

BEL FUSE INC /NJ  
Form 10-Q  
August 07, 2015  
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 June 30, 2015  
or  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 0-11676

BEL FUSE INC.  
206 Van Vorst Street  
Jersey City, NJ 07302  
(201) 432-0463

(Address of principal executive offices and zip code)  
(Registrant's telephone number, including area code)

NEW JERSEY 22-1463699  
(State of incorporation) (I.R.S. Employer Identification No.)

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

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

Indicate by checkmark 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.

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

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

| Title of Each Class                     | Number of Shares of Common Stock Outstanding<br>as of August 1, 2015 |
|---|--|
| Class A Common Stock (\$0.10 par value) | 2,174,912  |
| Class B Common Stock (\$0.10 par value) | 9,723,727  |

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BEL FUSE INC.

INDEX

|          | Page  |
|----------|---|
| Part I   | Financial Information   |
| Item 1.  | <u>Financial Statements (unaudited)</u> 2   |
|          | <u>Condensed Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014 (unaudited)</u> 2  |
|          | <u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2015 and 2014 (unaudited)</u> 3                  |
|          | <u>Condensed Consolidated Statements of Comprehensive (Loss) Income for the Three and Six Months Ended June 30, 2015 and 2014 (unaudited)</u> 4 |
|          | <u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2015 and 2014 (unaudited)</u> 5                            |
|          | <u>Notes to Condensed Consolidated Financial Statements (unaudited)</u> 6 - 18  |
| Item 2.  | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 19 - 24  |
| Item 3.  | <u>Quantitative and Qualitative Disclosures About Market Risk</u> 24  |
| Item 4.  | <u>Controls and Procedures</u> 25   |
| Part II  | Other Information   |
| Item 1.  | <u>Legal Proceedings</u> 25   |
| Item 1A. | <u>Risk Factors</u> 25  |
| Item 6.  | <u>Exhibits</u> 26  |
|          | <u>Signatures</u> 27  |

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[Return to Index](#)

#### CAUTIONARY NOTICE REGARDING FORWARD-LOOKING INFORMATION

The terms the "Company," "Bel," "we," "us," and "our" as used in this report refer to Bel Fuse Inc. and its consolidated subsidiaries unless otherwise specified.

The Company's consolidated operating results are affected by a wide variety of factors that could materially and adversely affect revenues and profitability, including the risk factors described in Item 1A of our 2014 Annual Report on Form 10-K. As a result of these and other factors, the Company may experience material fluctuations in future operating results on a quarterly or annual basis, which could materially and adversely affect its business, consolidated financial condition, operating results, and common stock prices. Furthermore, this document and other documents filed by the Company with the Securities and Exchange Commission ("SEC") contain certain forward-looking statements under the Private Securities Litigation Reform Act of 1995 ("Forward-Looking Statements") with respect to the business of the Company. Forward-looking statements are necessarily subject to risks and uncertainties, many of which are outside our control, and which could cause actual results to differ materially from these statements. Forward-looking statements can be identified by such words as "anticipates," "believes," "plans to," "assumes," "could," "should," "estimates," "expects," "intends," "potential," "seek," "predict," "may," "will" and similar expressions. These Forward-Looking Statements are subject to certain risks and uncertainties, including those detailed in Item 1A of our 2014 Annual Report on Form 10-K, which could cause actual results to differ materially from these Forward-Looking Statements. The Company undertakes no obligation to publicly release the results of any revisions to these Forward-Looking Statements which may be necessary to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Any forward-looking statement made by the Company is based only on information currently available to us and speaks only as of the date on which it is made.

Return to Index

## PART I. Financial Information

## Item 1. Financial Statements (Unaudited)

BEL FUSE INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (in thousands, except share and per share data)  
 (unaudited)

|  | June 30,<br>2015 | December<br>31,<br>2014<br>(Revised) |
|--|------------------|--------------------------------------|
| <b>ASSETS</b>  |                  |                                      |
| Current Assets:  |                  |                                      |
| Cash and cash equivalents  | \$71,408         | \$77,138                             |
| Accounts receivable, net of allowance for doubtful accounts of \$1,953 in 2015 and \$1,989 in 2014 | 98,493           | 99,605                               |
| Inventories  | 111,241          | 113,630                              |
| Other current assets   | 24,405           | 20,283                               |
| Total current assets   | 305,547          | 310,656                              |
| Property, plant and equipment, net   | 62,981           | 69,261                               |
| Intangible assets, net   | 92,199           | 95,502                               |
| Goodwill   | 122,287          | 118,369                              |
| Deferred income taxes  | 4,067            | 7,933                                |
| Other assets   | 32,747           | 33,700                               |
| Total assets   | \$619,828        | \$635,421                            |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                  |                                      |
| Current Liabilities:   |                  |                                      |
| Accounts payable   | \$64,777         | \$61,926                             |
| Accrued expenses   | 39,848           | 42,588                               |
| Current portion of long-term debt  | 16,130           | 13,438                               |
| Other current liabilities  | 7,899            | 3,850                                |
| Total current liabilities  | 128,654          | 121,802                              |
| Long-term Liabilities:   |                  |                                      |
| Long-term debt   | 190,120          | 219,187                              |
| Liability for uncertain tax positions  | 41,426           | 39,767                               |
| Minimum pension obligation and unfunded pension liability  | 14,733           | 14,205                               |
| Deferred income taxes  | 13,335           | 15,739                               |
| Other liabilities  | 2,798            | 448                                  |
| Total liabilities  | 391,066          | 411,148                              |
| Commitments and contingencies  |                  |                                      |
| Stockholders' Equity:  |                  |                                      |
| Preferred stock, no par value, 1,000,000 shares authorized; none issued                            | -                | -                                    |
| Class A common stock, par value \$.10 per share, 10,000,000 shares                                 |                  |                                      |

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|   |           |           |
|---|-----------|-----------|
| authorized; 2,174,912 shares outstanding at each date (net of<br>1,072,769 treasury shares)   | 217       | 217       |
| Class B common stock, par value \$.10 per share, 30,000,000 shares<br>authorized; shares outstanding: 9,725,727 in 2015 and 9,686,777<br>in 2014 (net of 3,218,307 treasury shares) | 973       | 969       |
| Additional paid-in capital  | 22,998    | 21,626    |
| Retained earnings   | 223,170   | 213,409   |
| Accumulated other comprehensive loss  | (18,596 ) | (11,948 ) |
| Total stockholders' equity  | 228,762   | 224,273   |
| Total liabilities and stockholders' equity  | \$619,828 | \$635,421 |

See accompanying notes to unaudited condensed consolidated financial statements.

Return to Index

BEL FUSE INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (in thousands, except per share data)  
 (unaudited)

|  | Three Months              |          | Six Months Ended |           |
|--|---------------------------|----------|------------------|-----------|
|  | Ended<br>June 30,<br>2015 | 2014     | June 30,<br>2015 | 2014      |
| Net sales                                      | \$145,658                 | \$99,439 | \$287,673        | \$182,085 |
| Cost of sales                                  | 117,098                   | 81,493   | 232,301          | 150,069   |
| Gross profit                                   | 28,560                    | 17,946   | 55,372           | 32,016    |
| Selling, general and administrative expenses   | 20,764                    | 13,176   | 38,372           | 24,365    |
| Restructuring charges                          | 344                       | 1,056    | 502              | 1,056     |
| Income from operations                         | 7,452                     | 3,714    | 16,498           | 6,595     |
| Interest expense                               | (1,994 )                  | (225 )   | (4,173 )         | (255 )    |
| Interest income and other, net                 | 17                        | 49       | 420              | 100       |
| Earnings before provision for income taxes     | 5,475                     | 3,538    | 12,745           | 6,440     |
| (Benefit) provision for income taxes           | (587 )                    | 473      | 1,363            | 872       |
| Net earnings available to common stockholders  | \$6,062                   | \$3,065  | \$11,382         | \$5,568   |
| Net earnings per common share:                 |                           |          |                  |           |
| Class A common share - basic and diluted       | \$0.49                    | \$0.25   | \$0.91           | \$0.45    |
| Class B common share - basic and diluted       | \$0.52                    | \$0.27   | \$0.97           | \$0.49    |
| Weighted-average number of shares outstanding: |                           |          |                  |           |
| Class A common share - basic and diluted       | 2,175                     | 2,175    | 2,175            | 2,175     |
| Class B common share - basic and diluted       | 9,693                     | 9,332    | 9,682            | 9,333     |
| Dividends paid per common share:               |                           |          |                  |           |
| Class A common share                           | \$0.06                    | \$0.06   | \$0.12           | \$0.12    |
| Class B common share                           | \$0.07                    | \$0.07   | \$0.14           | \$0.14    |

See accompanying notes to unaudited condensed consolidated financial statements.

Return to IndexBEL FUSE INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)

(unaudited)

|  | Three Months<br>Ended<br>June 30,<br>2015 |         | Six Months<br>Ended<br>June 30,<br>2015 |         |
|--|---|---------|---|---------|
|  | 2014                                      | 2015    | 2014                                    | 2015    |
| Net earnings available to common stockholders  | \$6,062                                   | \$3,065 | \$11,382                                | \$5,568 |
| Other comprehensive income (loss):   |   |         |   |         |
| Currency translation adjustment, net of taxes of (\$34) in the three months ended June 30, 2015, \$89 in the three months ended June 30, 2014, (\$194) in the six months ended June 30, 2015 and \$123 in the six months ended June 30, 2014   | 3,535                                     | 368     | (6,801 )                                | 537     |
| Unrealized holding gains on marketable securities arising during the period, net of taxes of (\$18) in the three months ended June 30, 2015, \$48 in the three months ended June 30, 2014, \$15 in the six months ended June 30, 2015 and \$65 in the six months ended June 30, 2014 | (30 )                                     | 78      | 25                                      | 106     |
| Change in unfunded SERP liability, net of taxes of \$28 in the three months ended June 30, 2015, \$14 in the three months ended June 30, 2014, \$56 in the six months ended June 30, 2015 and \$28 in the six months ended June 30, 2014   | 64  | 32      | 128                                     | 63      |
| Other comprehensive income (loss)  | 3,569                                     | 478     | (6,648 )                                | 706     |
| Comprehensive income   | \$9,631                                   | \$3,543 | \$4,734                                 | \$6,274 |

See accompanying notes to unaudited condensed consolidated financial statements.

