

BEL FUSE INC /NJ
Form 10-Q
August 09, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2006

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 0-11676

BEL FUSE INC.

(Exact name of registrant as specified in its charter)

NEW JERSEY

(State of other jurisdiction of incorporation or organization)

22-1463699

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

206 Van Vorst Street

(Address of principal executive offices)

Jersey City, New Jersey

07302

(Zip Code)

(201) 432-0463

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 and 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. x Yes o No

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

o Large accelerated filer x Accelerated filer o Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes x No

At August 1, 2006, there were 2,702,677 shares of Class A Common Stock, \$0.10 par value, outstanding and 9,109,278 shares of Class B Common Stock, \$0.10 par value, outstanding.

BEL FUSE INC.

INDEX

		Page
Part I	Financial Information	
Item 1.	Financial Statements	1
	Consolidated Balance Sheets as of June 30, 2006 (unaudited) and December 31, 2005	2 - 3
	Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2006 and 2005 (unaudited)	4
	Consolidated Statements of Stockholders' Equity for the Years ended December 31, 2005 and 2004 and the Six Months Ended June 30, 2006 (unaudited)	5 - 6
	Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2006 and 2005 (unaudited)	7 - 9
	Notes to Consolidated Financial Statements (unaudited)	10 - 32
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	33 - 52
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	53
Item 4.	Controls and Procedures	54
Part II	Other Information	
Item 1.	Legal Proceedings	55 - 56
Item 4.	Submission of Matters to a Vote of Security Holders	56
Item 6.	Exhibits	57
	Signatures	58

PART I. Financial Information

Item 1. Financial Statements

Certain information and footnote disclosures required under accounting principles generally accepted in the United States of America have been condensed or omitted from the following consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. It is suggested that the following consolidated financial statements be read in conjunction with the year-end consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

The results of operations for the six and three months ended June 30, 2006 and 2005 are not necessarily indicative of the results for the entire fiscal year or for any other period.

-1-

BEL FUSE INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30, 2006 (Unaudited)	December 31, 2005
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 78,446,271	\$ 51,997,634
Marketable securities	15,874,250	38,463,108
Accounts receivable - less allowance for doubtful accounts of \$777,603 and \$1,107,000 at June 30, 2006 and December 31, 2005, respectively	47,341,622	39,304,984
Inventories	38,873,293	32,947,103
Prepaid expenses and other current assets	2,904,216	1,691,017
Deferred income taxes	510,000	-
Assets held for sale	848,049	828,131
Total Current Assets	184,797,701	165,231,977
Property, plant and equipment - net	42,528,691	42,379,356
Deferred income taxes	3,986,000	3,901,000
Intangible assets - net	2,599,295	2,782,188
Goodwill	24,189,248	22,427,934
Prepaid pension costs	1,655,362	1,655,362
Other assets	2,938,523	3,678,100
TOTAL ASSETS	\$ 262,694,820	\$ 242,055,917

See notes to consolidated financial statements.

BEL FUSE INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

June 30,
2006
(Unaudited)

December 31,
2005

LIABILITIES AND STOCKHOLDERS'
EQUITY

Current Liabilities:

Accounts payable	\$ 19,771,545	\$ 14,560,827
Accrued expenses	13,198,695	10,667,558
Deferred income taxes	-	1,412,000
Income taxes payable	12,301,445	9,840,295
Dividends payable	570,000	548,000
Total Current Liabilities	45,841,685	37,028,680

Long-term Liabilities:

Minimum pension obligation	3,822,020	3,450,688
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Total Liabilities	49,663,705	40,479,368
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Commitments and Contingencies

Stockholders' Equity:

Preferred stock, no par value, authorized 1,000,000 shares; none issued	-	-
Class A common stock, par value \$.10 per share - authorized 10,000,000 shares; outstanding 2,702,677 and 2,702,677 shares, respectively (net of 1,072,769 treasury shares)	270,268	270,268
Class B common stock, par value \$.10 per share - authorized 30,000,000 shares; outstanding 9,107,453 and 9,013,264 shares, respectively (net of 3,218,307 treasury shares)	910,746	901,327
Additional paid-in capital	30,756,822	31,713,608
Retained earnings	179,649,971	167,991,188
Deferred stock-based compensation	-	(3,562,709)
Accumulated other comprehensive income	1,443,308	4,262,867
Total Stockholders' Equity	213,031,115	201,576,549

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 262,694,820	\$ 242,055,917
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See notes to consolidated financial statements.

