by third parties; the Company was not directly liable for the debt of any unconsolidated entity, and the Company did not have any retained or contingent interest in assets; and the Company does not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities. In June 2008, the Company entered into a derivative financial instrument, as defined by SFAS No. 133; further information regarding this arrangement is provided in Note 7 to the condensed consolidated financial statements included in this report.

*Contractual Obligations*

The following table summarizes contractual obligations and commitments, as of September 27, 2008 (in thousands):

|  | Total            | Payment Due By Period |                 |                 | More than 5 years |
|--|------------------|-----------------------|-----------------|-----------------|-------------------|
|  |                  | Less than 1 year      | 1 - 3 years     | 3 - 5 years     |                   |
| <b>Contractual Obligations:</b>        |                  |                       |                 |                 |                   |
| Long-term debt obligations Revolver    | \$ 37,500        | \$ 37,500             | \$              | \$              | \$                |
| Interest payments                      | 1,271            | 1,271                 |                 |                 |                   |
| Supplemental Executive Retirement Plan | 2,820            |                       |                 |                 | 2,820             |
| Operating lease payments*              | 40,073           | 5,748                 | 8,848           | 5,046           | 20,431            |
| <b>Total</b>                           | <b>\$ 81,664</b> | <b>\$ 44,519</b>      | <b>\$ 8,848</b> | <b>\$ 5,046</b> | <b>\$ 23,251</b>  |

\* Included in Operating lease payments is future rental expense under a new lease agreement for office space related to the Company's U.S. corporate headquarters, which will be relocated in Chicago, IL. The lease commences January 2009 and expires December 2024.

The table above does not include the Company's obligations under the \$80 million term loan facility entered into on September 29, 2008, which is described above under *Liquidity and Capital Resources*.

*Outlook*



The Company believes its long-term growth strategy, which emphasizes developing new circuit protection products, providing customers with solutions and technical support in all major regions of the world and leveraging low cost production facilities in China, the Philippines and Mexico, will drive sales growth and reduce costs in each of its segments. While the fundamentals for the Company's electronics and electrical markets were neutral for the first nine months of 2008, the U.S. automotive market continues to weaken, the automotive market in Europe has weakened as well and the Company has seen some slowing in its electronics market. The Company believes that the current weakness in its automotive and electronics markets could continue through the first half of 2009. In addition, uncertain macroeconomic conditions could negatively affect all of the Company's markets over the coming months. The Company anticipates that these weaknesses will be partially offset by its acquisition of Startco, which is expected to contribute \$4.0 to \$5.0 million in sales for the fourth quarter of 2008.

The Company initiated a series of projects beginning in 2005 to reduce costs in its global operations by consolidating manufacturing and distribution into fewer facilities, and transferring some of its assembly and test operations to various subcontractors, in low-cost locations in China, the Philippines and Mexico in a phased transition. The Company anticipates looking for additional opportunities to reduce operating costs that may include further consolidation of facilities and outsourcing of production to subcontractors.

These programs are expected to generate significant cost savings beginning in 2009. The Company has incurred significant costs related to these programs, including severance, retention incentives, training, redundant overhead and equipment transfers. These costs are expected to moderate by the end of 2008, but will be ongoing until the manufacturing and distribution transfers are completed in 2010.

The Company is working to expand its share of the circuit protection market by leveraging new products that it has recently acquired or developed, as well as improving solution selling capabilities. In the future, the Company will look for opportunities to add to its product portfolio and technical expertise so that it can provide customers with the most complete circuit protection solutions available in the marketplace.

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

The statements in this section and the other sections of this report that are not historical facts are intended to constitute forward-looking statements entitled to the safe-harbor provisions of the PSLRA. These statements may involve risks and uncertainties, including, but not limited to, risks relating to product demand and market acceptance, economic conditions, the impact of competitive products and pricing, product quality problems or product recalls, capacity and supply difficulties or constraints, coal mining exposures reserves, failure of an indemnification for environmental liability, exchange rate fluctuations, commodity price fluctuations, the effect of the Company's accounting policies, labor disputes, restructuring costs in excess of expectations, pension plan asset returns less than assumed, integration of acquisitions and other risks which may be detailed in the Company's other Securities and Exchange Commission filings. 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 the financial statements appearing in the Company's Annual Report on Form 10-K for the year ended December 29, 2007. For a further discussion of the risk factors of the Company, please see Item 1A. *Risk Factors* to the Company's Annual Report on Form 10-K for the year ended December 29, 2007.