4



[Return to Index](#)

BEL FUSE INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (dollars in thousands)  
 (unaudited)

|   | Six Months Ended<br>June 30, |           |
|---|------------------------------|-----------|
|   | 2015                         | 2014      |
| Cash flows from operating activities:   |                              |           |
| Net earnings available to common stockholders                                       | \$11,382                     | \$5,568   |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                              |           |
| Depreciation and amortization   | 11,589                       | 6,507     |
| Stock-based compensation  | 1,376                        | 1,143     |
| Amortization of deferred financing costs  | 823                          | -         |
| Deferred income taxes   | (1,857 )                     | (475 )    |
| Net unrealized (gains) losses on foreign currency revaluation                       | (4,906 )                     | 290       |
| Other, net  | (3,912 )                     | (21 )     |
| Changes in operating assets and liabilities:  |                              |           |
| Accounts receivable   | 423                          | (4,235 )  |
| Inventories   | 1,621                        | 4,539     |
| Accounts payable  | 3,306                        | 2,692     |
| Accrued expenses  | (2,387 )                     | (2,298 )  |
| Other operating assets/liabilities, net   | 6,207                        | (1,016 )  |
| Net cash provided by operating activities   | 23,665                       | 12,694    |
| Cash flows from investing activities:   |                              |           |
| Increase in cash equivalents within Rabbi Trust                                     | -                            | (2,936 )  |
| Purchase of company-owned life insurance (COLI)                                     | -                            | (2,820 )  |
| Purchases of property, plant and equipment  | (5,723 )                     | (2,969 )  |
| Payment for acquisition, net of cash acquired (see Note 2)                          | -                            | (109,879) |
| Proceeds from surrender of COLI   | -                            | 5,756     |
| Proceeds from disposal/sale of property, plant and equipment                        | 58                           | 20        |
| Net cash used in investing activities   | (5,665 )                     | (112,828) |
| Cash flows from financing activities:   |                              |           |
| Dividends paid to common stockholders   | (1,527 )                     | (1,511 )  |
| Payment of deferred financing costs   | (15 )                        | (5,422 )  |
| Borrowings under revolving credit line  | 3,500                        | -         |
| Repayments of revolving credit line   | (15,500)                     | (12,000 ) |
| Reduction in notes payable  | (463 )                       | (255 )    |
| Proceeds from long-term debt  | -                            | 145,000   |
| Repayments of long-term debt  | (14,375)                     | -         |
| Net cash (used in) provided by financing activities                                 | (28,380)                     | 125,812   |
| Effect of exchange rate changes on cash and cash equivalents                        | 4,650                        | (32 )     |
| Net (decrease) increase in cash and cash equivalents                                | (5,730 )                     | 25,646    |
| Cash and cash equivalents - beginning of period                                     | 77,138                       | 62,123    |
| Cash and cash equivalents - end of period   | \$71,408                     | \$87,769  |

Supplementary information:

|  |         |         |
|--|---------|---------|
| Cash paid during the period for income taxes, net of refunds | \$1,894 | \$1,387 |
| Cash paid during the period for interest                     | \$3,359 | \$60    |

See accompanying notes to unaudited condensed consolidated financial statements.

[Return to Index](#)

BEL FUSE INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The condensed consolidated balance sheet as of June 30, 2015, and the condensed consolidated statements of operations, comprehensive income and cash flows for the periods presented herein have been prepared by the Company and are unaudited. In the opinion of management, all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the consolidated financial position, results of operations and cash flows for all periods presented have been made. The results for the three and six months ended June 30, 2015 are not necessarily indicative of the results to be expected for the full year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Bel Fuse Annual Report on Form 10-K for the year ended December 31, 2014.

Certain information and footnote disclosures required under accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted from the following condensed consolidated financial statements pursuant to the rules and regulations of the SEC. The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in our condensed consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

On June 19, 2014, we completed our acquisition of 100% of the issued and outstanding capital stock of the Power-One Power Solutions business ("Power Solutions") from ABB Ltd. On July 25, 2014, we completed our acquisition of 100% of the issued and outstanding capital stock of the U.S. and U.K. Connectivity Solutions businesses from Emerson Electric Co. ("Emerson"). On August 29, 2014, we completed our acquisition of the Connectivity Solutions business in China from Emerson (collectively with the U.S. and U.K. portion of the transaction, "Connectivity Solutions"). The acquisitions of Power Solutions and Connectivity Solutions may hereafter be referred to collectively as either the "2014 Acquisitions" or the "2014 Acquired Companies". As of the respective acquisition dates, all of the assets acquired and liabilities assumed were recorded at their estimated fair values. The fair values of assets acquired and liabilities assumed in the Power Solutions acquisition were finalized during the second quarter of 2015. The measurement period related to the Connectivity Solutions acquisition ends in the third quarter of 2015, and the fair value of assets acquired and liabilities assumed in that acquisition will be finalized at that time. See Note 2, Acquisitions and Disposition, for further details. The Company's condensed consolidated results of operations for the three and six months ended June 30, 2015 include the operating results of the acquired companies. The Company's condensed consolidated results of operations for the three and six months ended June 30, 2014 include the results of the Power Solutions acquisition from its acquisition date of June 19, 2014.

The accompanying consolidated balance sheet as of December 31, 2014 has been revised to reflect the acquisition-date fair values related to property, plant and equipment, intangible assets and deferred taxes for the Power Solutions business. These measurement period adjustments were not material to the condensed consolidated financial statements. See Note 2, Acquisitions and Disposition, for further details.

The Company's significant accounting policies are summarized in Note 1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2014. There were no significant changes to these accounting policies during the six months ended June 30, 2015.

All amounts included in the tables to these notes to condensed consolidated financial statements, except per share amounts, are in thousands.

### Recently Adopted Accounting Standards

In April 2014, the FASB issued guidance for the reporting of discontinued operations, which also contains new disclosure requirements for both discontinued operations and other disposals that do not meet the definition of a discontinued operation. This guidance was adopted by the Company effective January 1, 2015. The effects of this guidance will depend on future disposals by the Company.

### Accounting Standards Issued But Not Yet Adopted

In July 2015, the FASB issued guidance which requires entities to measure most inventory at the lower of cost and net realizable value, thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. The update is effective for fiscal years beginning after December 15, 2016, and interim periods therein. Early application is permitted. Management is currently evaluating the impact that this guidance will have on the Company's condensed consolidated financial statements, if any.

In April 2015, the FASB issued guidance on simplifying the balance sheet presentation of debt issuance costs. The update requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset. Debt disclosures will include the face amount of the debt liability and the effective interest rate. The update requires retrospective application and represents a change in accounting principle. The update is effective for fiscal years beginning after December 15, 2015. Early application is permitted. Management does not believe that the adoption of this guidance will have any material impact on the Company's condensed consolidated financial position or results of operations.

### Return to Index

In January 2015, the FASB issued guidance on simplifying the income statement presentation by eliminating the concept of extraordinary items. Extraordinary items are events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence. Eliminating the extraordinary classification simplifies income statement presentation by altogether removing the concept of extraordinary items from consideration. This amendment is effective for annual periods beginning after December 15, 2015. The adoption of this standard is not expected to have a material impact on our condensed consolidated financial position or results of operations.

In August 2014, the FASB issued guidance on the presentation of financial statements when there is substantial doubt about an entity's ability to continue as a going concern. The amendment requires that an entity's management evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. If conditions or events raise substantial doubt about an entity's ability to continue as a going concern, additional disclosure is required to enable users of the financial statements to understand the conditions or events, management's evaluation of the significance of those conditions and events and management's plans that are intended to alleviate or management's plans that have alleviated substantial doubt. The amendment is effective for annual periods ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. Management does not believe that the adoption of this guidance will have any material impact on the Company's condensed consolidated financial position or results of operations.

In June 2014, the FASB issued guidance on stock compensation. The amendment requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The amendment is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2015. Earlier adoption is permitted. Management does not believe that the adoption of this guidance will have any material impact on the Company's condensed consolidated financial position or results of operations.

In May 2014, the FASB issued guidance on the accounting for revenue from contracts with customers that will supersede most existing revenue recognition guidance, including industry-specific guidance. The core principle requires an entity to recognize revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the guidance requires enhanced disclosures regarding the nature, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. This guidance allows for both retrospective and prospective methods of adoption and is effective for periods beginning after December 15, 2016. On July 9, 2015, the FASB decided to defer the effective date of this guidance by one year, however, early adoption as of the original effective date will be permitted. Management is currently evaluating the impact that this guidance will have on the Company's condensed consolidated financial statements, if any, including which transition method it will adopt.

## 2. ACQUISITIONS AND DISPOSITION

### Acquisitions

On June 19, 2014, the Company completed its acquisition of Power Solutions for \$109.9 million, net of cash acquired. Power Solutions is a leading provider of high-efficiency and high-density power conversion products for server, storage and networking equipment, industrial applications and power systems. In connection with its acquisition of Power Solutions, the Company acquired a 49% interest in a joint venture in the People's Republic of China ("PRC"). The Company has assigned no value to this investment. See Note 15, Related Party Transactions, for additional information. During the second quarter of 2015, the Company finalized its valuation of the Power Solutions

acquisition as further detailed in the table below. At the conclusion of the measurement period and as of June 30, 2015, there were certain working capital and tax related items outstanding with ABB Ltd. Any changes in facts and circumstances related to these items will be recorded on a prospective basis and not included as purchase price adjustments. See Note 9, Income Taxes, for further information on the tax related items.

On July 25, 2014, the Company completed its acquisition of the U.S. and U.K. entities of Connectivity Solutions. On August 29, 2014, the China portion of the transaction closed. The Company paid a total of \$98.8 million for Connectivity Solutions, net of cash acquired and including a working capital adjustment. Connectivity Solutions is a leading provider of high performance RF/Microwave and Harsh Environment Optical Connectors and Assemblies for military, aerospace, wireless communications, data communications, broadcast and industrial applications.

Return to Index

During the three and six months ended June 30, 2015, the Company incurred \$0.1 million and \$0.5 million, respectively, of acquisition-related costs associated with the independent valuations of the 2014 Acquisitions and completion of the independent carve-out audit of Connectivity Solutions. During each of the three and six months ended June 30, 2014, the Company incurred \$1.5 million of acquisition related costs. These costs are included in selling, general and administrative expense on the condensed consolidated statements of operations.

