

BEL FUSE INC /NJ
Form 10-Q
August 07, 2018

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, 2018

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, a smaller reporting company or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act.

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

company []

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. []

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

Title of Each Class	Number of Shares of Common Stock Outstanding as of August 1, 2018
Class A Common Stock (\$0.10 par value)	2,174,912
Class B Common Stock (\$0.10 par value)	9,837,602

BEL FUSE INC.

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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 2017 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, that could cause actual results to differ materially from these statements. Forward-Looking Statements can be identified by such words as "anticipates," "believes," "plan," "assumes," "could," "should," "estimates," "expects," "intends," "potential," "seek," "predict," "may," "will" and similar references to future periods. All statements other than statements of historical facts included in this report regarding our strategies, prospects, financial condition, operations, costs, plans and objectives are Forward-Looking Statements. These Forward-Looking Statements are subject to certain risks and uncertainties, including those detailed in Item 1A of our 2017 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.

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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, 2018	December 31, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	\$55,730	\$69,354
Accounts receivable, net of allowance for doubtful accounts of \$2,388 in 2018 and \$1,745 in 2017	88,972	78,808
Unbilled receivables	15,587	-
Inventories	106,448	107,719
Other current assets	12,383	10,218
Total current assets	279,120	266,099
Property, plant and equipment, net	42,944	43,495
Intangible assets, net	65,784	69,366
Goodwill	18,972	20,177
Deferred income taxes	2,380	4,155
Other assets	27,548	27,973
Total assets	\$436,748	\$431,265
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$59,370	\$47,947
Accrued expenses	29,252	30,508
Current portion of long-term debt	2,506	2,641
Other current liabilities	5,077	6,204
Total current liabilities	96,205	87,300
Long-term Liabilities:		
Long-term debt	112,958	120,053
Liability for uncertain tax positions	28,409	27,948
Minimum pension obligation and unfunded pension liability	19,673	19,134
Deferred income taxes	1,614	1,567
Other liabilities	14,592	17,303
Total liabilities	273,451	273,305
Commitments and contingencies		

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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 authorized; 2,174,912 shares outstanding at each date (net of 1,072,769 treasury shares)	217	217
Class B common stock, par value \$.10 per share, 30,000,000 shares authorized; shares outstanding: 9,838,852 in 2018 and 9,859,352 in 2017 (net of 3,218,307 treasury shares)	984	986
Additional paid-in capital	30,027	28,575
Retained earnings	154,985	147,807
Accumulated other comprehensive loss	(22,916)	(19,625)
Total stockholders' equity	163,297	157,960
Total liabilities and stockholders' equity	\$436,748	\$431,265

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net sales	\$140,710	\$131,617	\$258,961	\$245,285
Cost of sales	111,696	102,490	208,814	192,795
Gross profit	29,014	29,127	50,147	52,490
Selling, general and administrative expenses	18,306	21,723	38,998	42,698
Restructuring charges	41	138	45	171
Income from operations	10,667	7,266	11,104	9,621
Interest expense	(1,349)	(1,586)	(2,527)	(3,010)
Interest income and other, net	(285)	(268)	(521)	(476)
Earnings before provision for income taxes	9,033	5,412	8,056	6,135
Provision for income taxes	2,399	2,292	2,724	2,269
Net earnings available to common stockholders	\$6,634	\$3,120	\$5,332	\$3,866
Net earnings per common share:				
Class A common share - basic and diluted	\$0.52	\$0.24	\$0.41	\$0.30
Class B common share - basic and diluted	\$0.56	\$0.26	\$0.45	\$0.33
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	9,844	9,859	9,850	9,852
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.

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BEL FUSE INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(dollars in thousands)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net earnings available to common stockholders	\$6,634	\$3,120	\$5,332	\$3,866
Other comprehensive income (loss):				
Currency translation adjustment, net of taxes of \$37 in the three months ended June 30, 2018, \$153 in the three months ended June 30, 2017, \$12 in the six months ended June 30, 2018 and \$184 in the six months ended June 30, 2017	(7,448)	5,661	(3,431)	7,572
Unrealized gains (losses) on marketable securities arising during the period, net of taxes of \$0 in the three months ended June 30, 2018, \$7 in the three months ended June 30, 2017, (\$20) in the six months ended June 30, 2018 and (\$170) in the six months ended June 30, 2017	-	12	(31)	(267)
Change in unfunded SERP liability, net of taxes of \$25 in the three months ended June 30, 2018, \$32 in the three months ended June 30, 2017, \$51 in the six months ended June 30, 2018 and \$65 in the six months ended June 30, 2017	85	61	171	122
Other comprehensive income (loss)	(7,363)	5,734	(3,291)	7,427
Comprehensive income (loss)	\$(729)	\$8,854	\$2,041	\$11,293

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net earnings	\$5,332	\$3,866
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	9,320	10,476
Stock-based compensation	1,447	1,545
Amortization of deferred financing costs	294	670
Deferred income taxes	1,780	(826)
Net unrealized (gains) losses on foreign currency revaluation	(871)	2,107
Other, net	616	892
Changes in operating assets and liabilities:		
Accounts receivable, net	(10,541)	(13,843)
Unbilled receivables	(1,051)	-
Inventories	(10,629)	(2,658)
Account payable	12,082	492
Accrued expenses	(1,251)	(2,409)
Other operating assets/liabilities, net	(5,286)	(694)
Net cash provided by (used in) operating activities	1,242	(382)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(5,870)	(2,243)
Proceeds from disposal/sale of property, plant and equipment	53	10
Net cash used in investing activities	(5,817)	(2,233)
Cash flows from financing activities:		
Repayments of long-term debt	(7,525)	(15,400)
Dividends paid to common stockholders	(1,589)	(1,562)
Borrowings under revolving credit line	-	6,000
Repayments of revolving credit line	-	(2,000)
Reduction in notes payable	-	(213)
Net cash used in financing activities	(9,114)	(13,175)
Effect of exchange rate changes on cash and cash equivalents	65	1,042
Net decrease in cash and cash equivalents	(13,624)	(14,748)
Cash and cash equivalents - beginning of period	69,354	73,411
Cash and cash equivalents - end of period	\$55,730	\$58,663

Supplementary information:

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Cash paid during the period for:

Income tax payments, net of refunds received	\$5,073	\$881
Interest payments	\$2,260	\$2,336

See accompanying notes to unaudited condensed consolidated financial statements.

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BEL FUSE INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The condensed consolidated balance sheets, statements of operations, comprehensive income (loss) 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, 2018 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, 2017.

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, including the interim reporting requirements, 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.

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, 2017. There were no significant changes to these accounting policies during the six months ended June 30, 2018, except as discussed in Note 2, Revenue, related to the adoption of the new revenue standards.

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 May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to customers. Subsequently, the FASB issued several other updates related to revenue recognition (collectively with ASU 2014-09, the "new revenue standards" or "ASC 606"). We adopted the guidance under the new revenue standards effective January 1, 2018 using the modified retrospective approach by recognizing the cumulative effect of initially applying the new standard as an increase to the opening balance of retained earnings.

Upon adoption, the new revenue standards replaced most existing revenue recognition guidance in U.S. GAAP. Based on our review of representative samples of contracts and other forms of agreements with customers globally and our evaluation of the provisions under the five-step model specified by the new revenue standards, the Company has implemented changes with respect to timing of revenue recognition primarily related to arrangements for which the customer takes the Company's products from a facility holding consignment inventory.

In connection with the modified retrospective application of the new revenue standards, we recorded an adjustment to increase retained earnings of \$3.4 million upon the January 1, 2018 adoption date. Apart from this adjustment and the inclusion of additional required disclosures in Note 2, the adoption of the new revenue standards did not have a material impact on the Company's condensed consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This guidance primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. Under the new guidance, entities will be required to measure certain equity investments at fair value and recognize any changes in fair value in net earnings, unless the investments qualify for the new practicability exception. The new standard was effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2017. We adopted this guidance on January 1, 2018. The adoption of this guidance did not have a material impact on the Company's condensed consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This guidance addresses diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This accounting guidance was effective for annual reporting periods beginning after December 31, 2017, including interim reporting periods within those annual reporting periods, and should be applied retrospectively to all periods presented. This guidance was adopted by the Company effective January 1, 2018 and it did not have any impact on the Company's condensed consolidated statement of cash flows in the periods presented.