BEL FUSE INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2006	2005	2006	2005
Net Sales	\$ 121,100,346	\$ 102,983,706	\$ 66,474,098	\$ 57,545,421
Costs and expenses:				
Cost of sales	90,248,564	73,380,908	50,261,675	40,692,097
Selling, general and administrative	19,610,167	15,839,939	10,232,982	8,618,636
Casualty loss	1,097,271	-	133,480	-
	110,956,002	89,220,847	60,628,137	49,310,733
Income from operations	10,144,344	13,762,859	5,845,961	8,234,688
Interest and financing expense	(44,386)	(207,469)	(17,186)	(140,319)
Gain on sale of marketable securities, net	5,151,039	-	5,239,519	-
Interest income	1,173,758	632,650	661,162	407,306
Earnings before provision for income taxes	16,424,755	14,188,040	11,729,456	8,501,675
Income tax provision	3,664,000	3,206,000	2,966,000	1,833,000
Net earnings	\$ 12,760,755	\$ 10,982,040	\$ 8,763,456	\$ 6,668,675
Earnings per common share - basic	\$ 1.08	\$ 0.96	\$ 0.74	\$ 0.58
Earnings per common share - diluted	\$ 1.08	\$ 0.95	\$ 0.74	\$ 0.58
Weighted average common shares outstanding - basic	11,768,667	11,420,305	11,796,484	11,468,398
Weighted average common shares outstanding - diluted	11,829,885	11,519,992	11,845,259	11,532,455

See notes to consolidated financial statements.

BEL FUSE INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Total	Compre- hensive Income	Retained Earnings	Accumulated Other Compre- hensive Income	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Deferred Stock- Based Compensation
Balance, January 1, 2005	\$ 178,461,296		\$ 149,949,283	\$ 5,386,512	\$ 270,268	\$ 866,059	\$ 21,989,174	\$ -
Exercise of stock options	4,115,508					20,028	4,095,480	
Tax benefits arising from the non-qualified disposition of incentive stock options	429,802						429,802	-
Cash dividends on Class A common stock	(430,940)		(430,940)					
Cash dividends on Class B common stock	(1,760,432)		(1,760,432)					
Issuance of restricted common stock	5,214,392					15,240	5,199,152	
Deferred stock-based compensation - net of taxes	(3,810,840)							(3,810,840)
Currency translation adjustment	(669,153)	\$ (669,153)		(669,153)				
Decrease in unrealized gain or loss on marketable securities -net of taxes	(454,492)	(454,492)		(454,492)				
Stock-based compensation expense - net of taxes	248,131							248,131
Net earnings	20,233,277	20,233,277	20,233,277					
		\$ 19,109,632						

Comprehensive
income

Balance,
December 31,
2005

201,576,549

167,991,188

4,262,867

270,268

901,327

31,713,608

(3,562,709)

See notes to consolidated financial statements.

BEL FUSE INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Continued)
(Unaudited)

	Total	Compre- hensive Income	Retained Earnings	Accumulated Other Compre- hensive Income	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Deferred Stock- Based Compensation
Exercise of stock options	1,887,037					7,259	1,879,778	
Tax benefits arising from the non-qualified disposition of incentive stock options	112,345						112,345	
Cash dividends on Class A common stock	(215,470)		(215,470)					
Cash dividends on Class B common stock	(886,502)		(886,502)					
Currency translation adjustment	204,968	\$ 204,968		204,968				
Decrease in unrealized gain or loss on marketable securities -net of taxes	(3,024,527)	(3,024,527)		(3,024,527)				
Issuance of restricted common stock	-					2,160	(2,160)	
Stock-based compensation expense - net of tax	615,960						615,960	
Adoption of SFAS 123 (R)	-						(3,562,709)	3,562,709
Net earnings	12,760,755	12,760,755	12,760,755					
Comprehensive income		\$ 9,941,196						
Balance, June 30, 2006	\$ 213,031,115		\$ 179,649,971	\$ 1,443,308	\$ 270,268	\$ 910,746	\$ 30,756,822	\$ -

See notes to consolidated financial statements.