## Fair Value Estimate of Assets Acquired and Liabilities Assumed

With respect to the Connectivity Solutions acquisition, we are continuing our review of our fair value estimate of assets acquired and liabilities assumed during the measurement period, which will conclude as soon as we receive the information we are seeking about facts and circumstances that existed as of the acquisition date, or learn that more information is not available. This measurement period will not exceed one year from the acquisition date.

The table below depicts the Company's final purchase price allocation for the Power Solutions acquisition and fair value estimates of assets acquired and liabilities assumed for the Connectivity Solutions acquisition as of the respective acquisition dates. The amounts noted in the table below for Connectivity Solutions are provisional since the valuations of property and equipment, intangible assets acquired, income taxes and goodwill are still under review. Accordingly, there could be material adjustments to our condensed consolidated financial statements, including changes to our depreciation and amortization expense related to the valuation of property and equipment and intangible assets acquired and their respective useful lives, among other adjustments.

|                                  | Power Solutions                    |  |               | Connectivity Solutions                 | 2014 Acquisitions                          |
|----------------------------------|------------------------------------|--|---------------|--|--|
|                                  | June 19, 2014                      | Measurement Period Adjustments During 2015 | June 19, 2014 | July 25/August 29, 2014 <sup>(a)</sup> | Acquisition-Date Fair Values (As adjusted) |
|                                  | (As Reported at December 31, 2014) | (As Adjusted)                              | (Revised)     | (As adjusted)                          | (As adjusted)                              |
| Cash                             | \$20,912                           | \$ -                                       | \$20,912      | \$ 6,544                               | \$ 27,456                                  |
| Accounts receivable              | 29,389                             | -  | 29,389        | 9,375                                  | 38,764                                     |
| Inventories                      | 36,429                             | -  | 36,429        | 17,632                                 | 54,061                                     |
| Other current assets             | 7,350                              | -  | 7,350         | 2,615                                  | 9,965                                      |
| Property, plant and equipment    | 28,175                             | (1,060 )                                   | 27,115        | 9,900                                  | 37,015                                     |
| Intangible assets                | 33,220                             | -  | 33,220        | 40,000                                 | 73,220                                     |
| Other assets                     | 19,171                             | -  | 19,171        | 2,345                                  | 21,516                                     |
| Total identifiable assets        | 174,646                            | (1,060 )                                   | 173,586       | 88,411                                 | 261,997                                    |
| Accounts payable                 | (26,180 )                          | -  | (26,180 )     | (10,682 )                              | (36,862 )                                  |
| Accrued expenses                 | (25,545 )                          | -  | (25,545 )     | (5,307 )                               | (30,852 )                                  |
| Other current liabilities        | 223                                | -  | 223           | (57 )                                  | 166  |
| Noncurrent liabilities           | (42,062 )                          | (7,198 )                                   | (49,260 )     | (17,314 )                              | (66,574 )                                  |
| Total liabilities assumed        | (93,564 )                          | (7,198 )                                   | (100,762 )    | (33,360 )                              | (134,122 )                                 |
| Net identifiable assets acquired | 81,082                             | (8,258 )                                   | 72,824        | 55,051                                 | 127,875                                    |
| Goodwill                         | 49,710                             | 8,258                                      | 57,968        | 50,306                                 | 108,274                                    |
| Net assets acquired              | \$ 130,792                         | \$ -                                       | \$ 130,792    | \$ 105,357                             | \$ 236,149                                 |

|   |            |      |            |            |            |
|---|------------|------|------------|------------|------------|
| Cash paid                               | \$ 130,792 | \$ - | \$ 130,792 | \$ 105,357 | \$ 236,149 |
| Assumption of liability                 | -          | -    | -          | -          | -          |
| Fair value of consideration transferred | 130,792    | -    | 130,792    | 105,357    | 236,149    |
| Deferred consideration                  | -          | -    | -          | -          | -          |
| Total consideration paid                | \$ 130,792 | \$ - | \$ 130,792 | \$ 105,357 | \$ 236,149 |

- (a) The Company acquired the U.S. and U.K. entities of Connectivity Solutions on July 25, 2014 and the China entity of Connectivity Solutions on August 29, 2014. These values represent the estimated fair values as of the respective acquisition dates.
- (b) Represents the purchase accounting adjustments reflecting the finalization of the acquisition-date fair values of property, plant and equipment associated with completion of third-party valuations.
- (c) Represents the impact to deferred taxes reflecting the finalization of the allocation of identifiable intangible assets acquired.

Of the \$58.0 million of goodwill noted above for Power Solutions, \$56.3 million will be deductible for tax purposes. None of the goodwill related to the Connectivity Solutions acquisition will be deductible for tax purposes.

The results of operations of the 2014 Acquired Companies have been included in the Company's condensed consolidated financial statements for the period subsequent to their respective acquisition dates. During the three months and six months ended June 30, 2015, the 2014 Acquired Companies contributed revenue of \$58.4 million and \$117.2 million respectively, and operating (loss) income of approximately (\$1.2) million and \$4.4 million, respectively, to the Company's condensed consolidated financial results. During the three and six months ended June 30, 2014, the Power Solutions acquisition contributed revenue of \$7.2 million and an operating loss of approximately \$1.0 million in each period.



Return to Index

The following unaudited pro forma information presents a summary of the combined results of operations of the Company and the aggregate results of Power Solutions and Connectivity Solutions for the periods presented as if the 2014 Acquisitions had occurred on January 1, 2013, along with certain pro forma adjustments. The unaudited pro forma results are presented for illustrative purposes only and are not necessarily indicative of the results that would have actually been obtained if the acquisitions had occurred on January 1, 2013, nor is the pro forma data intended to be a projection of results that may be obtained in the future:

|   | Three<br>Months<br>Ended<br>June 30,<br>2014 | Six<br>Months<br>Ended<br>June 30,<br>2014 |
|---|--|--|
| Revenue   | \$156,842                                    | \$317,479                                  |
| Net loss  | (3,057 )                                     | (1,399 )                                   |
| Loss per Class A common share - basic and diluted | \$(0.26 )                                    | \$(0.13 )                                  |
| Loss per Class B common share - basic and diluted | \$(0.27 )                                    | \$(0.12 )                                  |

Disposition – Sale of NPS

On January 23, 2015, the Company completed the sale of the Network Power Systems ("NPS") product line and related transactions of the acquired Power Solutions business to Unipower LLC ("Unipower") for \$9.0 million in cash. The sale also included \$1.0 million of escrow pending Unipower's realization of certain sales targets. The net proceeds of \$9.0 million from the sale were used to repay outstanding borrowings in accordance with the provisions of the Credit and Security Agreement (see Note 8, Debt). The transaction provides that Bel will move processes and people to Unipower under an interim transition services agreement and Bel will also continue to manufacture the NPS products for up to 24 months under a manufacturing services agreement.

As a result of the sale and related transactions, the Company recorded deferred revenue of \$9.0 million. Of this amount, the Company has recognized net sales of \$1.1 million and \$2.1 million, respectively, in the condensed consolidated statement of operations for the three and six months ended June 30, 2015. The Company will recognize the \$1 million currently in escrow when and if Unipower realizes certain sales targets and such amount would be included in interest income and other, net on the condensed consolidated statements of operations.

## 3. RESTRUCTURING ACTIVITIES

Activity and liability balances related to restructuring costs for the six months ended June 30, 2015 are as follows:

|                           | Liability<br>at<br>December<br>31,<br>2014 | New<br>Charges | Cash<br>Payments<br>and Other<br>Settlements | Liability<br>at<br>June 30,<br>2015 |
|---------------------------|--|----------------|--|-------------------------------------|
| Severance costs           | \$ -                                       | \$ 501         | \$ (447 )                                    | \$ 54                               |
| Other restructuring costs | -  | 1              | (1 )   | -                                   |

Total                                   \$    -    \$ 502    \$ (448    ) \$ 54

During the six months ended June 30, 2015, the Company's restructuring charges included costs related to reductions in headcount and consolidation and relocation of certain facilities and offices in Asia and Europe and additional headcount reductions at Cinch US and Array.

#### 4. FAIR VALUE MEASUREMENTS

Fair value is defined as an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants based upon the best use of the asset or liability at the measurement date. Entities are required to use a fair value hierarchy which maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1 – Observable inputs such as quoted market prices in active markets;

Level 2 – Inputs other than quoted prices in active markets that are either directly or indirectly observable; and

Level 3 – Unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Return to Index

As of June 30, 2015 and December 31, 2014, the Company held certain financial assets that are measured at fair value on a recurring basis. These consisted of securities that are among the Company's investments in a rabbi trust which are intended to fund the Company's Supplemental Executive Retirement Plan ("SERP") obligations, and other marketable securities described below. The securities that are held in the rabbi trust are categorized as available-for-sale securities and are included as other assets in the accompanying condensed consolidated balance sheets at June 30, 2015 and December 31, 2014. The gross unrealized gains associated with the investment securities held in the rabbi trust were \$0.7 million at both June 30, 2015 and December 31, 2014. Such unrealized gains are included, net of tax, in accumulated other comprehensive loss.

As of June 30, 2015 and December 31, 2014, the Company had marketable securities with a combined fair value of less than \$0.1 million at each date, and gross unrealized gains of less than \$0.1 million at each date. Such unrealized gains are included, net of tax, in accumulated other comprehensive income. The fair value of the equity securities is determined based on quoted market prices in public markets and is categorized as Level 1. As of June 30, 2015 and December 31, 2014, our available-for-sale securities, which primarily consist of investments held in a rabbi trust of \$6.5 million at each date, are measured at fair value using quoted prices in active markets for identical assets (Level 1) inputs. The Company does not have any financial assets measured at fair value on a recurring basis categorized as Level 3, and there were no transfers in or out of Level 1, Level 2 or Level 3 during the six months ended June 30, 2015. There were no changes to the Company's valuation techniques used to measure asset fair values on a recurring or nonrecurring basis during the six months ended June 30, 2015.

There were no financial assets accounted for at fair value on a nonrecurring basis as of June 30, 2015 or December 31, 2014.

The Company has other financial instruments, such as cash and cash equivalents, accounts receivable, restricted cash, accounts payable, accrued expenses and notes payable, which are not measured at fair value on a recurring basis but are recorded at amounts that approximate fair value due to their liquid or short-term nature. The fair value of the Company's long-term debt is estimated using a discounted cash flow method based on interest rates that are currently available for debt issuances with similar terms and maturities (Level 2 inputs). At June 30, 2015, the estimated fair value of long-term debt was \$206.9 million compared to a carrying amount of 206.3 million. The Company did not have any other financial liabilities within the scope of the fair value disclosure requirements as of June 30, 2015 or December 31, 2014.