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In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. Current U.S. GAAP prohibits the recognition of current and deferred income taxes for intra-entity asset transfer until the asset has been sold to an outside party. The new guidance eliminates the exception and requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This accounting guidance was effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods, and should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. This guidance was adopted by the Company effective January 1, 2018 and it did not have a material impact on the Company's condensed consolidated financial position or results of operations.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business ("ASU 2017-01"), to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill and consolidation. ASU 2017-01 provides a framework that gives entities a basis for making reasonable judgments about whether a transaction involves an asset or a business. The Company adopted ASU 2017-01 on January 1, 2018, and the guidance will be applied on a prospective basis.

In March 2017, the FASB issued ASU 2017-07, Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost ("ASU 2017-07"). This guidance requires that an employer disaggregate the service cost component from the other components of net benefit cost. ASU 2017-07 requires employers to present the service cost component of the net periodic benefit cost in the same income statement line as other employee compensation costs arising from services rendered during the period. The other components of net benefit cost, including interest cost, expected return on plan assets, amortization of prior service costs and actuarial gains/losses, and settlement and curtailment effects, are to be presented outside of any subtotal of operating income. The guidance also specifies that the amount of costs that can be capitalized will be limited to service cost only. The Company adopted the guidance of ASU 2017-07 on January 1, 2018 and elected to apply the practical expedient and use the amounts disclosed in Note 9 to the financial statements included in Part I, Item 1 of the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017 as the basis for applying the retrospective application required by the standard. The amounts reclassified within the statement of operations for the three-month and six-month periods ended June 30, 2017 were not material.

In May 2017, the FASB issued ASU 2017-09, Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting ("ASU 2017-09"). This update provides guidance about which changes to the terms or conditions of a share-based payment require an entity to apply modification accounting in Topic 718. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Company adopted ASU 2017-09 on January 1, 2018, and the guidance within this update will be applied to any future award modifications.

Accounting Standards Issued But Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), to provide a new comprehensive model for lease accounting. Under this guidance, lessees and lessors should apply a "right-of-use" model in accounting for all leases (including subleases) and eliminate the concept of operating leases and off-balance sheet leases. Recognition, measurement and presentation of expenses will depend on classification as a finance or operating lease. Similar modifications have been made to lessor accounting in-line with revenue recognition guidance. This guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2018. The amendments also require certain quantitative and qualitative disclosures about leasing arrangements. Early adoption is permitted. The updated guidance requires a modified retrospective adoption. We are currently in the process of

evaluating this new standard update.

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment ("ASU 2017-04"). ASU 2017-04 simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Early adoption is permitted for interim and annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is required to adopt ASU 2017-04 for its annual or any interim goodwill impairment tests for annual periods beginning after December 15, 2019, and the guidance is to be applied on a prospective basis.

In February 2018, the FASB issued ASU 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This guidance allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the U.S. Tax Cuts and Jobs Act, which was enacted on December 22, 2017. This guidance is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years and should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the U.S. Tax Cuts and Jobs Act is recognized. Early adoption is permitted. We are currently in the process of evaluating this new standard update.

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In May 2018, the FASB issued ASU 2018-07, Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting, which simplifies the accounting for share-based payments granted to nonemployees for goods and services. This guidance will better align the treatment of share-based payments to nonemployees with the requirements for such share-based payments granted to employees. This guidance is effective for all public entities for fiscal years beginning after December 15, 2018, including interim periods within that year. We are currently in the process of evaluating this new standard update.

2. REVENUE

Significant Accounting Policy

On January 1, 2018, the Company adopted ASC 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historical accounting under ASC 605. The adoption of ASC 606 represents a change in accounting principle that will more closely align revenue recognition with the transfer of control of the Company's goods and services and provides financial statement readers with enhanced disclosures related to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

In accordance with ASC 606, revenue is recognized when a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these goods and services.

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue.

Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of sales.

Nature of Goods and Services

Our revenues are substantially derived from sales of our products.

In our connectivity solutions product group, we provide high-quality and reliable high-performance connectors and cable assemblies to the aerospace, military/defense, commercial, rugged harsh environment and communication markets. This group also includes passive jacks, plugs and cable assemblies that provide connectivity in networking equipment, as well as modular plugs and cable assemblies used within the structured cabling system, known as premise wiring.

In our power solutions and protection group, we provide intelligent, efficient and reliable AC-DC and DC-DC power conversion devices and circuit protection products. Applications range from board-mount power to system-level architectures for servers, storage, networking, industrial and transportation.

In our magnetic solutions group, we provide an extensive line of integrated connector modules (ICM), where an Ethernet magnetic solution is integrated into a connector package. Products within the Company's magnetic solutions group are primarily used in networking and industrial applications.

The Company also provides incremental services to our customers in the form of training, technical support, special tooling, and other support as deemed necessary from time to time. For purposes of ASC 606, all such incremental

services were concluded to be immaterial in the context of the contracts.

Types of Contracts

Substantially all of the Company's revenue is derived from contracts with its customers under one of the following types of contracts:

Direct with customer: This includes contracts with original equipment manufacturers (OEMs), original design manufacturers (ODMs), and contract manufacturers (CMs). The nature of Bel's products are such that they represent components which are installed in various end applications (i.e. servers, aircraft, missiles and rail applications). The OEM, ODM or CM that purchases our product for further installation are our end customers. Contracts with these customers are broad-based and cover general terms and conditions. Details such as order volume and pricing are typically contained in individual purchase orders, and as a result, we view each product on each purchase order as an individual performance obligation. Incremental services included in the contracts, such as training, tooling and other customer support are determined to be immaterial in the context of the contract, both individually and in the aggregate. Revenue under these contracts is generally recognized at a point in time, generally upon shipping or delivery, which closely mirrors the shipping terms dictated by the applicable contract.

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Distributor: Distribution customers buy product directly from Bel and sell it in the marketplace to end customers. Bel contracts directly with the distributor. These contracts are typically global in nature and cover a variety of our product groups. Similar to contracts with OEMs, ODMs and CMs, each product on each purchase order is considered an individual performance obligation. Revenue is recognized at a point in time, generally upon shipping or delivery, which closely mirrors the shipping terms dictated by the applicable contract.

Consignment: These customers operate under a type of concession agreement whereby the Company ships goods to a warehouse or hub, where they will be pulled by the customer at a later date. The terms specified in the consignment contracts specify that the Company will not invoice the customer for product until it is pulled from the warehouse or hub. Once product arrives at the hub, it is generally not returned to Bel unless there is a warranty issue (see "Warranties" section below). Similar to the contracts described above, each product on each purchase order is considered an individual performance obligation. Under ASC 606, it was determined that the majority of these hubs are customer-controlled, and therefore control transfers to the customer upon either delivery from Bel's warehouse, or arrival at the customer-controlled hub, depending upon the applicable shipping terms. Effective January 1, 2018, revenue is recognized as control of the product is transferred to the customer (for customer-controlled hubs, this is at the time product is shipped to the hub). This gives rise to an unbilled receivable balance, as we do not have the right to invoice the customer until product is pulled from the hub.

Licensing Agreements: License agreements are only applicable to our Power Solutions and Protection product group, and include provisions for Bel to receive sales-based royalty income related to the licensing of Bel's patents or other intellectual property (IP) utilized by a third-party entity. Income related to these agreements is tracked by the licensee throughout the year based on their sales of product that utilize Bel's IP, and that data is reported to Bel either on a quarterly or annual basis, with payment generally received within 30 days of the reporting date. Our performance obligation is satisfied upon delivery of the IP at the beginning of the license period, as the licenses are functional in nature. However, the recognition of revenue associated with these licenses is subject to the sales- or usage-based constraint on variable consideration. As such, the Company records a constrained estimate of this variable consideration as royalty income in the period of the underlying customers' product sales, with adjustments made as actual licensee sales data becomes available.