BEL FUSE INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2006	2005
Cash flows from operating activities:		
Net income	\$ 12,760,755	\$ 10,982,040
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,775,968	4,502,560
Casualty loss	1,097,271	-
Stock-based compensation	790,960	-
Excess tax benefits from share-based payment arrangements	(112,345)	-
Gain on sale of marketable securities	(5,151,039)	-
Other	441,869	531,373
Deferred income taxes	(548,000)	(1,423,000)
Changes in operating assets and liabilities (net of acquisitions)	(5,367,143)	(650,121)
Net Cash Provided by Operating Activities	8,688,296	13,942,852
Cash flows from investing activities:		
Purchase of property, plant and equipment	(4,333,017)	(3,405,163)
Purchase of marketable securities	(729,088)	(643,424)
Payment for acquisitions - net of cash acquired	(2,692,974)	(20,340,853)
Proceeds from sale of marketable securities	24,489,966	-
Net Cash Provided by (Used in) Investing Activities	16,734,887	(24,389,440)

See notes to consolidated financial statements.

BEL FUSE INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Unaudited)

	Six Months Ended June 30,	
	2006	2005
Cash flows from financing activities:		
Proceeds from borrowings	-	8,000,000
Loan repayments	-	(15,360,694)
Proceeds from exercise of stock options	1,887,037	2,067,330
Dividends paid to common shareholders	(1,104,078)	(1,086,095)
Excess tax benefits from share-based payment arrangements	112,345	-
Net Cash Provided By (Used In) Financing Activities	895,304	(6,379,459)
Effect of exchange rate changes on cash	130,150	(320,328)
Net Increase (decrease) in Cash and Cash Equivalents	26,448,637	(17,146,375)
Cash and Cash Equivalents - beginning of year	51,997,634	71,197,891
Cash and Cash Equivalents - end of year	\$ 78,446,271	\$ 54,051,516
Changes in operating assets and liabilities (net of acquisitions) consist of:		
Increase in accounts receivable	\$ (7,931,062)	\$ (3,735,125)
Increase in inventories	(5,853,897)	(1,181,135)
(Increase) decrease in prepaid expenses and other current assets	(1,213,199)	480,706
Increase in other assets	(359,959)	(624,818)
Increase in accounts payable	5,193,397	3,075,709
Increase in income taxes payable	2,573,495	1,925,559
Increase (decrease) in accrued expenses	2,224,082	(591,017)
	\$ (5,367,143)	\$ (650,121)

See notes to consolidated financial statements.

BEL FUSE INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Concluded)
(Unaudited)

	Six Months Ended June 30,	
	2006	2005
Supplementary information:		
Cash paid during the year for:		
Income taxes	\$ 1,240,000	\$ 2,389,322
Interest	\$ 44,000	\$ 207,469
Details of acquisitions:		
Fair value of assets acquired (excluding cash acquired of \$311,856 in 2005)	\$ -	\$ 6,021,377
Intangibles	446,571	2,255,905
Goodwill	2,000,000	12,546,080
Acquisition costs	2,446,571	20,823,362
Less: Amounts paid (held back) on acquisition payment	514,403	(482,509)
Amounts accrued	(268,000)	-
Cash paid for acquisitions	\$ 2,692,974	\$ 20,340,853

See notes to consolidated financial statements.

BEL FUSE INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The consolidated balance sheet as of June 30, 2006, and the consolidated statements of operations, stockholders' equity and cash flows for the periods presented herein have been prepared by Bel Fuse Inc. (the "Company" or "Bel") and are unaudited. In the opinion of management, all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the financial position, results of operations, changes in stockholders' equity and cash flows for all periods presented have been made. The information for the consolidated balance sheet as of December 31, 2005 was derived from audited financial statements.

Accounting Policies

DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Bel Fuse Inc. and subsidiaries operate in one industry with three geographic reporting segments and are engaged in the design, manufacture and sale of products used in local area networking, telecommunication, business equipment and consumer electronic applications. The Company manages its operations geographically through its three reporting units: North America, Asia and Europe. Sales are predominantly in North America, Europe and Asia.