Nonfinancial assets and liabilities, such as goodwill, indefinite-lived intangible assets and long-lived assets, are accounted for at fair value on a nonrecurring basis. These items are tested for impairment on the occurrence of a triggering event or, in the case of goodwill and indefinite-lived intangible assets, on at least an annual basis. There were no triggering events that occurred during the six months ended June 30, 2015 or 2014 that would warrant interim impairment testing.

## 5. INVENTORIES

The components of inventories are as follows:

|                  | June 30,<br>2015 | December<br>31,<br>2014 |
|------------------|------------------|-------------------------|
| Raw materials    | \$52,307         | \$51,638                |
| Work in progress | 17,106           | 16,128                  |
| Finished goods   | 41,828           | 45,864                  |
| Inventories      | \$ 111,241       | \$ 113,630              |



Return to Index

## 6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

|                                    | June 30,<br>2015 | December<br>31,<br>2014 |
|------------------------------------|------------------|-------------------------|
| Land                               | \$2,228          | \$3,293                 |
| Buildings and improvements         | 28,790           | 31,067                  |
| Machinery and equipment            | 118,508          | 117,178                 |
| Construction in progress           | 5,276            | 4,764                   |
|                                    | 154,802          | 156,302                 |
| Accumulated depreciation           | (91,821 )        | (87,041 )               |
| Property, plant and equipment, net | \$62,981         | \$69,261                |

Depreciation expense for the three months ended June 30, 2015 and 2014 was \$4.0 million and \$2.5 million, respectively. Depreciation expense for the six months ended June 30, 2015 and 2014 was \$8.1 million and \$5.3 million, respectively.

## 7. ACCRUED EXPENSES

Accrued expenses consist of the following:

|  | June 30,<br>2015 | December<br>31,<br>2014 |
|--|------------------|-------------------------|
| Sales commissions                      | \$3,039          | \$3,017                 |
| Subcontracting labor                   | 3,587            | 2,217                   |
| Salaries, bonuses and related benefits | 16,370           | 17,964                  |
| Warranty accrual                       | 4,699            | 6,032                   |
| Other                                  | 12,153           | 13,358                  |
|  | \$39,848         | \$42,588                |

Warranties vary by product line and are competitive for the markets in which the Company operates. Warranties generally extend for one to three years from the date of sale. The Company reviews its warranty liability quarterly based on an analysis of actual expenses and failure rates accompanied with estimated future costs and projected failure rate trends. Factors taken into consideration when evaluating our warranty reserve are (i) historical claims for each product, (ii) volume increases, (iii) life of warranty, (iv) historical warranty repair costs and (v) other factors. To the extent that actual experience differs from our estimate, the provision for product warranties will be adjusted in future periods. Actual warranty repair costs are charged against the reserve balance as incurred.

A tabular presentation of the activity within the warranty accrual account for the six months ended June 30, 2015 is presented below:

|   |         |
|---|---------|
| Beginning balance as of January 1, 2015   | \$6,032 |
| Charges and costs accrued   | 2,781   |
| Adjustments related to pre-existing warranties (including changes in estimates) | (1,040) |
| Less repair costs incurred  | (1,577) |
| Less cash settlements   | (1,522) |
| Currency translation  | 25      |
| Ending balance as of June 30, 2015  | \$4,699 |

## 8. DEBT

On June 19, 2014, the Company entered into a senior Credit and Security Agreement with KeyBank National Association ("KeyBank") (as amended, the "Credit and Security Agreement" or "CSA"). The CSA consists of (i) a \$50 million revolving credit facility ("Revolver"), (ii) a \$145 million term loan facility ("Term Loan") and (iii) a \$70 million delayed draw term loan ("DDTL") and matures on June 18, 2019. During 2014, the Company borrowed an aggregate amount of \$238.0 million under the CSA to fund the 2014 Acquisitions. The Company had outstanding borrowings of \$206.3 million and \$232.6 million under the CSA at June 30, 2015 and December 31, 2014, respectively.

11

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Return to Index

The weighted-average interest rate in effect was 2.94% at each of June 30, 2015 and December 31, 2014 and consisted of LIBOR plus the Company's credit spread, as determined per the terms of the CSA. During the three months ended June 30, 2015 and 2014, the Company incurred interest expense of \$2.0 million and \$0.2 million, respectively. During the six months ended June 30, 2015 and 2014, the Company incurred interest expense of \$4.2 million and \$0.2 million, respectively.

The CSA contains customary representations and warranties, covenants and events of default and financial covenants that measure (i) the ratio of the Company's total funded indebtedness, on a consolidated basis, to the amount of the Company's consolidated EBITDA, as defined, ("Leverage Ratio") and (ii) the ratio of the amount of the Company's consolidated EBITDA to the Company's consolidated fixed charges ("Fixed Charge Coverage Ratio"). If an event of default occurs, the lenders under the CSA would be entitled to take various actions, including the acceleration of amounts due thereunder and all actions permitted to be taken by a secured creditor. At June 30, 2015, the Company was in compliance with its debt covenants, including its most restrictive covenant, the Leverage Ratio. The unused credit available under the credit facility at June 30, 2015 was \$39.0 million.

## 9. INCOME TAXES

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. The Company is no longer subject to U.S. federal examinations by tax authorities for years before 2011 and for state examinations before 2008. Regarding foreign subsidiaries, the Company is no longer subject to examination by tax authorities for years before 2003 in Asia and generally 2007 in Europe.

As a result of the expiration of the statute of limitations for specific jurisdictions, it is reasonably possible that the related unrecognized benefits for tax positions taken regarding previously filed tax returns may change materially from those recorded as liabilities for uncertain tax positions in the Company's condensed consolidated financial statements at June 30, 2015. An immaterial amount of previously recorded liabilities for uncertain tax positions relates principally to the 2011 tax year. The statute of limitations related to these liabilities is scheduled to expire on September 15, 2015.

The Company's liabilities for uncertain tax positions are included in the following balance sheet captions:

|                                       | June 30, | December  |
|---------------------------------------|----------|-----------|
|                                       | 2015     | 31,       |
|                                       |          | 2014      |
| Income taxes payable                  | \$38     | \$ 203    |
| Liability for uncertain tax positions | 41,426   | 39,767    |
|                                       | \$41,464 | \$ 39,970 |

As part of the acquisition of Power Solutions the Company acquired a \$35.8 million liability for uncertain tax positions. Of this amount, \$12.0 million relates to an ongoing claim by the Arezzo Revenue Agency in Italy concerning certain tax matters related to what was then Power-One Asia Pacific Electronics Shenzhen Co. Ltd. (now Bel Power Solutions Asia Pacific Electronics Shenzhen Co. Ltd.) for the years 2004 through 2006. The Company also acquired a liability for additional uncertain tax positions related to various tax matters for the years 2007 through 2013. At the conclusion of the measurement period related to the Power Solutions acquisition and as of June 30, 2015, certain of these tax matters were being pursued with the applicable taxing authority. From the date of acquisition through June 30, 2015, the Company has recorded \$2.5 million of interest and penalties pertaining to this issue and will continue to accrue applicable interest and penalties until the matters are resolved or upon expiration of the respective statute of limitations. Any changes in facts and circumstances related to these tax matters will be recorded on a prospective basis and not included as purchase price adjustments. Of the amounts noted in the table

above, \$29.5 million at June 30, 2015 and \$2.8 million at December 31, 2014, if recognized, would reduce the Company's effective tax rate.

The Company's policy is to recognize interest and penalties related to unrecognized tax benefits arising from uncertain tax positions as a component of the current provision for income taxes. During the six months ended June 30, 2015 and 2014, the Company recognized \$1.4 million and an immaterial amount, respectively, in interest and penalties in the condensed consolidated statements of operations. During the six months ended June 30, 2015, the Company recognized a benefit of an immaterial amount for the reversal of such interest and penalties. The Company has approximately \$3.0 million and \$1.6 million, accrued for the payment of such interest and penalties at June 30, 2015 and December 31, 2014, respectively, which is included in both income taxes payable and liability for uncertain tax positions in the condensed consolidated balance sheets.

12

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Return to Index

Upon completion of the acquisitions of Power Solutions and Connectivity Solutions, there were net deferred tax assets of \$2.2 million and \$1.2 million, respectively, arising from various temporary differences and net operating loss carry forward acquired, which are included in the condensed consolidated balance sheet at June 30, 2015. In connection with the 2014 Acquisitions, the Company was required to complete a fair market value report of property, plant and equipment and intangibles. As a result of that report, the Company established deferred tax liabilities at the date of acquisition in the amount of \$3.1 million and \$16.4 million, respectively, for the Power Solutions and Connectivity Solutions acquisitions. At June 30, 2015, a net deferred tax liability of \$12.4 million remains on the condensed consolidated balance sheet for the 2014 Acquisitions. The amounts for the Connectivity Solutions acquisition are preliminary since the measurement period for this acquisition is still open. The amounts will be finalized prior to the conclusion of the measurement period, which will not exceed one year from the respective acquisition dates. See Note 2, Acquisitions and Disposition, for further information about the 2014 Acquisitions.

The Company intends to make elections to step up the tax basis to fair value under IRC Section 338(g) for the Power Solutions acquisitions and for certain jurisdictions with respect to the Connectivity Solutions acquisition. The elections made under Section 338(g) only affect U.S. income taxes (not those of the foreign country where the acquired entities were incorporated).

On December 31, 2013, under the "American Taxpayer Relief Act" ("ATRA"), the Research and Experimentation credit ("R&E") expired. On December 16, 2014, the R&E credit was extended back to January 1, 2014. The R&E credits for the year ending 2015 have not been extended.

The Company continues to monitor proposed legislation affecting the taxation of transfers of U.S. intangible property and other potential tax law changes.