Warranties

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, providing customers with assurance that the related product will function as intended. 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. See Note 11, "Accrued Expenses."

Product Returns

We estimate product returns, including product exchanges under warranty, based on historical experience. In general, the Company is not contractually obligated to accept returns except for defective product or in instances where the product does not meet the Company's product specifications. However, the Company may permit its customers to return product for other reasons. In certain instances, the Company would generally require a significant cancellation penalty payment by the customer. The Company estimates such returns, where applicable, based upon management's evaluation of historical experience, market acceptance of products produced and known negotiations with customers. Such estimates are deducted from sales and provided for at the time revenue is recognized. Distribution customers often receive what is referred to as "ship and debit" arrangements, whereby Bel will invoice them at an agreed upon

unit price upon shipment of product and a price reduction may be granted if the market price of the product declines after shipment. Distributors may also be entitled to special pricing discount credits, and certain customers are entitled to return allowances based on previous sales volumes. Bel deducts estimates for anticipated credits, refunds and returns from sales each quarter based on historical experience.

Significant Payment Terms

Contracts with customers indicate the general terms and conditions in which business will be conducted for a set period of time. Individual purchase orders state the description, quantity and price of each product purchased. Payment for products sold under direct contracts with customers or contracts with distributors is typically due in full within 30-90 days from the transfer of title to customer. Payment for products sold under consignment contracts is typically due within 60 days of the customer pulling the product from the hub. Payment due related to our licensing agreements is generally within 30 days of receiving the licensee sales data, which is either on a quarterly or annual basis.

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Since the customer agrees to a stated price for each product on each purchase order, the majority of contracts are not subject to variable consideration, except as discussed above related to product returns. However, the "ship and debit" arrangements with distributors, royalty income associated with our licensing agreements, and the product returns described above are each deemed to be variable consideration which requires the Company to make constrained estimates based on historical data.

Disaggregation of Revenue

The following table provides information about disaggregated revenue by product group and sales channel, and includes a reconciliation of the disaggregated revenue to our reportable segments:

	Three Months Ended June 30, 2018			
	North			
	America	Asia	Europe	Consolidated
By Product Group:				
Connectivity solutions	\$34,834	\$4,820	\$9,274	\$ 48,928
Magnetic solutions	10,158	32,844	2,546	45,548
Power solutions and protection	26,248	8,250	11,736	46,234
	\$71,240	\$45,914	\$23,556	\$ 140,710
By Sales Channel:				
Direct to customer	\$44,055	\$39,402	\$15,990	\$ 99,447
Through distribution	27,185	6,512	7,566	41,263
	\$71,240	\$45,914	\$23,556	\$ 140,710
	Six Months Ended June 30, 2018			
	North			
	America	Asia	Europe	Consolidated
By Product Group:				
Connectivity solutions	\$65,878	\$8,241	\$17,727	\$ 91,846
Magnetic solutions	18,209	60,669	4,898	83,776
Power solutions and protection	46,609	15,625	21,105	83,339
	\$130,696	\$84,535	\$43,730	\$ 258,961
By Sales Channel:				
Direct to customer	\$81,951	\$72,330	\$30,183	\$ 184,464
Through distribution	48,745	12,205	13,547	74,497
	\$130,696	\$84,535	\$43,730	\$ 258,961

The cumulative effect of the changes made to our consolidated January 1, 2018 balance sheet for the adoption of ASC 606 were as follows:

Balance		Balance
at	Adjustments	at

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	December 31, 2017	Due to ASC 606	January 1, 2018
Balance Sheet			
Unbilled receivables	\$-	\$ 14,536	\$14,536
Inventory	107,719	(11,044)	96,675
Other current liabilities	6,204	43	6,247
Retained earnings	147,807	3,449	151,256

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In accordance with the new revenue standard requirements, the disclosure of the impact of adoption on our balance sheet as of June 30, 2018 and consolidated statement of operations for the three and six months ended June 30, 2018 was as follows:

	As of June 30, 2018		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher/(Lower)
Balance Sheet			
<u>Assets</u>			
Unbilled receivables	\$15,587	\$-	\$ 15,587
Inventories	106,448	117,780	(11,332)
<u>Liabilities</u>			
Other current liabilities	5,077	4,918	159
<u>Equity</u>			
Retained earnings	154,985	150,889	4,096

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher/(Lower)	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher/(Lower)
Statement of Operations						
Net sales	\$140,710	\$138,777	\$ 1,933	\$258,961	\$257,911	\$ 1,050
Cost of sales	111,696	110,321	1,375	208,814	208,526	288
Operating income	10,667	10,109	558	11,104	10,342	762
Provision for income taxes	2,399	2,343	56	2,724	2,608	116
Net earnings	\$6,634	\$6,132	\$ 502	\$5,332	\$4,686	\$ 646

Contract Assets and Contract Liabilities:

A contract asset results when goods or services have been transferred to the customer but payment is contingent upon a future event, other than passage of time. In the case of our consignment arrangements, we are unable to invoice the customer until product is pulled from the hub by the customer, which generates an unbilled receivable (a contract asset) when revenue is initially recognized.

A contract liability results when cash payments are received or due in advance of our performance obligation being met. We have certain customers who provide payment in advance of product being shipped, which results in deferred revenue (a contract liability).

The balances of the Company's contract assets and contract liabilities at June 30, 2018 are as follows:

	June 30, 2018	January 1, 2018
Contract assets - current (unbilled receivable)	\$15,587	\$14,536
Contract liabilities - current (deferred revenue)	\$1,609	\$855

The change in balance of our unbilled receivables from January 1, 2018 to June 30, 2018 primarily relates to a timing difference between the Company's performance (i.e. when our product is shipped to a customer-controlled hub) and the point at which the Company can invoice the customer per the terms of the customer contract (i.e. when the customer pulls our product from the customer-controlled hub).

A tabular presentation of the activity within the deferred revenue account for the six months ended June 30, 2018 is presented below:

	Six Months Ended June 30, 2018
Balance, January 1	\$855
New advance payments received	3,928
Recognized as revenue during period	(3,174)
Balance, June 30	\$1,609

Return to IndexTransaction Price Allocated to Future Obligations:

The aggregate amount of transaction price allocated to remaining performance obligations that have not been satisfied as of June 30, 2018 related to contracts that exceed one year in duration amounted to \$18.3 million, with expected contract expiration dates that range from 2019 - 2024. It is expected that 20% of this aggregate amount will be recognized in 2019, 63% will be recognized in 2020 and the remainder will be recognized in years beyond 2020. The majority of the Company's total backlog of orders at June 30, 2018 is related to contracts that have an original expected duration of one year or less, for which the Company is electing to utilize the practical expedient available within the guidance, and are excluded from the transaction price related to these future obligations. The Company will generally satisfy the remaining performance obligations as we transfer control of the products ordered to our customers. The transaction price related to these future obligations also excludes variable consideration consisting of sales or usage-based royalties earned on licensing agreements. The variability related to these sales or usage-based royalties will be resolved in the periods when the licensee generates sales related to the licensed intellectual property.

Other Practical Expedients:

In the application of the recognition and measurement principles of ASC 606, the Company elected to utilize the following additional practical expedients which are provided for within the guidance:

Financing Components: Bel has elected the practical expedient which enables management to disregard the effects of a financing component if the time difference between delivery of goods or services and payment for the goods or services is within one year.

Costs to Obtain a Contract: As part of negotiations, Bel may incur incremental costs to obtain a contract. Incremental costs are only those costs that would not have been incurred if the contract had not been obtained (e.g. sales commissions). Bel has elected the practical expedient that allows incremental costs to obtain a contract to be expensed as incurred when the expected amortization period is one year or less.