PRINCIPLES OF CONSOLIDATION - The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, including businesses acquired since their respective dates of acquisition. All intercompany transactions and balances have been eliminated.

USE OF ESTIMATES - The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH EQUIVALENTS - Cash equivalents include short-term investments in U.S. treasury bills and commercial paper with an original maturity of three months or less when purchased. At June 30, 2006 and December 31, 2005, cash equivalents approximated \$34,966,000 and \$13,444,000, respectively.

MARKETABLE SECURITIES - The Company classifies its equity securities as "available for sale", and accordingly, reflects unrealized gains and losses, net of deferred income taxes, as a component of accumulated other comprehensive income.

The fair values of marketable securities are based on quoted market prices. Realized gains or losses from the sale of marketable securities are based on the specific identification method.

ACQUISITION EXPENSES - The Company capitalizes all direct costs associated with proposed acquisitions. If the proposed acquisitions are consummated, such costs will be included as a component of the overall cost of the acquisition. Such costs are expensed at such time as the Company deems the consummation of a proposed acquisition to be unsuccessful.

FOREIGN CURRENCY TRANSLATION - The functional currency for some foreign operations is the local currency. Assets and liabilities of foreign operations are translated at balance sheet date rates of exchange and income, expense and cash flow items are translated at the average exchange rate for the period. Translation adjustments are recorded in Accumulated Other Comprehensive Income. The U.S. Dollar is used as the functional currency for certain foreign operations that conduct their business in U.S. Dollars. A combination of current and historical exchange rates is used in measuring the local currency transactions of these subsidiaries and the resulting exchange adjustments are included in the statement of operations. Current exchange rates are used for all foreign subsidiaries except for two subsidiaries in the Far East which use both current and historical exchange rates. Realized foreign currency (gains) were \$(203,000) and \$(105,000) for the six months ended June 30, 2006 and 2005, and \$(245,000) and \$(25,000) for the three months ended June 30, 2006 and 2005, respectively, and have been expensed in the consolidated statements of operations included in selling, general and administration expense.

CONCENTRATION OF CREDIT RISK - Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of accounts receivable and temporary cash investments. The Company grants credit to customers that are primarily original equipment manufacturers and to subcontractors of original equipment manufacturers based on an evaluation of the customer's financial condition, without requiring collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. The Company controls its exposure to credit risk through credit approvals, credit limits and monitoring procedures and establishes allowances for anticipated losses.

The Company places its temporary cash investments with quality financial institutions and commercial issuers of short-term paper and, by policy, limits the amount of credit exposure in any one financial instrument.

INVENTORIES - Inventories are stated at the lower of weighted average cost or market.

REVENUE RECOGNITION - The Company recognizes revenue in accordance with the guidance contained in SEC Staff Accounting Bulletin No. 104, "Revenue Recognition in Financial Statements". Revenue is recognized when the product has been delivered and title and risk of loss has passed to the customer, collection of the resulting receivable is deemed probable by management, persuasive evidence of an arrangement exists and the sales price is fixed and determinable. Substantially all of the Company's shipments are FCA (free carrier) which provides for title to pass upon delivery to the customer's freight carrier. Some product is shipped DDP/DDU with title passing when the product arrives at the customer's dock.

For certain customers, the Company provides consigned inventory, either at the customer's facility or at a third party warehouse. Sales of consigned inventory are recorded when the customer withdraws inventory from consignment. During all periods in 2006 and 2005, inventory on consignment was immaterial.

The Company typically has a twelve-month warranty policy for workmanship defects. Warranty returns have historically averaged at or below 1% of annual net sales. The Company establishes warranty reserves when a warranty issue becomes known as warranty claims have historically been immaterial. No general reserves for warranties have been established.

The Company is not contractually obligated to accept returns except for defective product or in instances where the product does not meet the customer's quality specifications. However, the Company may permit its customers to return product for other reasons. In these 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 gross sales and provided for at the time revenue is recognized.