#### 10. RETIREMENT FUND AND PROFIT SHARING PLAN

The Company maintains the Bel Fuse Inc. Employees' Savings Plan, a defined contribution plan that is intended to meet the applicable requirements for tax-qualification under sections 401(a) and (k) of the Internal Revenue Code of 1986, as amended (the "Code"). The Employees' Savings Plan allows eligible employees to voluntarily contribute a percentage of their eligible compensation, subject to Code limitations, which contributions are matched by the Company. For plan years beginning on and after January 1, 2012, the Company's matching contributions are made in cash and are equal to 100% of the first 1% of compensation contributed by participants, and 50% of the next 5% of compensation contributed by participants. Prior to January 1, 2012, the Company's matching and profit sharing contributions were made in the form of shares of Bel Fuse Inc. Class A and Class B common stock. The expense for the three months ended June 30, 2015 and 2014 amounted to \$0.3 million and \$0.1 million, respectively. The expense for the six months ended June 30, 2015 and 2014 amounted to \$0.6 million and \$0.3 million, respectively. As of June 30, 2015, the plan owned 13,928 and 172,269 shares of Bel Fuse Inc. Class A and Class B common stock, respectively.

The Company's subsidiaries in Asia have a retirement fund covering substantially all of their Hong Kong based full-time employees. Eligible employees contribute up to 5% of salary to the fund. In addition, the Company must contribute a minimum of 5% of eligible salary, as determined by Hong Kong government regulations. The Company currently contributes 7% of eligible salary in cash or Company stock. The expense for the three months ended June 30, 2015 and 2014 amounted to \$0.1 million in each period. The expense for the six months ended June 30, 2015 and 2014 amounted to \$0.2 million and \$0.1 million, respectively. As of June 30, 2015, the plan owned 3,323 and 17,342 shares of Bel Fuse Inc. Class A and Class B common stock, respectively.

The Company maintains a SERP, which is designed to provide a limited group of key management and highly compensated employees of the Company with supplemental retirement and death benefits. As discussed in Note 4,

Fair Value Measurements, the Company has investments in a rabbi trust which are intended to fund the obligations of the SERP.

The components of SERP expense are as follows:

|                           | Three<br>Months<br>Ended<br>June 30, |       | Six Months<br>Ended<br>June 30, |       |
|---------------------------|--------------------------------------|-------|---------------------------------|-------|
|                           | 2015                                 | 2014  | 2015                            | 2014  |
| Service cost              | \$138                                | \$138 | \$276                           | \$276 |
| Interest cost             | 142                                  | 135   | 283                             | 270   |
| Net amortization          | 92                                   | 46    | 183                             | 92    |
| Net periodic benefit cost | \$372                                | \$319 | \$742                           | \$638 |

Return to Index

|  | June 30,<br>2015 | December<br>31,<br>2014 |
|--|------------------|-------------------------|
| Balance sheet amounts:   |                  |                         |
| Minimum pension obligation<br>and unfunded pension liability           | \$14,733         | \$14,205                |
| Amounts recognized in accumulated<br>other comprehensive loss, pretax: |                  |                         |
| Prior service cost   | \$957            | \$1,048                 |
| Net loss   | 3,210            | 3,302                   |
|  | \$4,167          | \$4,350                 |

## 11. ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss at June 30, 2015 and December 31, 2014 are summarized below:

|   | June 30,<br>2015 | December<br>31,<br>2014 |
|---|------------------|-------------------------|
| Foreign currency translation adjustment, net of taxes of (\$336) at<br>June 30, 2015 and (\$142) at December 31, 2014               | \$(16,152)       | \$(9,351 )              |
| Unrealized holding gains on available-for-sale securities, net of taxes of<br>\$274 at June 30, 2015 and \$259 at December 31, 2014 | 454              | 429                     |
| Unfunded SERP liability, net of taxes of (\$1,269) at June 30, 2015<br>and (\$1,325) at December 31, 2014                           | (2,898 )         | (3,026 )                |
| Accumulated other comprehensive loss  | \$(18,596)       | \$(11,948 )             |

Changes in accumulated other comprehensive loss by component during the six months ended June 30, 2015 are as follows. All amounts are net of tax.

|   | Foreign<br>Currency<br>Translation<br>Adjustment | Unrealized<br>Holding Gains<br>on<br>Available-for-<br>Sale Securities | Unfunded<br>SERP<br>Liability | Total      |
|---|--|--|-------------------------------|------------|
| Balance at January 1, 2015                                    | \$ (9,351 )                                      | \$ 429   | \$ (3,026 )                   | \$(11,948) |
| Other comprehensive (loss) income before<br>reclassifications | (6,801 )   | 25   | -                             | (6,776 )   |

|   |              |        |             |     |             |
|---|--------------|--------|-------------|-----|-------------|
| Amount reclassified from accumulated other comprehensive loss | -            | -      | 128         | (a) | 128         |
| Net current period other comprehensive (loss) income          | (6,801 )     | 25     | 128         |     | (6,648 )    |
| Balance at June 30, 2015                                      | \$ (16,152 ) | \$ 454 | \$ (2,898 ) |     | \$ (18,596) |

(a) This reclassification relates to the amortization of prior service costs and gains/losses associated with the Company's SERP plan.

This expense is allocated between cost of sales and selling, general and administrative expense based upon the employment classification of the plan participants.

## 12. COMMITMENTS AND CONTINGENCIES

### Legal Proceedings

The Company is party to a number of legal actions and claims, none of which individually or in the aggregate, in the opinion of management, are expected to have a material adverse effect on the Company's results of operations or financial position. See the Company's Annual Report on Form 10-K for the year ended December 31, 2014 for the details of all of Bel's material pending lawsuits.

Return to Index

The Company was a defendant in a lawsuit captioned SynQor, Inc. v. Artesyn Technologies, Inc., et al. brought in the United States District Court, Eastern District of Texas in November 2007 ("SynQor I case"). The plaintiff alleged that eleven defendants, including Bel, infringed its patents covering certain power products. With respect to the Company, the plaintiff claimed that the Company infringed its patents related to unregulated bus converters and/or point-of-load (POL) converters used in intermediate bus architecture power supply systems. The case initially went to trial in December 2010. A decision was ultimately rendered in November 2013 in favor of the plaintiff, and the Company released a payment to SynQor of \$10.9 million. The Company subsequently received a \$2.1 million payment from one of its customers related to an indemnification agreement and reimbursement of certain legal fees.

In a related matter, on September 29, 2011, the United States District Court for the Eastern District of Texas ordered SynQor, Inc.'s continuing causes of action for post-verdict damages to be severed from the original action and assigned to a new case number. The new action captioned SynQor, Inc. v. Artesyn Technologies, Inc., et al. (Case Number 2:11cv444) is a patent infringement action for damages in the form of lost profits and reasonable royalties for the period beginning January 24, 2011 ("SynQor II case"). SynQor, Inc. also seeks enhanced damages. The Company has an indemnification agreement in place with one of its customers specifically covering post-verdict damages related to this case. This case went to trial on July 30, 2013. In April 2014, a final judgment was rendered in this case, whereby the Company was assessed an additional \$0.7 million in post-verdict damages. This amount was paid by the Company in July 2014 and was subsequently reimbursed by one of its customers under the terms of the indemnification agreement referenced above. SynQor filed an appeal of the final judgment in May 2014, which is currently pending with the CAFC. The CAFC heard oral arguments from the parties on this matter on March 2, 2015. The Court has yet to render its decision on this case.

The Company is a plaintiff in a lawsuit captioned Bel Fuse Inc. et al. v. Molex Inc. brought in the United District Court of New Jersey in April 2013. The Company claims that Molex infringed three of the Company's patents related to integrated magnetic connector products. Molex filed a motion to dismiss the complaint on August 6, 2013. The Company filed an amended complaint and response on August 20, 2013. Molex withdrew its original Motion to Dismiss and filed a second, revised Motion to Dismiss on September 6, 2013. The Company filed its response on October 7, 2013. The Court denied Molex's revised Motion to Dismiss on June 16, 2014. In June 2014, Molex initiated an Inter Partes Review (IPR) at the U.S. Patent and Trademark Office for one of the three patents associated with this case. The Company and Molex executed an agreement in September 2014 to terminate the IPR and to withdraw one of the patents from the district court litigation. The case continues to proceed in the District Court and now involves two of the Company's patents related to integrated magnetic connector products.

In connection with the acquisition of Power Solutions, there is an ongoing claim by the Arezzo Revenue Agency in Italy concerning certain tax matters related to what was then Power-One Asia Pacific Electronics Shenzhen Co. Ltd. (now Bel Power Solutions Asia Pacific Electronics Shenzhen Co. Ltd, or "BPS China") for the years 2004 to 2006. In September 2012, the Tax Court of Arezzo ruled in favor of BPS China and cancelled the claim. In February 2013, the Arezzo Revenue Agency filed an appeal of the Tax Court's ruling. The hearing of the appeal was held on October 2, 2014. On October 13, 2014, BPS China was informed of the Regional Tax Commission of Florence ruling which was in favor of the Arezzo Revenue Agency and against BPS China. The estimated liability related to this matter is approximately \$12.0 million and has been included as a liability for uncertain tax positions on the accompanying condensed consolidated balance sheet. As Bel is fully indemnified in this matter per the terms of the stock purchase agreement with ABB, an offsetting indemnification asset is also reflected in other assets on the accompanying condensed consolidated balance sheet at June 30, 2015.

The Company, through its subsidiary Cinch Connectors Inc., is a defendant in an asbestos lawsuit captioned Richard Skrzypek vs. Adience Inc., et al. The lawsuit was filed in the Circuit Court for the County of Wayne in the State of Michigan. The complaint was amended to include Cinch Connectors Inc. and other defendants on November 13, 2014. The Company filed its answer to the complaint on January 23, 2015.

The Company is not a party to any other legal proceeding, the adverse outcome of which is likely to have a material adverse effect on the Company's condensed consolidated financial condition or results of operations.