3. 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, 2018 and 2017:

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2017	
Numerator:				
Net earnings	\$6,634	\$3,120	\$5,332	\$3,866
Less dividends declared:				
Class A	130	131	261	261
Class B	689	689	1,389	1,388
Undistributed earnings	\$5,815	\$2,300	\$3,682	\$2,217
Undistributed earnings allocation - basic and diluted:				
Class A undistributed earnings	\$1,011	\$399	\$640	\$385
Class B undistributed earnings	4,804	1,901	3,042	1,832
Total undistributed earnings	\$5,815	\$2,300	\$3,682	\$2,217

Net earnings allocation - basic and diluted:				
Class A net earnings	\$1,141	\$530	\$901	\$646
Class B net earnings	5,493	2,590	4,431	3,220
Net earnings	\$6,634	\$3,120	\$5,332	\$3,866
Denominator:				
Weighted-average shares outstanding:				
Class A - basic and diluted	2,175	2,175	2,175	2,175
Class B - basic and diluted	9,844	9,859	9,850	9,852
Net earnings per share:				
Class A - basic and diluted	\$0.52	\$0.24	\$0.41	\$0.30
Class B - basic and diluted	\$0.56	\$0.26	\$0.45	\$0.33

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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.

As of June 30, 2018 and December 31, 2017, 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. 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, 2018 and December 31, 2017. The gross unrealized gains associated with the investment securities held in the rabbi trust were \$0.2 million at both June 30, 2018 and December 31, 2017. Such unrealized gains are included, net of tax, in accumulated other comprehensive loss.

As of June 30, 2018 and December 31, 2017, our available-for-sale securities, which primarily consist of investments held in a rabbi trust of \$1.5 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, 2018 or June 30, 2017. 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, 2018.

There were no financial assets accounted for at fair value on a nonrecurring basis as of June 30, 2018 or December 31, 2017.

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. At June 30, 2018 and December 31, 2017, the estimated fair value of total debt was \$117.9 million and \$124.8 million, respectively, compared to a carrying amount of \$115.5 million and \$122.7 million, respectively. The Company did not have any other financial liabilities within the scope of the fair value disclosure requirements as of June 30, 2018.

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 upon the occurrence of a triggering event or in the case of goodwill, on at least an annual basis. There were no triggering events that occurred during the six months ended June 30, 2018 that would warrant interim impairment testing.

5. INVENTORIES

The components of inventories are as follows:

	June 30, 2018	December 31, 2017
Raw materials	\$56,680	\$46,712
Work in progress	20,007	17,688
Finished goods	29,761	43,319
Inventories	\$106,448	\$107,719

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6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	June 30, 2018	December 31, 2017
Land	\$2,253	\$2,259
Buildings and improvements	30,543	30,761
Machinery and equipment	123,280	122,773
Construction in progress	2,951	1,511
	159,027	157,304
Accumulated depreciation	(116,083)	(113,809)
Property, plant and equipment, net	\$42,944	\$43,495

Depreciation expense for the three months ended June 30, 2018 and 2017 was \$2.9 million and \$3.4 million, respectively. Depreciation expense for the six months ended June 30, 2018 and 2017 was \$6.1 million and \$7.0 million, respectively.

7. ACCRUED EXPENSES

Accrued expenses consist of the following:

	June 30, 2018	December 31, 2017
Sales commissions	\$2,549	\$ 2,461
Subcontracting labor	1,648	1,408
Salaries, bonuses and related benefits	15,452	16,531
Warranty accrual	1,251	1,769
Other	8,352	8,339
	\$29,252	\$ 30,508

A tabular presentation of the activity within the warranty accrual account for the six months ended June 30, 2018 and 2017 is presented below:

	Six Months Ended June 30,	
	2018	2017
Balance, January 1	\$1,769	\$2,718
Charges and costs accrued	-	27
Adjustments related to pre-existing warranties (including changes in estimates)	(379)	(282)

Less repair costs incurred	(148)	(119)
Currency translation	9	73
Balance, June 30	\$1,251	\$2,417

8. DEBT

The Company has a Credit and Security Agreement with KeyBank National Association (as amended, the "CSA"). The CSA consists of (i) a term loan, with outstanding borrowings of \$117.5 million and \$125.0 million at June 30, 2018 and December 31, 2017, respectively and (ii) a \$75 million revolving credit facility ("Revolver"), with no outstanding borrowings at June 30, 2018 or December 31, 2017. The CSA has a maturity date of December 11, 2022. At June 30, 2018 and December 31, 2017, the carrying value of the debt on the condensed consolidated balance sheet is reflected net of \$2.0 million and \$2.3 million, respectively, of deferred financing costs. During the six months ended June 30, 2018, the Company made voluntary prepayments of \$6.0 million. Per the terms of the CSA, such voluntary prepayments reduce the amount of future scheduled payments on a pro rata basis.

The weighted-average interest rate in effect was 4.13% at June 30, 2018 and 3.38% at December 31, 2017 and consisted of LIBOR plus the Company's credit spread, as determined per the terms of the CSA. The Company incurred \$1.3 million and \$1.6 million of interest expense during the three months ended June 30, 2018 and June 30, 2017, respectively, and \$2.5 million and \$3.0 million of interest expense during the six months ended June 30, 2018 and June 30, 2017, respectively.

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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. 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, 2018, the Company was in compliance with its debt covenants, including its most restrictive covenant, the Fixed Charge Coverage Ratio.

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 2014 and for state examinations before 2011. Regarding foreign subsidiaries, the Company is no longer subject to examination by tax authorities for years before 2007 in Asia and generally 2010 in Europe.

As a result of the expiration of the statutes 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 consolidated financial statements at June 30, 2018. The Company's liabilities for uncertain tax positions totaled \$29.8 million and \$30.4 million at June 30, 2018 and December 31, 2017, respectively, of which \$1.4 million and \$2.5 million is included in other current liabilities at June 30, 2018 and December 31, 2017, respectively. These amounts, if recognized, would reduce the Company's effective tax rate. As of June 30, 2018, approximately \$1.4 million of the Company's liabilities for uncertain tax positions are expected to be resolved during 2018 by way of expiration of the related statute of limitations.

The Company's policy is to recognize interest and penalties related to uncertain tax positions as a component of the current provision for income taxes. During the six months ended June 30, 2018 and 2017, the Company recognized \$0.5 million and \$0.4 million, respectively, in interest and penalties in the consolidated statements of operations. During the six months ended June 30, 2018 and 2017, the Company recognized a benefit of \$0.4 million and less than \$0.1 million, respectively, for the reversal of such interest and penalties, relating to the expiration of statutes of limitations and settlement of the acquired liability for uncertain tax positions, respectively. The Company has approximately \$3.2 million accrued for the payment of interest and penalties at June 30, 2018 and December 31, 2017, respectively, which is included in both income taxes payable and liability for uncertain tax positions in the consolidated balance sheets.

Tax Reform

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act reduces the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. At December 31, 2017, we had not completed our accounting for the tax effects of enactment of the Act; however, we had made a reasonable estimate of the effects on our existing deferred tax balances and the one-time transition tax in which we recognized a provisional amount of \$18.1 million, which was included as a component of income tax expense from continuing operations. During the six months ended June 30, 2018, we continue to refine our calculations as additional analysis is completed. In addition, our estimates may also be affected as we gain a more thorough understanding of the tax law.

Effective January 1, 2018, the Act subjects a U.S. shareholder to current tax on global intangible low-taxed income (GILTI) earned by certain foreign subsidiaries. The Company has elected an accounting policy to provide for the tax expense related to the GILTI in the period the tax is incurred.

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 expense for the three months ended June 30, 2018 and 2017 amounted to \$0.3 million in both periods. The expense for the six months ended June 30, 2018 and 2017 amounted to \$0.6 million in both periods. The Company's matching contribution is made in the form of Bel Fuse Inc. Class A common stock. As of June 30, 2018, the plan owned 90,521 and 140,591 shares of Bel Fuse Inc. Class A and Class B common stock, respectively.