GOODWILL-The Company tests goodwill for impairment annually (during the fourth quarter), using a fair value approach at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment for which discrete financial information is available and reviewed regularly by management. Assets and liabilities of the Company have been assigned to the reporting units to the extent that they are employed in or are considered a liability related to the operations of the reporting unit and were considered in determining the fair value of the reporting unit.

DEPRECIATION - Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated primarily using the declining-balance method for machinery and equipment and the straight-line method for buildings and improvements over their estimated useful lives.

INCOME TAXES - The Company accounts for income taxes using an asset and liability approach under which deferred income taxes are recognized by applying enacted tax rates applicable to future years to the differences between the financial statement carrying amounts and the tax bases of reported assets and liabilities.

For that portion of foreign earnings that have not been repatriated, an income tax provision has not been recorded for U.S. federal income taxes on the undistributed earnings of foreign subsidiaries as such earnings are intended to be permanently reinvested in those operations. Such earnings would become taxable in the United States upon the sale or liquidation of these foreign subsidiaries or upon the repatriation of earnings.

The principal items giving rise to deferred taxes are unrealized gains on marketable securities available for sale, the use of accelerated depreciation methods for machinery and equipment, timing differences between book and tax amortization of intangible assets and goodwill and certain expenses which have been deducted for financial reporting purposes which are not currently deductible for income tax purposes.

STOCK-BASED COMPENSATION - The Company has one stock-based compensation plan under which both incentive stock-options and restricted stock awards are granted to employees and directors. Effective January 1, 2006, the Company accounts for stock based compensation under Statement of Financial Accounting Standards ("SFAS") No. 123 (R), "Share-Based Payment". The Company adopted SFAS 123(R) using the modified prospective method. Under modified prospective application, this SFAS applies to new awards and to awards modified, repurchased, or cancelled after the required effective date. Additionally, compensation cost for the portion of the awards for which the requisite service has not been rendered that are outstanding as of the required effective date shall be recognized as the requisite service is rendered on or after the required effective date. The compensation cost for the portion of awards shall be based on the grant-date fair value of those awards as calculated for either recognition or pro forma disclosures under SFAS 123. Changes to the grant-date fair value of equity awards granted before the required effective date of this Statement are precluded. The compensation cost for those earlier awards shall be attributed to periods beginning on or after the required effective date of this SFAS using the attribution method that was used under SFAS 123, except that the method of recognizing forfeitures only as they occur shall not be continued. Prior to January 1, 2006, the Company accounted for stock option grants issued to employees in accordance with Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees", and had adopted the disclosure only requirements of SFAS No. 123, "Accounting for Stock-Based Compensation", as amended by SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123." As such, for periods prior to January 1, 2006, the Company presents pro forma net earnings and earnings per share as if the fair-value-based method of accounting had been applied under SFAS No. 123.

During 2005 and 2006, the Company issued 152,400 and 21,600 class B common shares, respectively, under a restricted stock plan to various officers and employees. The shares vest 25% after two years of employment with an additional 25% vesting in each of years three through five. This resulted in pre-tax compensation expense of \$564,000 and \$296,000 (\$413,000 and \$226,000, net of tax benefit) for the six and three months ended June 30, 2006, respectively. The balance of \$3,600,000 of deferred stock-based compensation, net of taxes, is included within paid-in-capital on the Company's consolidated balance sheet. Additionally, stock based compensation expense related to incentive stock options amounted to \$226,000 and \$113,000 (pre-tax) for the six and three months ended June 30, 2006, respectively.

Prior to January 1, 2006, the Company adopted the disclosure-only provisions of SFAS No. 123. Had compensation cost for the Company's stock option plan been determined based on the fair value at the grant date for awards for the three and six months ended June 30, 2005 consistent with the provisions of SFAS No. 123, the Company's net earnings and earnings per share would have been reduced to the pro forma amounts indicated below:

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net earnings - as reported	\$ 6,668,675	\$ 10,982,040
Add: Stock-based compensation expense included in net income, net of taxes, as reported		
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of taxes	(160,868)	(321,736)
Net earnings- pro forma	\$ 6,507,807	\$ 10,660,304
Earnings per common share - basic-as reported	\$ 0.58	\$ 0.96
Earnings per common share - basic-pro forma	\$ 0.57	\$ 0.93
Earnings per common share - diluted-as reported	\$ 0.58	\$ 0.95
Earnings per common share - diluted-pro forma	\$ 0.56	\$ 0.93