13. SEGMENTS

The Company operates in one industry with three reportable operating segments, which are geographic in nature. The segments consist of North America, Asia and Europe. The primary criteria by which financial performance is evaluated and resources are allocated are net sales and income from operations. The following is a summary of key financial data:

15

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Return to Index

|   | Three Months Ended |           | Six Months Ended |           |
|---|--------------------|-----------|------------------|-----------|
|   | June 30,           |           | June 30,         |           |
|   | 2015               | 2014      | 2015             | 2014      |
| <u>Net Sales to External Customers:</u> |                    |           |                  |           |
| North America                           | \$76,504           | \$35,064  | \$153,264        | \$63,795  |
| Asia                                    | 48,610             | 51,223    | 94,131           | 94,271    |
| Europe                                  | 20,544             | 13,152    | 40,278           | 24,019    |
|   | \$145,658          | \$99,439  | \$287,673        | \$182,085 |
| Net Sales:                              |                    |           |                  |           |
| North America                           | \$84,491           | \$39,405  | \$171,508        | \$70,859  |
| Asia                                    | 80,189             | 61,968    | 153,338          | 111,860   |
| Europe                                  | 41,967             | 16,550    | 83,504           | 27,441    |
| Less intercompany net sales             | (60,989)           | (18,484)  | (120,677)        | (28,075)  |
|   | \$145,658          | \$99,439  | \$287,673        | \$182,085 |
| Income from Operations:                 |                    |           |                  |           |
| North America                           | \$(1,215)          | \$(1,617) | \$2,255          | \$(734)   |
| Asia                                    | 5,161              | 4,715     | 5,713            | 6,388     |
| Europe                                  | 3,506              | 616       | 8,530            | 941       |
|   | \$7,452            | \$3,714   | \$16,498         | \$6,595   |

Net Sales – Segment net sales are attributed to individual segments based on the geographic source of the billing for such customer sales. Intercompany sales include finished products manufactured in foreign countries which are then transferred to the United States and Europe for sale; finished goods manufactured in the United States which are transferred to Europe and Asia for sale; and semi-finished components manufactured in the United States which are sold to Asia for further processing. Income from operations represents net sales less operating costs and expenses and does not include any amounts related to intercompany transactions.

The following items are included in the segment data presented above:

Recent Acquisitions – The 2014 Acquisitions contributed to Bel's segment sales and income from operations during the three and six months ended June 30, 2015 and 2014 as follows:

|   | Three Months |         | Six Months Ended |         |
|---|--------------|---------|------------------|---------|
|   | Ended        |         | June 30,         |         |
|   | June 30,     | 2014    | 2015             | 2014    |
|   | 2015         |         |                  |         |
| <u>Net Sales to External Customers:</u> |              |         |                  |         |
| North America:                          |              |         |                  |         |
| Power Solutions                         | \$32,999     | \$5,037 | \$66,398         | \$5,037 |
| Connectivity Solutions                  | 13,986       | -       | 28,475           | -       |
|   | 46,985       | 5,037   | 94,873           | 5,037   |
| Asia:                                   |              |         |                  |         |
| Power Solutions                         | 292          | 357     | 642              | 357     |
| Connectivity Solutions                  | 1,160        | -       | 2,238            | -       |
|   | 1,452        | 357     | 2,880            | 357     |

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Europe:

|                        |          |         |           |         |
|------------------------|----------|---------|-----------|---------|
| Power Solutions        | 8,065    | 1,839   | 15,981    | 1,839   |
| Connectivity Solutions | 1,913    | -       | 3,491     | -       |
|                        | 9,978    | 1,839   | 19,472    | 1,839   |
|                        | \$58,415 | \$7,233 | \$117,225 | \$7,233 |



[Return to Index](#)

|                                       | Three Months<br>Ended<br>June 30,<br>2015 |           | Six Months<br>Ended<br>June 30,<br>2014 |           |
|---------------------------------------|---|-----------|---|-----------|
| <u>Income (Loss) from Operations:</u> |   |           |   |           |
| North America:                        |   |           |   |           |
| Power Solutions                       | \$(2,954)                                 | \$(1,125) | \$(1,855)                               | \$(1,125) |
| Connectivity Solutions                | 585                                       | -         | 1,521                                   | -         |
|                                       | (2,369)                                   | (1,125)   | (334)                                   | (1,125)   |
| Asia:                                 |   |           |   |           |
| Power Solutions                       | (563)                                     | (162)     | (1,510)                                 | (162)     |
| Connectivity Solutions                | (327)                                     | -         | (493)                                   | -         |
|                                       | (890)                                     | (162)     | (2,003)                                 | (162)     |
| Europe:                               |   |           |   |           |
| Power Solutions                       | 1,858                                     | 297       | 6,318                                   | 297       |
| Connectivity Solutions                | 217                                       | -         | 398                                     | -         |
|                                       | 2,075                                     | 297       | 6,716                                   | 297       |
|                                       | \$(1,184)                                 | \$(990)   | \$4,379                                 | \$(990)   |

## 14. EARNINGS PER SHARE

The following table sets forth the calculation of basic and diluted net earnings per common share under the two-class method for the three and six months ended June 30, 2015 and 2014:

|  | Three Months<br>Ended<br>June 30,<br>2015 |         | Six Months<br>Ended<br>June 30,<br>2014 |         |
|--|---|---------|---|---------|
| Numerator:   |   |         |   |         |
| Net earnings   | \$6,062                                   | \$3,065 | \$11,382                                | \$5,568 |
| Less dividends declared:                               |   |         |   |         |
| Class A  | 130                                       | 131     | 261                                     | 261     |
| Class B  | 682                                       | 653     | 1,360                                   | 1,307   |
| Undistributed earnings                                 | \$5,250                                   | \$2,281 | \$9,761                                 | \$4,000 |
| Undistributed earnings allocation - basic and diluted: |   |         |   |         |
| Class A undistributed earnings                         | \$924                                     | \$414   | \$1,720                                 | \$726   |
| Class B undistributed earnings                         | 4,326                                     | 1,867   | 8,041                                   | 3,274   |
| Total undistributed earnings                           | \$5,250                                   | \$2,281 | \$9,761                                 | \$4,000 |
| Net earnings allocation - basic and diluted:           |   |         |   |         |
| Class A net earnings                                   | \$1,054                                   | \$545   | \$1,981                                 | \$987   |
| Class B net earnings                                   | 5,008                                     | 2,520   | 9,401                                   | 4,581   |

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|                                      |         |         |          |         |
|--------------------------------------|---------|---------|----------|---------|
| Net earnings                         | \$6,062 | \$3,065 | \$11,382 | \$5,568 |
| Denominator:                         |         |         |          |         |
| Weighted-average shares outstanding: |         |         |          |         |
| Class A - basic and diluted          | 2,175   | 2,175   | 2,175    | 2,175   |
| Class B - basic and diluted          | 9,693   | 9,332   | 9,682    | 9,333   |
| Net earnings per share:              |         |         |          |         |
| Class A - basic and diluted          | \$0.49  | \$0.25  | \$0.91   | \$0.45  |
| Class B - basic and diluted          | \$0.52  | \$0.27  | \$0.97   | \$0.49  |

[Return to Index](#)

15. RELATED PARTY TRANSACTIONS

In connection with the acquisition of Power Solutions in 2014, the Company maintains minority ownership in a joint venture in the PRC. See Note 2, Acquisitions and Disposition. The joint venture may purchase raw components and other goods from the Company and may sell finished goods to the Company as well as to other third parties. The Company paid \$0.3 million and \$1.5 million for inventory purchases from the joint venture during the three and six months ended June 30, 2015, respectively. At June 30, 2015, the Company owed the joint venture approximately \$0.5 million, which is included in accounts payable on the condensed consolidated balance sheet.

Return to Index

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

The information in this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Company's condensed consolidated financial statements and the related notes set forth in Item 1 of Part I of this quarterly report on Form 10-Q, our MD&A set forth in Item 7 of Part II of our 2014 Annual Report on Form 10-K and our consolidated financial statements and related notes set forth in Item 8 of Part II of our 2014 Annual Report on Form 10-K. See Part II, Item 1A, "Risk Factors," below and "Cautionary Notice Regarding Forward-Looking Statements," above, and the information referenced therein, for a description of risks that we face and important factors that we believe could cause actual results to differ materially from those in our forward-looking statements. All amounts and percentages are approximate due to rounding and all dollars are in millions, except per share amounts or where otherwise noted. When we cross-reference to a "Note," we are referring to our "Notes to Condensed Consolidated Financial Statements," unless the context indicates otherwise. All amounts noted within the tables are in thousands and amounts and percentages are approximate due to rounding.

Overview

Our Company

Bel designs, manufactures and markets a broad array of products that power, protect and connect electronic circuits. These products are primarily used in the networking, telecommunications, computing, military, aerospace, transportation and broadcasting industries. Bel's portfolio of products also finds application in the automotive, medical and consumer electronics markets.

The Company operates through three geographic segments: North America, Asia and Europe. In the six months ended June 30, 2015, 53% of the Company's revenues were derived from North America, 33% from Asia and 14% from its Europe operating segment. By product group, 38% of sales for the six months ended June 30, 2015 related to the Company's power solutions and protection products, 32% related to the Company's connectivity solutions products and 30% related to the Company's magnetics products.

Our operating expenses are driven principally by the cost of labor where we produce our products, the cost of the materials that we use and our ability to effectively and efficiently manage overhead costs. As labor and material costs vary by product line and region, any significant shift in mix of product sold may have an associated impact on our costs of sales. Costs are recorded as incurred for all products manufactured. Such amounts are determined based upon the estimated stage of production and include labor cost and benefits and related allocations of factory overhead. Our products are manufactured in various facilities globally.

In the PRC, where we generally enter into processing arrangements with several independent third-party contractors and also have our own manufacturing facilities, the availability of labor is cyclical and is significantly affected by the migration of workers in relation to the annual Lunar New Year holiday as well as economic conditions in the PRC. In addition, we have little visibility into the ordering habits of our customers and we can be subjected to large and unpredictable variations in demand for our products. Accordingly, we must continually recruit and train new workers to replace those lost to attrition each year and to be able to address peaks in demand that may occur from time to time. These recruiting and training efforts and related inefficiencies, and overtime required in order to meet demand, can add volatility to the costs incurred by us for labor in the PRC.

The consolidated results included in this MD&A include the results of the 2014 Acquisitions discussed in Note 2, Acquisitions and Disposition, from their respective acquisition dates.

Key Factors Affecting our Business

The Company believes the key factors affecting Bel's results for the three and six months ended June 30, 2015 and/or future results include the following:

Recent Acquisitions – The Company completed its acquisition of Power Solutions in June 2014, and its acquisition of Connectivity Solutions in July 2014 and August 2014. During the three and six months ended June 30, 2015, the acquired companies contributed combined sales of \$58.4 million and \$117.2 million, respectively.

Revenues – Excluding the revenue contributions from the 2014 Acquisitions as described above, the Company's revenues for the three and six months ended June 30, 2015 decreased by \$5.0 million and \$4.4 million, respectively, as compared to the same periods of 2014.