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The Company's subsidiaries in Asia have a retirement fund covering substantially all of their Hong Kong based full-time employees. The expense for the three months ended June 30, 2018 and 2017 amounted to \$0.1 million in both periods. The expense for the six months ended June 30, 2018 and 2017 amounted to \$0.2 million in both periods. As of June 30, 2018, 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 other key employees of the Company with supplemental retirement and death benefits. As discussed in Note 3 above, 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 Months Ended June 30, 2018		Six Months Ended June 30, 2017	
Service cost	\$183	\$175	\$366	\$350
Interest cost	166	168	332	337
Net amortization	111	94	222	187
Net periodic benefit cost	\$460	\$437	\$920	\$874

The service cost component of net benefit cost is presented within cost of sales or selling, general and administrative expense on the accompanying statements of operations, in accordance with where compensation cost for the related associate is reported. All other components of net benefit cost, including interest cost and net amortization noted above, are presented within other income/expense, net in the accompanying statements of operations.

The following amounts are recognized net of tax in accumulated other comprehensive loss:

	June 30, 2018	December 31, 2017
Prior service cost	\$1,007	\$ 1,135
Net loss	3,638	3,732
	\$4,645	\$ 4,867

11. ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss at June 30, 2018 and December 31, 2017 are summarized below:

	June 30, 2018	December 31, 2017
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Foreign currency translation adjustment, net of taxes of (\$789) at June 30, 2018 and (\$801) at December 31, 2017	\$(19,968)	\$(16,537)
Unrealized holding gains on available-for-sale securities, net of taxes of \$65 at June 30, 2018 and \$85 at December 31, 2017	114	145
Unfunded SERP liability, net of taxes of (\$1,584) at June 30, 2018 and (\$1,635) at December 31, 2017	(3,062)	(3,233)
Accumulated other comprehensive loss	\$(22,916)	\$(19,625)

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Changes in accumulated other comprehensive loss by component during the six months ended June 30, 2018 are as follows. All amounts are net of tax.

	Foreign Currency Translation Adjustment	Unrealized Holding Gains on Available-for- Sale Securities	Unfunded SERP Liability	Total
Balance at January 1, 2018	\$ (16,537)	\$ 145	\$ (3,233)	\$(19,625)
Other comprehensive income before reclassifications	(3,431)	(31)	26	(3,436)
Amount reclassified from accumulated other comprehensive loss	-	-	145	(a) 145
Net current period other comprehensive income	(3,431)	(31)	171	(3,291)
Balance at June 30, 2018	\$ (19,968)	\$ 114	\$ (3,062)	\$(22,916)

(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 consolidated results of operations or financial position.

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. An appeal was filed on July 18, 2015 before the Regional Tax Commission of Florence and rejected. On December 5, 2016, the Arezzo Revenue Agency filed an appeal with the Supreme Court and BPS China filed a counter-appeal on January 4, 2017. The Supreme Court has yet to render its judgment. 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 sheets. As Bel is fully indemnified in this matter per the terms of the stock purchase agreement with ABB, a corresponding other asset for indemnification is also included in other assets on the accompanying consolidated balance sheets at June 30, 2018 and December 31, 2017.

In 2015, the Company was provided notice of a potential patent infringement claim by Setec Netzwerke AG ("Setec"), a German company for the alleged infringement of their patent EP 306 934 B1. Setec subsequently filed a lawsuit against the Company and three of its subsidiaries in the Regional Court of Dusseldorf, Germany on January 29, 2016 for patent infringement. The Company filed its defense to Setec's Complaint and a nullity lawsuit against Setec's patent on August 31 2016. The Court hearing on infringement took place on March 23, 2017. Upon hearing argument from both parties, the Court issued a decision on April 6, 2017 staying final judgment in the infringement case pending resolution of the nullity lawsuit in the Federal Patents Courts in Munich, Germany. The Federal Patents Courts issued its preliminary opinion regarding the patent-in-suit on March 29, 2018, stating that it considers the patent-in-suit to not be novel over the prior art documents presented in the case. The parties agreed to withdraw from the pending infringement and nullity proceedings and entered into a settlement agreement on June 29, 2018. The Company paid Setec 75,000 Euro in exchange for a perpetual, worldwide royalty-free license to the patent-in-suit and all its counterparts.

In 2015, one of the Company's subsidiaries in the PRC, Dongguan Transpower Electric Products Co., Ltd. ("Dongguan Transpower"), was provided notice of a claim by DG Yu Shing Industrial Development Company Limited against Dongguan Transpower and three other defendants for past due construction costs of approximately \$3.2 million. In April 2018, the 3rd People Court of Dongguan ruled and provided an unfavorable judgment against Dongguan Transpower and two of the other defendants requiring payment of the aforementioned amount. The defendants were held to be jointly and severally liable for approximately \$3.2 million in costs. Due to the fact that none of the other defendants had sufficient funds to pay the damages amount, the Court ordered the entire amount (CNY 20,133,174) to be paid by Dongguan Transpower. On May 25, 2018, the Court enforced its order and withdrew the damages amount from Dongguan Transpower's bank accounts. On May 31, 2018, Dongguan Transpower filed an action against the other defendants in CP Court to recoup the damages amount paid pursuant to an indemnification letter dated October 16, 2015. The Court heard arguments on July 2, 2018 and rendered a verdict on July 9, 2018 ordering the Jinmei entities (defendants) to pay CNY 20,133,174 back to Dongguan Transpower together with the incurred interest. The Company's balance sheet at June 30, 2018 includes an indemnification asset in the amount of \$3.2 million, included in other current assets, related to this. The Company expects that funds will be remitted by mid-August.

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On June 1, 2018, the Company filed an action against Unipower, LLC in the United States District Court for the Southern District of New York for breach of contract. Specifically, the Company alleges in its Complaint that Unipower has willfully violated the Master Services Agreement ("MSA") entered into by the parties on January 23, 2015 by failing to make payment for the products it contracted for under the MSA. The Company is claiming irreparable harm and substantial damages in excess of \$1.0 million. The Court has set an initial case management conference for August 17, 2018.

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 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:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net Sales to External Customers:				
North America	\$71,240	\$64,905	\$130,696	\$125,335
Asia	45,914	46,071	84,535	81,883
Europe	23,556	20,641	43,730	38,067
	\$140,710	\$131,617	\$258,961	\$245,285
Net Sales:				
North America	\$74,602	\$67,970	\$137,173	\$131,125
Asia	70,005	70,419	126,144	126,830
Europe	27,630	23,416	51,942	43,801
Less intercompany net sales	(31,527)	(30,188)	(56,298)	(56,471)
	\$140,710	\$131,617	\$258,961	\$245,285
Income from Operations:				
North America	\$2,963	\$1,210	\$2,661	\$2,202
Asia	5,319	5,314	5,234	6,350
Europe	2,385	742	3,209	1,069
	\$10,667	\$7,266	\$11,104	\$9,621

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.

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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 2017 Annual Report on Form 10-K and our consolidated financial statements and related notes set forth in Item 8 of Part II of our 2017 Annual Report on Form 10-K. See Part II, Item 1A, "Risk Factors," below and "Cautionary Notice Regarding Forward-Looking Information," 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

We design, manufacture and market 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.

We operate through three geographic segments: North America, Asia and Europe. In the six months ended June 30, 2018, 50% of the Company's revenues were derived from North America, 33% from Asia and 17% from its Europe operating segment. By product group, 35% of sales for the six months ended June 30, 2018 related to the Company's connectivity solutions products, 33% in magnetic solutions products and 32% in power solutions and protection products.

Our operating expenses are driven principally by the cost of labor where the factories that Bel uses are located, 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 product mix can 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 fringes and related allocations of factory overhead. Our products are manufactured at various facilities in the U.S., Mexico, Dominican Republic, England, Czech Republic, Slovakia and the PRC.

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 and 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 any increase in demand, can add volatility to the labor costs incurred by us.

Key Factors Affecting our Business

The Company believes the key factors affecting Bel's results for the three and six months ended June 30, 2018 and/or future results include the following:

Revenues – The Company's revenues increased by \$13.7 million (or 5.6%) in the first half of 2018 as compared to the same period of 2017, despite a \$3.7 million decline in sales related to the NPS divestiture. Sales growth was seen across all of our major product groups and primarily related to higher sales through our distribution partners during the 2018 period and the new project wins from 2017 moving into production.