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

The Company is exposed to market risk from changes in interest rates, foreign exchange rates and commodities. The Company had debt outstanding at September 27, 2008 in the form of a domestic revolving credit facility. While 100% of this debt has a variable interest rate, the Company's interest expense is not materially sensitive to changes in interest rate levels since debt levels and potential interest expense increases are small relative to earnings.

On September 29, 2008, the Company entered into an \$80.0 million term loan with a variable interest rate, which is described above in Item 2 under *Liquidity and Capital Resources*. In order to reduce interest rate risk, the Company entered into a one-year interest rate swap transaction, effective as of October 29, 2008, with JPMorgan Chase Bank, N.A. for a notional amount of \$65.0 million. The interest rate swap allows the Company to pay a fixed annual rate on the notional amount and requires JPMorgan to pay a floating rate tied to the one-month U.S. dollar LIBOR.

The majority of the Company's operations consist of manufacturing and sales activities in foreign countries. The Company has manufacturing facilities in Mexico, Ireland, Germany, China, Taiwan and the Philippines. During the third quarter of 2008, sales to customers outside the U.S. were 64.4% of total net sales. Substantially all sales in Europe are denominated in euros and substantially all sales in the Asia-Pacific region are denominated in U.S. dollars, Japanese yen, South Korean won, Chinese yuan and Taiwanese dollars.

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. As international sales were more than half of total sales, a significant portion of the resulting accounts receivable are denominated in foreign currencies. 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 techniques to reduce known foreign currency exposures where possible.

The Company uses various metals in the manufacturing of its products, including copper, zinc, silver and gold. The Company's earnings are exposed to fluctuations in the prices of these commodities. During the second quarter of 2008, the Company entered into a one-year swap agreement to mitigate its exposure to fluctuations in the price of zinc. Further information regarding this commodity contract is provided in Note 7 to the condensed consolidated financial statements included in this report.

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The Company purchases a particular type of silicon as a raw material for many of its semiconductor products. This same type of silicon is used in solar panels, and therefore is experiencing high levels of market demand. As a result, there is a risk of market shortages for this material at some point. The Company is taking actions to secure adequate sources of supply to meet its expected future demand for this material. In addition, the cost of energy has risen dramatically in recent months. Consequently, there is a risk that continued high prices for oil and electricity could have a significant impact on the Company's distribution and operating expenses as well as margins.

While the Company is exposed to significant changes in certain commodity prices and foreign currency exchange rates, the Company actively monitors these exposures and takes various actions to mitigate any negative impacts of these exposures.

**Item 4. Controls and Procedures**

As of September 27, 2008, the Company carried out an evaluation under the supervision and with the participation of management, including the Chief Executive Officer ( CEO ) and the Chief Financial Officer ( CFO ), of the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act )). Based on this evaluation, the CEO and CFO have concluded that as of September 27, 2008, the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified under SEC rules and forms and is accumulated and communicated to management, including the CEO and CFO, to allow for timely decisions regarding disclosure. In addition, there was no change in the Company's internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 27, 2008 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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## PART II OTHER INFORMATION

**Item 1A. Risk Factors**

A detailed description of risks that could have a negative impact on the Company's business, revenues and operating results can be found under the caption "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 29, 2007, filed on February 27, 2008.

**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 2008:

## 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 Shares that May Yet Be Purchased Under the Plans or Programs |
|------------------------------|----------------------------------|------------------------------|--|--|
| Jun 29, 2008 to Jul 26, 2008 |                                  |                              |  | 1,000,000  |
| Jul 27, 2008 to Aug 23, 2008 |                                  |                              |  | 1,000,000  |
| Aug 24, 2008 to Sep 27, 2008 |                                  |                              |  | 1,000,000  |
| Total                        |                                  |                              |  | 1,000,000  |

On April 25, 2008, the Company's Board of Directors authorized the repurchase of up to 1,000,000 shares under a new program for the period May 1, 2008 to April 30, 2009.

**Item 6. Exhibits**

| Exhibit | Description   |
|---------|---|
| 10.1    | Loan Agreement, dated as of September 29, 2008, among Littelfuse, Inc., the lenders named therein and JPMorgan Chase Bank, N.A., as agent   |
| 10.2    | First Amendment, dated as of September 29, 2008, to that certain Credit Agreement, dated as of July 21, 2006, among Littelfuse, Inc., the lenders named therein and Bank of America, N.A., as agent |
| 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   |

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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 27, 2008, to be signed on its behalf by the undersigned thereunto duly authorized.

**Littelfuse, Inc.**

Date: November 3, 2008

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)

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EXHIBIT INDEX

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