Product Mix – Material and labor costs vary by product line and any significant shift in product mix between higher- and lower-margin product lines will have a corresponding impact on the Company's gross margin percentage. As compared to the pre-2014 (legacy-Bel) business on average, the recently acquired Power Solutions business has lower margins and Connectivity Solutions has higher margins. Fluctuations in sales volume of Power Solutions or Connectivity Solutions products will have a corresponding impact on Bel's profit margins.

### Return to Index

Pricing and Availability of Materials – Pricing and availability of components that constitute raw materials in our manufacturing processes have been stable for most of the Company's product lines, although lead times on certain electrical components continue to be extended. Pricing of electrical components during the six months ended June 30, 2015 was flat compared to the same period of 2014. With regard to commodity pricing, the costs of certain commodities that are contained in components and other raw materials, such as gold and copper, were lower during the three and six months ended June 30, 2015 as compared to the same periods of 2014. Any fluctuations in component prices and other commodity prices associated with Bel's raw materials will have a corresponding impact on Bel's operating results.

Restructuring – The Company continues to implement restructuring programs in connection with integrating the 2014 Acquisitions into the legacy-Bel structure. During the three and six months ended June 30, 2015, the Company incurred \$0.3 million and \$0.5 million, respectively, as compared to \$1.1 million in each of the same periods of 2014, primarily for severance and termination benefits. Restructuring efforts are expected to continue into the second half of 2015, and we anticipate additional costs of approximately \$1.0 million in the second half of 2015. These efforts are projected to result in incremental savings of \$3 million to \$4 million on an annualized basis, beginning in the fourth quarter of 2015. The preceding discussions represent Forward-Looking Statements. See "Cautionary Notice Regarding Forward-Looking Statements."

Labor Costs – Labor costs as a percentage of sales for the legacy-Bel business were 14.0% of sales during the six months ended June 30, 2015 as compared to 14.2% during the six months ended June 30, 2014. With the inclusion of the 2014 Acquisitions in our results, we expect lower consolidated labor costs as a percentage of sales in future periods. Labor costs for the Power Solutions business during the six months ended June 30, 2015 were 5.6% of their respective sales and Connectivity Solutions' labor costs were 7.5% of their respective sales.

Acquisition-Related Costs – As a result of the 2014 Acquisitions, we incurred acquisition-related costs of \$0.1 million and \$0.5 million during the three and six months ended June 30, 2015, respectively, which includes professional fees for independent valuations and the completion of the independent carve-out audit for Connectivity Solutions. The Company anticipates these costs to be minimal for the remainder of 2015.

Impact of Foreign Currency – Since we are a U.S. domiciled company, we translate our foreign currency-denominated financial results into U.S. dollars. Due to the changes in the value of foreign currencies relative to the U.S. dollar, translating our financial results and the revaluation of certain intercompany transactions to and from foreign currencies to U.S. dollars may result in a favorable or unfavorable impact to our condensed consolidated statements of operations and cash flows. The Company monitors changes in foreign currencies and implements pricing actions to help mitigate the impact that changes in foreign currencies may have on its operating results. See Selling, General and Administrative Expenses and Inflation and Foreign Currency Exchange below for further details.

Effective Tax Rate – The Company's effective tax rate will fluctuate based on the geographic segment in which our pretax profits are earned. Of the geographic segments in which we operate, the U.S. has the highest tax rates; Europe's tax rates are generally lower than U.S. tax rates; and Asia has the lowest tax rates of the Company's three geographical segments. See (Benefit) Provision for Income Taxes below and Note 9, Income Taxes.

With the majority of our integration efforts and sales force restructuring with respect to the 2014 Acquisitions substantially completed, our main focus for the remainder of 2015 will be on top line sales growth. As noted above, we are also looking at additional efficiencies that can be achieved in various areas of the business through facility consolidations and other streamlining efforts which are expected to provide meaningful cost savings starting in late 2015. Such expectation is a Forward-Looking Statement. See "Cautionary Notice Regarding Forward-Looking Statements."



Return to Index

## Summary by Operating Segment

Net sales to external customers by operating segment for the three and six months ended June 30, 2015 and 2014 were as follows:

|               | Three Months Ended |       |          | Six Months Ended |           |       |           |       |
|---------------|--------------------|-------|----------|------------------|-----------|-------|-----------|-------|
|               | June 30,           |       |          | June 30,         |           |       |           |       |
|               | 2015               | 2014  |          | 2015             | 2014      |       |           |       |
| North America | \$76,504           | 53 %  | \$35,064 | 35 %             | \$153,264 | 53 %  | \$63,795  | 35 %  |
| Asia          | 48,610             | 33 %  | 51,223   | 52 %             | 94,131    | 33 %  | 94,271    | 52 %  |
| Europe        | 20,544             | 14 %  | 13,152   | 13 %             | 40,278    | 14 %  | 24,019    | 13 %  |
|               | \$145,658          | 100 % | \$99,439 | 100 %            | \$287,673 | 100 % | \$182,085 | 100 % |

Net sales to external customers in the Company's North America and Europe operating segments were favorably impacted during the three and six months ended June 30, 2015 as compared to the same periods of 2014 due to the 2014 Acquisitions. During the three months ended June 30, 2015, the 2014 Acquisitions contributed \$47.0 million of their total net sales to North America, \$1.5 million to Asia and \$10.0 million to Europe. During the six months ended June 30, 2015, the 2014 Acquisitions contributed \$94.9 million of their total net sales to North America, \$2.9 million to Asia and \$19.5 million to Europe.

Net sales and income from operations by operating segment for the three months and six months ended June 30, 2015 and 2014 were as follows. Segment net sales are attributed to individual segments based on the geographic source of the billing for customer sales.

|                         | Three Months Ended |           | Six Months Ended |           |
|-------------------------|--------------------|-----------|------------------|-----------|
|                         | June 30,           |           | June 30,         |           |
|                         | 2015               | 2014      | 2015             | 2014      |
| Total segment sales:    |                    |           |                  |           |
| North America           | \$84,491           | \$39,405  | \$171,508        | \$70,859  |
| Asia                    | 80,189             | 61,968    | 153,338          | 111,860   |
| Europe                  | 41,967             | 16,550    | 83,504           | 27,441    |
| Total segment sales     | 206,647            | 117,923   | 408,350          | 210,160   |
| Reconciling item:       |                    |           |                  |           |
| Intersegment sales      | (60,989)           | (18,484)  | (120,677)        | (28,075)  |
| Net sales               | \$145,658          | \$99,439  | \$287,673        | \$182,085 |
| Income from operations: |                    |           |                  |           |
| North America           | \$(1,215)          | \$(1,617) | \$2,255          | \$(734)   |
| Asia                    | 5,161              | 4,715     | 5,713            | 6,388     |
| Europe                  | 3,506              | 616       | 8,530            | 941       |
|                         | \$7,452            | \$3,714   | \$16,498         | \$6,595   |

See Note 13, Segments, for details on contributions from the 2014 Acquisitions to income from operations by segment.



Net Sales

The Company's net sales by major product line for the three and six months ended June 30, 2015 and 2014 were as follows:

|                                | Three Months Ended |      |          |      | Six Months Ended |      |           |      |
|--------------------------------|--------------------|------|----------|------|------------------|------|-----------|------|
|                                | June 30,<br>2015   |      | 2014     |      | June 30,<br>2015 |      | 2014      |      |
| Magnetic solutions             | \$46,243           | 32 % | \$44,732 | 45 % | \$87,145         | 30 % | \$84,029  | 46 % |
| Connectivity solutions         | 45,615             | 31 % | 32,197   | 32 % | 91,246           | 32 % | 62,367    | 34 % |
| Power solutions and protection | 53,800             | 37 % | 22,510   | 23 % | 109,282          | 38 % | 35,689    | 20 % |
|                                | \$145,658          | 100% | \$99,439 | 100% | \$287,673        | 100% | \$182,085 | 100% |

The Company experienced volume increases in all product lines during the three and six months ended June 30, 2015 as compared to the same period of 2014.

Return to Index

## Magnetic Solutions:

The increase in magnetic solutions' sales was primarily due to increases in sales volume of Bel's integrated connector module (ICM) products of \$1.2 million during the three months ended June 30, 2015 and \$3.1 million during the six months ended June 30, 2015 as compared to the respective periods of 2014.

## Power Solutions and Protection:

The Power Solutions acquisition contributed incremental sales of \$34.1 million and \$75.8 million to the power solutions and protection product line during the three and six months ended June 30, 2015, respectively, as compared to the same periods of 2014. Excluding the incremental impact of the Power Solutions acquisition, power solutions and protection net sales decreased by \$2.8 million, or 18.5%, during the second quarter of 2015 and by \$2.2 million, or 7.7%, during the first six months of 2015, as compared to the same periods of 2014. These decreases were primarily due to declines in sales volume from our legacy-Bel DC/DC products during 2015 as compared to the respective periods of 2014.

## Connectivity Solutions:

The Connectivity Solutions acquisition contributed incremental sales of \$17.1 million and \$34.2 million to the connectivity solutions product line during the three and six months ended June 30, 2015, respectively, as compared to the same periods of 2014. Excluding the incremental impact of the Connectivity Solutions acquisition, connectivity solutions net sales decreased by \$3.6 million, or 11.3%, during the second quarter of 2015 and by \$5.3 million, or 8.5%, during the first six months of 2015, as compared to the same periods of 2014. The decreases were primarily due to declines in sales volumes from our legacy-Bel passive connector products and Cinch products.

Cost of Sales

Cost of sales as a percentage of net sales for the three and six months ended June 30, 2015 and 2014 consisted of the following:

|                                   | Three Months |          | Six Months |          |
|-----------------------------------|--------------|----------|------------|----------|
|                                   | Ended        | Ended    | Ended      | Ended    |
|                                   | June 30,     | June 30, | June 30,   | June 30, |
|                                   | 2015         | 2014     | 2015       | 2014     |
| Material costs                    | 42.7%        | 44.4%    | 43.4%      | 43.4%    |
| Labor costs                       | 11.2%        | 13.5%    | 10.8%      | 13.8%    |
| Research and development expenses | 4.9%         | 4.1%     | 4.9%       | 4.1%     |
| Other expenses                    | 21.6%        | 20.0%    | 21.7%      | 21.1%    |
| Total cost of sales               | 80.4%        | 82.0%    | 80.8%      | 82.4%    |

Material costs as a percentage of sales were lower during the second quarter of 2015 as compared to the second quarter of 2014, and flat during the six month periods noted above. Excluding the 2014 Acquisitions, legacy-Bel's material costs as a percentage of sales decreased to 39.5% in the three months ended June 30, 2015 from 42.4% in the same period of 2014 and to 41.5% in the six months ended June 30, 2015 from 42.3% in the same period of 2014. This was due to the shift in the mix of products sold noted above, as legacy-Bel's DC/DC products carry a higher material content than its ICM products. The reduction in material costs during the six month period was equally offset by higher material content associated with Power Solutions products (material costs for the acquired Power Solutions business were 53.3% of their total sales during the first six months of 2015).