Backlog – Our backlog reached \$176.9 million at June 30, 2018, representing an increase of \$30.3 million, or 21%, from December 31, 2017. Since year-end, we saw a 49% increase at Magnetic Solutions, driven by a strong position with our integrated connector modules in next-generation switching products and higher demand for our Signal transformer products for use in medical equipment. The backlog for our Connectivity Solutions products increased by 25%, driven by recent awards on key military programs, and heightened structured cabling demand for our passive connectors. Our Power Solutions and Protection backlog grew by 19%, led by higher demand for our power supplies in both traditional data centers and those used for blockchain technology.

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. In general, our connectivity products have the highest contribution margins, our magnetic products are more labor intensive and are therefore less profitable than the connectivity products and our power products are on the lower end of our profit margin range, due to their high material content. Fluctuations in sales volume among our product groups will have a corresponding impact on Bel's profit margins.

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Pricing and Availability of Materials – There have been recent supply constraints related to components that constitute raw materials in our manufacturing processes, particularly with resistors, capacitors, mosfets and printed circuit boards. Lead times have been extended and the reduction in supply has also caused an increase in prices for certain of these components. As a result, the Company's material costs as a percentage of sales increased to 41.4% during the first half of 2018 from 40.4% during the first half of 2017.

Labor Costs – Labor costs during the first half of 2018 increased from 10.2% of sales during the first half of 2017 to 11.4% of sales during the first half of 2018, primarily due to the appreciation of the Renminbi against the U.S. Dollar, minimum wage increases in the PRC, and growth in sales of our labor-intensive integrated connector module (ICM) products. Effective February 1, 2018, the PRC government issued an increase to the minimum wage in a region where one of Bel's factories is located. Effective July 1, 2018, government-mandated minimum wage increases will go into effect at Bel's other three manufacturing facilities in the PRC.

Restructuring – The Company continues to implement restructuring programs to increase operational efficiencies. While the Company incurred minimal restructuring charges during the first half of 2018, additional restructuring efforts are expected to continue throughout 2018 as we realign our R&D resources dedicated to our power solutions and protection group. We are also in the process of transitioning one of our product lines from a third party factory in Malaysia to an existing Bel facility in the PRC. We anticipate completing these two initiatives by the end of 2018, with minimal restructuring costs incurred. Annual savings of approximately \$1.4 million are expected from these initiatives once fully implemented (primarily within cost of sales).

Impact of Foreign Currency – During the first half of 2018, the Company incurred foreign exchange transactional gains of \$0.9 million and higher labor and overhead costs of \$3.2 million related to unfavorable fluctuations in exchange rates versus the first half of 2017. 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 as well as third-party transactions to and from foreign currencies to U.S. dollars may result in a favorable or unfavorable impact to our consolidated statements of operations and cash flows. The Company was unfavorably impacted by transactional foreign exchange losses during the first half of 2018 due to the appreciation of the Euro, Pound, and Renminbi against the U.S. dollar as compared to exchange rates in effect during the first half of 2017. The Company has significant manufacturing operations located in the PRC where labor and overhead costs are paid in local currency. As a result, the U.S. Dollar equivalent costs of these operations were \$3.2 million higher in the first half of 2018. The Company monitors changes in foreign currencies and may implement pricing actions to help mitigate the impact that changes in foreign currencies may have on its consolidated operating results.

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. and Europe's tax rates are generally equivalent; and Asia has the lowest tax rates of the Company's three geographical segments. See Note 9, "Income Taxes".

While we are optimistic as to the business opportunities we see ahead, we continue to see challenges in labor and material costs, and limited component availability within certain areas of the supply chain. Additionally, on July 6, 2018, the U.S. Trade Representative implemented increased duty percentages across several hundred Harmonized Tariff Codes that cover several thousand products imported from the PRC into the U.S. by Bel. In order to contain and offset these margin challenges, we are invoicing surcharges and pricing adjustments to our customers to cover costs incurred to expedite material lead times and additional duties imposed on products imported from the PRC. In the event that any additional tariff proposals are put into effect later in 2018, we would expect to implement similar measures to preserve our gross margins.

Summary by Operating Segment

Net sales to external customers by operating segment for the three and six months ended June 30, 2018 and 2017 were as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
North America	\$71,240	50 %	\$64,905	49 %
Asia	45,914	33 %	46,071	35 %
Europe	23,556	17 %	20,641	16 %
	\$140,710	100 %	\$131,617	100 %
			\$258,961	100 %
			\$125,335	51 %
			84,535	33 %
			43,730	17 %
			38,067	16 %
			\$245,285	100 %

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The growth in North America sales in 2018 was largely due to increased demand for our passive connector products in structured cabling applications, strength in our connectivity products within key military programs, and higher sales of our transformer products into medical applications. In addition, sales with our Power Solutions business rebounded in 2018 largely due to increased demand for our power supplies in various datacenter applications. The decrease in Asia sales noted above for the second quarter primarily relates to reduced demand for custom module products, which was offset in part by higher sales of our integrated connector modules during the second quarter of 2018. Sales in Europe increased in both 2018 periods presented as a result of higher demand for our Stewart and Cinch connector products in that region, coupled with strong sales of our power products into rail applications. There was also a favorable impact on our European sales in general as a portion of those sales are invoiced in Euros or Pounds, which had appreciated against the U.S. Dollar in the three and six months ended June 30, 2018 as compared to the same periods of 2017.

Net sales and income from operations by operating segment for the three and six months ended June 30, 2018 and 2017 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,	
	2018	2017	2018	2017
Total segment sales:				
North America	\$74,602	\$67,970	\$137,173	\$131,125
Asia	70,005	70,419	126,144	126,830
Europe	27,630	23,416	51,942	43,801
Total segment sales	172,237	161,805	315,259	301,756
Reconciling item:				
Intersegment sales	(31,527)	(30,188)	(56,298)	(56,471)
Net sales	\$140,710	\$131,617	\$258,961	\$245,285
Income from operations:				
North America	\$2,963	\$1,210	\$2,661	\$2,202
Asia	5,319	5,314	5,234	6,350
Europe	2,385	742	3,209	1,069
	\$10,667	\$7,266	\$11,104	\$9,621

The improvement in income from operations within our North America segment was largely due to higher sales volumes in the 2018 periods, partially offset by increased material costs on purchased components. The six-month period of 2018 was also affected by higher labor costs in Mexico, due to the appreciation of the Peso during the first quarter of 2018 compared to the same period last year. The reduction in income from operations at our Asia segment for the six-month period was primarily due to higher labor costs driven by an increase in minimum wage rates at one of our factories in the PRC and the unfavorable appreciation of the Renminbi during the first half of 2018 compared to the same period of 2017. Asia income from operations was flat year-over-year for the second quarter as higher labor and material costs were offset by a favorable shift in product mix and foreign exchange gains on the remeasurement of foreign exchange transactions. The increase in income from operations from our Europe segment are consistent with the increase in sales for that segment.

Net Sales

The Company's net sales by major product line for the three and six months ended June 30, 2018 and 2017 were as follows:

	Three Months Ended				Six Months Ended			
	June 30, 2018		2017		June 30, 2018		2017	
Connectivity solutions	\$48,928	35 %	\$43,831	33 %	\$91,846	35 %	\$85,513	35 %
Magnetic solutions	45,548	32 %	43,501	33 %	83,776	33 %	78,466	32 %
Power solutions and protection	46,234	33 %	44,285	34 %	83,339	32 %	81,306	33 %
	\$140,710	100%	\$131,617	100%	\$258,961	100%	\$245,285	100%

Connectivity Solutions:

Our connectivity solutions products showed an overall improvement in sales of \$5.1 million and \$6.3 million during the second quarter and first half of 2018, respectively, compared to the same periods of 2017. Sales of our Stewart passive connectors were very strong in the 2018 periods with increases of \$3.0 million and \$3.5 million during the three and six months ended June 30, 2018 as compared to 2017. This was largely led by the successful expansion of its existing products and new product introductions (NPI) through our distribution channels. There was also a recovery in demand for passive connectors for use in structured cabling/premise wiring which had been down last year due to lower spending within the construction industry. Sales of our Cinch products were also up in 2018 (by \$2.1 million for the second quarter and by \$2.8 million for the six-month period) primarily from the military sector for our optical and copper products used in encryption, communications and flight-grade applications and for our micro-miniature copper connectivity products in relation to key defense programs.