Labor costs as a percentage of sales declined with the inclusion of the 2014 Acquisitions, particularly Power Solutions, as their significant manufacturing sites are located in lower cost regions. Legacy-Bel's labor costs as a percentage of sales increased slightly to 14.4% in the three months ended June 30, 2015 from 14.2% in the same period of 2014 (primarily due to government mandated wage increases in the PRC during May 2015). Legacy-Bel labor costs as a percentage of sales for the first half of the year decreased from 14.2% in 2014 to 14.0% in 2015 primarily due to an adequate return of trained labor following the 2015 Lunar New Year holiday, which eliminated the need for excess overtime to meet customer demand.

Included in cost of sales are research and development (R&D) expenses of \$7.1 million and \$4.0 million for the three-month periods ended June 30, 2015 and 2014, respectively, and \$14.1 million and \$7.4 million for the six-month periods ended June 30, 2015 and 2014, respectively. The majority of these increases relate to the incremental impact of R&D expense from the 2014 Acquired Companies of \$3.2 million during the three months ended June 30, 2015 and \$6.9 million during the six months ended June 30, 2015.

Return to IndexSelling, General and Administrative Expenses ("SG&A")

SG&A expenses increased \$7.6 million and \$14.0 million in the three and six months ended June 30, 2015, respectively, as compared with the same periods of 2014. These increases were due to the following:

|  | Increase<br>(Decrease)<br>Compared to<br>Same Period of<br>2014 |  |
|--|---|--|
|  | Three<br>Months<br>Ended<br>June<br>30,<br>2015                 | Six<br>Months<br>Ended<br>June 30,<br>2015 |
| Incremental impact of additional SG&A expense from the 2014 Acquisitions | \$9,434   | \$19,227                                   |
| Acquisition-related costs  | (1,460)   | (1,083)                                    |
| Net unrealized gains on foreign currency revaluation                     | (195)   | (4,617)                                    |
| Other general and administrative expenses                                | (191)   | 480  |
|  | \$7,588   | \$14,007                                   |

The net unrealized gains on foreign currency revaluation noted above were primarily due to the appreciation of the U.S. dollar against the euro within the Power Solutions business and changes in other foreign currencies during the six months ended June 30, 2015, which in turn impacted the revaluation of some of the Company's intercompany loans and, to a lesser extent, intercompany receivable and payable balances.

(Benefit) Provision for Income Taxes

The Company's effective tax rate will fluctuate based on the geographic segment in which the pretax profits and losses occur. Of the geographic segments in which the Company operates, the U.S. has the highest tax rates; Europe's tax rates are generally lower than U.S. tax rates; and Asia has the lowest tax rates of the Company's three geographical segments.

The (benefit) provision for income taxes for the three months ended June 30, 2015 and 2014 was \$(0.6) million and \$0.5 million, respectively. The Company's earnings before provision for income taxes for the three months ended June 30, 2015 were approximately \$1.9 million higher than the same period in 2014. The Company's effective tax rate, representing the income tax (benefit) provision as a percentage of earnings before provision for income taxes, was (10.7)% and 13.4% for the three month periods ended June 30, 2015 and 2014, respectively. The change in the effective tax rate during the three months ended June 30, 2015 as compared to the same period of 2014, is primarily attributable to a significant increase in the North America segment pre-tax loss which was partially offset by the increase in U.S. taxes resulting from taxes related to uncertain tax positions and foreign acquired disregarded entity income.

The provision for income taxes for the six months ended June 30, 2015 was \$1.4 million compared to \$0.9 million for the six months ended June 30, 2014. The Company's earnings before income taxes for the six months ended June 30, 2015 were approximately \$6.3 million higher than the same period in 2014. The Company's effective tax rate was 10.7% and 13.5% for the six-month periods ended June 30, 2015 and 2014, respectively. The change in the effective

tax rate during the six months ended June 30, 2015 compared to the same period in 2014 is primarily attributed to the decrease in the Asia segment pre-tax income which resulted in lower taxes during the six months ended June 30, 2015 compared to the same period of 2014, and a reversal of valuation allowances for capital loss carryforwards offset in part by an increase in U.S. taxes resulting from taxes related to uncertain tax positions and foreign acquired disregarded entity income. See Note 9, Income Taxes.

### Liquidity and Capital Resources

Our primary sources of cash are the collection of trade receivables generated from the sales of our products and services to our customers and amounts available under our existing lines of credit, including our credit facility. Our primary uses of cash are payments for operating expenses, investments in working capital, capital expenditures, interest, taxes, dividends, debt obligations and other long-term liabilities. We believe that our current liquidity position and future cash flows from operations will enable us to fund our operations, including all of the items mentioned above, in the next twelve months.

Cash and cash equivalents held by foreign subsidiaries of the Company amounted to \$60.7 million at June 30, 2015 (representing 85% of total cash on hand) and \$67.2 million at December 31, 2014 (representing 87% of total cash on hand). Management's intention is to permanently reinvest the earnings of its foreign subsidiaries outside the U.S. and there are no current plans that would indicate a need to repatriate those earnings to fund the Company's U.S. operations. In the event foreign earnings were repatriated to fund U.S. operations by way of a taxable distribution, the Company would be required to accrue and pay U.S. taxes to repatriate these funds.

On June 19, 2014, the Company entered into a senior Credit and Security Agreement ("CSA"). At June 30, 2015, the Company was in compliance with its debt covenants, including its most restrictive covenant, the Leverage Ratio. The unused credit available under the credit facility at June 30, 2015 was \$39.0 million, of which we had the ability to borrow \$35.0 million without violating our Leverage Ratio covenant based on the Company's existing consolidated EBITDA. See Note 8, Debt, for additional details.

Return to Index

Cash Flows

During the six months ended June 30, 2015, the Company's cash and cash equivalents decreased by \$5.7 million. This decrease was primarily due to the following:

- net repayments of long-term debt of \$26.4 million;
- purchases of property, plant and equipment of \$5.7 million; and
- payments of dividends of \$1.5 million.

These items were partially offset by:

- net cash proceeds of \$9.0 million received from the NPS sale and related transactions; and
- other net cash provided by operating activities of \$14.7 million, including the impact of the changes in accounts receivable and inventories described below; and
- a favorable impact of exchange rate changes on cash and cash equivalents of \$4.7 million, primarily due to the appreciation of the U.S. dollar to the euro.

During the six months ended June 30, 2015, accounts receivable decreased by \$0.4 million primarily due to slightly lower sales volume in the second quarter of 2015 as compared to the fourth quarter of 2014. Days sales outstanding (DSO) remained constant at 62 days at both June 30, 2015 and December 31, 2014. Inventories decreased by \$1.6 million during the six months ended June 30, 2015, as shipments of finished goods increased in the month of June. Inventory turns declined to 4.2 times per year at June 30, 2015 from 4.3 times per year at December 31, 2014.

As compared with the six months ended June 30, 2014, cash provided by operating activities increased \$11.0 million. Excluding the net cash proceeds received from the NPS sale and related transactions, cash provided by operating activities increased \$2.0 million.

Cash and cash equivalents, marketable securities and accounts receivable comprised approximately 27.4% of the Company's total assets at June 30, 2015 and 27.8% of total assets at December 31, 2014. The Company's current ratio (i.e., the ratio of current assets to current liabilities) was 2.4 to 1 at June 30, 2015 and 2.6 to 1 at December 31, 2014.

Critical Accounting Policies

Management's discussion and analysis of Bel's financial condition and results of operations are based upon the Company's condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to product returns, bad debts, inventories, goodwill, intangible assets, investments, warranties, SERP expense, income taxes and contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Recent Accounting Pronouncements

The discussion of new financial accounting standards applicable to the Company is incorporated herein by reference to Note 1, Basis of Presentation and Accounting Policies.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to market risk primarily from changes in foreign currency exchange rates and changes in interest rates associated with its long-term debt. There have not been any material changes with regard to market risk during the six months ended June 30, 2015. Refer to Item 7A, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 for further discussion of market risks.

Return to Index

Item 4. Controls and Procedures

Disclosure controls and procedures: As of the end of the period covered by this Quarterly Report on Form 10-Q, the Company carried out an evaluation, with the participation of the Company's management, including the Company's Chief Executive Officer and Vice President of Finance, of the effectiveness of the Company's disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-15. Based on that evaluation, the Company's Chief Executive Officer and Vice President of Finance concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in internal control over financial reporting: There was no change in the Company's internal control over financial reporting that occurred during the three months ended June 30, 2015 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

The information called for by this Item is incorporated herein by reference to Note 12, Commitments and Contingencies, under "Legal Proceedings". We are also involved in various other legal actions incidental to our business. We believe, after consulting with counsel, that the disposition of these other legal proceedings and matters will not have a material effect on our condensed consolidated financial condition or results of operations.

Item 1A. Risk Factors

See Part I, Item 1A, "Risk Factors," of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014. Except as required by the federal securities law, we undertake no obligation to update or revise any risk factor, whether as a result of new information, future events or otherwise.



Return to Index

Item 6.  
Exhibits

(a)Exhibits:

- |          |  |
|----------|--|
| 31.1*    | Certification of the President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                         |
| 31.2*    | Certification of the Principal Financial Officer and Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1**   | Certification of the President and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                        |
| 32.2**   | Certification of the Principal Financial Officer and Principal Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS* | XBRL Instance Document   |
| 101.SCH* | XBRL Taxonomy Extension Schema Document  |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document   |

\* Filed herewith.

\*\* Submitted herewith.

[Return to Index](#)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BEL FUSE INC.

August 7, 2015

By: /s/ Daniel Bernstein  
Daniel Bernstein  
President and Chief Executive Officer

By: /s/ Colin Dunn  
Colin Dunn  
Vice President of Finance and Secretary  
(Principal Financial Officer and Principal Accounting Officer)

Return to Index

EXHIBIT INDEX

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