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Magnetic Solutions:

Our Magnetic Solutions group benefited from a strong position on next-generation switching products which utilize our integrated connector modules. This accounted for \$1.0 million and \$3.9 million of the sales growth during the second quarter and six-month period versus 2017. Our Signal Transformer business also contributed with an increase in sales of \$1.3 million and \$1.6 million during the second quarter and six-month period, as orders from new programs within industrial applications continued to ramp up in the second quarter.

Power Solutions and Protection:

The second quarter of 2018 was the first quarter since 2014 where this product group has seen year-over-year sales growth. Our Power Solutions business (acquired in 2014) showed improvement in sales of \$3.3 million and \$2.1 million during the three and six month period ending June 30, 2018 as compared to the 2017 periods. Excluding the effects of NPS divestiture, sales for the Power Solutions business increased by \$5.5 million for the second quarter and by \$5.8 million for the first half of 2018 compared to the prior year periods. Our circuit protection products continue to experience top line growth as more of these products are introduced into our distribution channels and our DC/DC product sales were also strong during the 2018 periods. These growth drivers were offset in part by lower sales of our custom module products (which were down by \$1.7 million and \$1.0 million during the three and six month periods ended June 30, 2018, respectively). In addition, our AC/DC converter products had specific projects that shipped in the second quarter of 2017 which did not recur in 2018. This led to a reduction in sales for this product line of \$1.1 million for the second quarter and \$0.8 million for the six month period.

Cost of Sales

Cost of sales as a percentage of net sales for the three and six months ended June 30, 2018 and 2017 consisted of the following:

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2017	
Material costs	41.9%	40.7%	41.4%	40.4%
Labor costs	11.5%	10.2%	11.4%	10.2%
Research and development expenses	5.2 %	5.2 %	5.7 %	5.5 %
Other expenses	20.8%	21.8%	22.1%	22.6%
Total cost of sales	79.4%	77.9%	80.6%	78.7%

Material costs as a percentage of sales increased during the 2018 periods noted above compared to the same periods of 2017 primarily due to two factors. Starting in late-2017, there have been industry-wide supply constraints related to certain of our purchased components and this has had an unfavorable impact in the form of higher material costs across most of our product lines. In addition, certain of our manufacturing sites outside of the U.S., particularly those in the PRC, invoice in U.S. Dollars, but purchase materials in a mix of U.S. Dollars and local currency. The Renminbi appreciated 7% relative to the U.S. Dollar in the three and six months ended June 2018 versus the same periods last year. As a result, our material costs as a percentage of sales has increased for the 2018 periods noted.

Labor costs as a percentage of sales also increased during the second quarter and first half of 2018 compared to the same periods of 2017 due to several factors. The appreciation of the Renminbi against the U.S. Dollar drove labor

costs as a percentage of sales higher in 2018, as the majority of our Asia sales are invoiced in U.S. Dollars, while our manufacturing staff at PRC locations are paid in local currency. Effective February 1, 2018, the PRC issued an increase to the minimum wage in a region where one of Bel's factories is located, and this contributed to the higher labor costs in the 2018 periods.

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Included in cost of sales is research and development ("R&D") expense of \$7.4 million and \$6.9 million for the three months ended June 30, 2018 and 2017, respectively, and \$14.7 million and \$13.5 million for the six months ended June 30, 2018 and 2017, respectively. The majority of the increase from the 2017 periods relates to the continued weakening of the U.S. Dollar relative to the local currencies in the countries in which our engineers are located. Approximately 85% of our global engineering staff is located outside of the U.S. and is paid in either Euros, Pounds, Swiss Francs or Renminbi, each of which has appreciated against the U.S. Dollar since the first half of 2017.

The other expenses noted in the table above include fixed cost items such as support labor and fringe, depreciation and amortization, and facility costs (rent, utilities, insurance). In total, these other expenses increased during the three and six months ended June 30, 2018 by \$0.5 million and \$2.1 million, respectively, as compared to the same periods of 2017. This included higher support labor costs of \$0.2 million and \$1.4 million, respectively, due to the appreciation of the Euro, Pound, Swiss Franc and Renminbi as compared to the U.S. Dollar as compared to the 2017 periods.

Selling, General and Administrative Expense ("SG&A")

SG&A expense decreased \$3.4 million and \$3.7 million during the three and six months ended June 30, 2018, respectively, as compared with the same periods of 2017. This primarily related to a favorable fluctuation in foreign currency exchange rates on the remeasurement of foreign currency transactions, which accounted for \$3.5 million and \$3.0 million, respectively, of the decrease noted from the 2017 periods. Other offsetting factors that affected the variance in the second quarter periods are lower general and administrative costs of \$0.4 million and reduced depreciation and amortization expense of \$0.5 million, offset by a \$0.6 million increase in bad debt expense and higher sales commissions of \$0.3 million. Other factors contributing to the reduction in SG&A during the six-month period were lower legal and professional fees of \$0.8 million and a reduction in depreciation and amortization of \$0.7 million. These factors were partially offset by an increase in bad debt expense of \$0.6 million during the first half of 2018.

Provision for Income Taxes

The Company's effective tax rate will fluctuate based on the geographic segment in which the pretax profits are earned. Of the geographic segments in which the Company operates, the U.S. and Europe's tax rates are generally equivalent; and Asia has the lowest tax rates of the Company's three geographical segments. See Note 9, "Income Taxes".

The provision for income taxes for the three months ended June 30, 2018 and 2017 was \$2.4 million and \$2.3 million, respectively. The Company's earnings before income taxes for the three months ended June 30, 2018, were approximately \$3.6 million higher than the same period in 2017, primarily attributable to increases in income in the Europe and North America segments. The Company's effective tax rate was 26.6% and 42.4% for the three months ended June 30, 2018 and 2017, respectively. The change in the effective tax rate during the three months ended June 30, 2018 as compared to the same period in 2017, is primarily attributable to a decrease in tax expense in the North America segment due to the reduction in the U.S. tax rate from 35% in 2017 to 21% in 2018, as well as a decrease in the taxes related to uncertain tax positions. This decrease was partially offset by an increase in U.S. taxes relating to income from foreign subsidiaries taxed in the U.S. as part of the Tax Cuts and Jobs Act. Additionally, the decrease in the effective tax rate for the three months ended June 30, 2018, as compared to the same period in 2017, is attributable to U.S. and foreign taxes accrued for gains recognized on a Bel Fuse legal entity restructuring transaction during the three months ended June 30, 2017. See Note 9, "Income Taxes."

The provision for income taxes for the six months ended June 30, 2018 and 2017 was \$2.7 million and \$2.3 million, respectively. The Company's earnings before income taxes for the six months ended June 30, 2018 were approximately \$1.9 million higher than the same period in 2017, primarily attributable to increases in income in the Europe and North America segments. The Company's effective tax rate was 33.8% and 37.0% for the six month

periods ended June 30, 2018 and 2017, respectively. The change in the effective tax rate during the six months ended June 30, 2018 as compared to the same period of 2017, is primarily attributable to a decrease in tax expense in the North America segment due to the reduction in the U.S. tax rate from 35% in 2017 to 21% in 2018, as well as a decrease in taxes related to uncertain tax positions. This decrease was partially offset by an increase in U.S. taxes relating to income from foreign subsidiaries taxed in the U.S. as part of the Tax Cuts and Jobs Act. Additionally, the decrease in the effective tax rate for the six months ended June 30, 2018 as compared to the same period in 2017, is attributable to U.S. and foreign taxes accrued for gains recognized on a Bel Fuse legal entity restructuring transaction during the 2017 period.

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.

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At June 30, 2018 and December 31, 2017, \$46.0 million and \$50.5 million, respectively (or 82% and 73%, respectively), of cash and cash equivalents was held by foreign subsidiaries of the Company. Management has current intentions to repatriate approximately \$12 million of funds from outside of the U.S., with a minimal incremental tax liability, with the intent of utilizing \$3 million to reduce our outstanding debt balance and \$9 million to pay down intercompany balances that have been generating foreign exchange gains/losses in our consolidated statement of operations. We continue to analyze our global working capital and cash requirements and the potential tax liabilities attributable to further repatriation, and we have yet to make any further determination regarding repatriation of funds from outside the U.S. to fund the Company's U.S. operations in the future. In the event these funds were needed for Bel's U.S. operations, the Company would be required to accrue and pay U.S. state taxes and any applicable foreign withholding taxes to repatriate these funds.

Cash and cash equivalents, marketable securities and accounts receivable comprised approximately 33.1% of the Company's total assets at June 30, 2018 and 34.4% of total assets at December 31, 2017. The Company's current ratio (i.e., the ratio of current assets to current liabilities) was 2.9 to 1 at June 30, 2018 and 3.0 to 1 at December 31, 2017.

In June 2014, the Company entered into a senior Credit and Security Agreement, which was subsequently amended in March 2016, and further amended and refinanced in December 2017. The Credit and Security Agreement 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 Credit and Security Agreement 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, 2018, the Company was in compliance with its debt covenants, including its most restrictive covenant, the Fixed Charge Coverage Ratio. The unused credit available under the credit facility at June 30, 2018 was \$75.0 million, of which we had the ability to borrow \$30.4 million without violating our Leverage Ratio covenant based on the Company's existing consolidated EBITDA.

We are currently engaged in a multi-year process of conforming the majority of our operations onto one global ERP. The ERP is designed to improve the efficiency of our supply chain and financial transaction processes, accurately maintain our books and records, and provide information important to the operation of the business to our management team. The implementation of the ERP is being conducted by business unit on a three phase approach through 2019. We currently estimate total costs over the course of this project to be between \$4.5 million to \$5.5 million. Since inception of the project, we have incurred a cumulative amount of \$4.1 million in connection with this implementation, of which \$0.9 million and \$1.2 million was incurred during the three and six months ended June 30, 2018, respectively. These costs are included in SG&A on the consolidated financial statements. Upon completion of the implementation of the new ERP, we anticipate lower maintenance and lower external information and technology support fees resulting in annual savings of approximately \$2 million. The preceding sentence represents a Forward-Looking Statement. See "Cautionary Notice Regarding Forward-Looking Statements."

Cash Flows

Six Months Ended June 30, 2018

During the six months ended June 30, 2018, the Company's cash and cash equivalents decreased by \$13.6 million. This decrease was primarily due to the following:

- purchases of property, plant and equipment of \$5.9 million;
- repayments of long-term debt of \$7.5 million; and
- dividend payments of \$1.6 million; partially offset by

· net cash provided by operations of \$1.2 million.

During the six months ended June 30, 2018, accounts receivable increased by \$10.5 million primarily due to higher sales volume in the second quarter of 2018 as compared to the fourth quarter of 2017. Days sales outstanding (DSO) declined to 58 days at June 30, 2018 from 60 days at December 31, 2017. Effective January 1, 2018, the Company implemented a change in the timing of revenue recognition (and related release of inventory from our books) in connection with the adoption of ASC 606, as described in Note 2. Excluding the adoption adjustment related to this accounting change, inventory increased by \$10.6 million at June 30, 2018 compared to December 31, 2017, primarily in raw materials. The increased raw materials balance was driven by a higher volume of raw materials purchased to accommodate increased demand for our products, coupled with higher material costs in 2018 resulting from constraints in component availability. Inventory turns increased from 3.6 at December 31, 2017 to 4.2 at June 30, 2018, primarily due to the change in revenue recognition accounting noted above.

Six Months Ended June 30, 2017

During the six months ended June 30, 2017, the Company's cash and cash equivalents decreased by \$14.7 million. This decrease was primarily due to the following:

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- net cash used in operating activities of \$0.4 million;
- purchases of property, plant and equipment of \$2.2 million;
- dividend payments of \$1.6 million; and
- repayments of long-term debt of \$15.4 million.

During the six months ended June 30, 2017, accounts receivable increased by \$13.8 million primarily due to higher sales volume in the second quarter of 2017 as compared to the fourth quarter of 2016. Days sales outstanding (DSO) increased to 62 days at June 30, 2017 from 54 days at December 31, 2016, primary due the extension of credit terms with one of our large customers, as well as the increase in revenue (and resulting accounts receivable balance) in our Asia segment where DSO tends to be higher as compared to our other geographic segments. Inventory levels were up by \$2.7 million at June 30, 2017 compared to December 31, 2016 as raw materials and work in progress balances increased from year-end levels to accommodate increased demand for our products.

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 to the Company's Financial Statements, "Basis of Presentation and Accounting Policies," included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

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. During the first half of 2018, the U.S. Dollar was in a weakened position (compared to the first half of 2017) against most other currencies in which the Company pays its expenses. In comparing average exchange rates during the second quarter of 2018 versus those during the second quarter of 2017, the Euro appreciated by 8%, the Pound appreciated by 6%, and the Renminbi appreciated by 7% against the U.S. Dollar. In comparing average exchange rates during the first half of 2018 versus those during the first half of 2017, the Euro appreciated by 11%, the Pound appreciated by 9%, and the Renminbi appreciated by 7% against the U.S. Dollar. The Company estimates that the appreciation in these foreign currencies led to \$1.4 million and \$3.2 million in higher operating costs for the second quarter and six-month periods, respectively, as the majority of our expenses in the PRC, Europe and Mexico are paid in local currency. In addition to the foreign exchange losses recognized, the Company recorded foreign exchange gains of \$1.9 million and \$0.9 million during the three and six months ended June 30, 2018, respectively, on remeasurement of foreign currency transactions. This compares to foreign exchange losses recorded during the three and six months ended June 30, 2017 of \$1.6 million and \$2.1 million, respectively, resulting from remeasurement of foreign currency transactions. 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, 2017 for further discussion of market risks.

Item 4. Controls and Procedures

Disclosure controls and procedures: As of the end of the period covered by this report, 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 controls over financial reporting: There has not been any change in the Company's internal controls over financial reporting during the three months ended June 30, 2018 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. Other Information

Item 1. Legal Proceedings

The information called for by this Item is incorporated herein by reference to Note 12 of the Company's Financial Statements, under "Legal Proceedings", as set forth in Part I, Item 1 of this Quarterly Report on Form 10-Q. 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, 2017. 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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth certain information regarding the Company's purchase of shares of its Class A Common Stock during each calendar month in the quarter ended June 30, 2018:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan
April 1 - April 30, 2018	5,451	\$ 17.58	5,451	\$ 477,463
May 1 - May 31, 2018	5,083	18.84	5,083	381,689
June 1 - June 30, 2018	9,356	20.40	9,356	190,807
Total	19,890	\$ 19.23	19,890	\$ 190,807

Pursuant to the Bel Fuse Inc. Employees' Savings Plan (the "Employees' Savings Plan"), the Company makes matching contributions of pre-tax elective deferral contributions made by associates. The Employees' Savings Plan provides for matching contributions to be invested in shares of the Company's Class A Common Stock. The trustees of the Employees' Savings Plan adopted a "10b5-1 Plan," in accordance with guidelines specified by Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, to make open market purchases of shares of Class A Common Stock with such matching contributions. The purchases in the table above were made under the 10b5-1 Plan. The maximum dollar amount for cumulative purchases under the 10b5-1 Plan during the plan period (March 15, 2018 to July 31, 2018) will not exceed \$650,000.

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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.

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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, 2018

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

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