RESEARCH AND DEVELOPMENT - Research and development costs are expensed as incurred, and are included in cost of sales. Generally all research and development is performed internally for the benefit of the Company. The Company does not perform such activities for others. Research and development costs include salaries, building maintenance and utilities, rents, materials, administration costs and miscellaneous other items. Research and development expenses for the six months ended June 30, 2006 and 2005 amounted to \$3.5 million and \$3.8 million, respectively, and for the three months ended June 30, 2006 and 2005 amounted to \$1.6 million and \$1.9 million, respectively.

EVALUATION OF LONG-LIVED ASSETS - The Company reviews property and equipment and finite-lived intangible assets for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable in accordance with guidance in SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." If the carrying value of the long-lived asset exceeds the present value of the related estimated future cash flows, the asset would be adjusted to its fair value and an impairment loss would be charged to operations in the period identified.

CASUALTY LOSS - During the six months ended June 30, 2006, the Company incurred a \$1.1 million pre-tax casualty loss primarily for uninsured raw materials destroyed by a fire at a leased manufacturing facility in the Dominican Republic.

EARNINGS PER SHARE - Basic earnings per common share are computed by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per common share are computed by dividing net earnings by the weighted average number of common shares and potential common shares outstanding during the period. Potential common shares used in computing diluted earnings per share relate to stock options and warrants which, if exercised, would have a dilutive effect on earnings per share.

The following table includes a reconciliation of shares used in the calculation of basic and diluted earnings per share:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2006	2005	2006	2005
Weighted average shares outstanding - basic	11,768,667	11,420,305	11,796,484	11,468,398
Dilutive impact of stock options and unvested restricted stock awards	61,218	99,687	48,775	64,057
Weighted average shares outstanding - diluted	11,829,885	11,519,992	11,845,259	11,532,455

During the six and three months ended June 30, 2006, 14,000 and 14,000 outstanding options were not included in the foregoing computations because they were antidilutive.

FAIR VALUE OF FINANCIAL INSTRUMENTS - For financial instruments, including cash, marketable securities, accounts receivable, accounts payable and accrued expenses, it was assumed that the carrying amount approximated fair value because of the short maturities of such instruments. Interest rates that are currently available to the Company for issuance of debt with similar terms and remaining maturities are used to estimate fair value for bank debt. Management believes that the carrying amount of bank debt is a reasonable estimate of its fair value.

2. ACQUISITIONS

On June 30, 2005, the Company acquired the common stock of Netwatch s.r.o., located in Prague, the Czech Republic, for approximately \$1.9 million in cash of which \$0.5 million was due to the sellers and was paid by the Company during June 2006. Netwatch s.r.o. is a designer and manufacturer of high-performance fiber optic and copper cable assemblies for data and telecommunication applications. Approximately \$1.0 million of goodwill arose from the transaction which is included in the Company's European reporting unit.

The acquisition has been accounted for using the purchase method of accounting and, accordingly, the results of operation of Netwatch s.r.o. have been included in the Company's consolidated financial statements from June 30, 2005.

There was no in process research and development acquired as part of this acquisition.

On March 22, 2005, the Company acquired the common stock of Galaxy Power Inc. ("Galaxy"), located in Westborough, Massachusetts, for approximately \$19.0 million in cash including transaction costs of approximately \$0.4 million. Galaxy is a designer and manufacturer of high-density DC-DC converters for distributed power and telecommunication applications. The purchase price has been allocated to both tangible and intangible assets and liabilities based on estimated fair values after considering an independent formal appraisal. Approximately \$11.2 million of goodwill and \$2.6 million of identifiable intangible assets arose from the transaction and are included in the Company's North American reporting unit. The identifiable intangible assets and related deferred tax liabilities are being amortized on a straight-line basis over their estimated useful lives.

The acquisition has been accounted for using the purchase method of accounting and, accordingly, the results of operations of Galaxy have been included in the Company's consolidated financial statements from March 22, 2005.

There was no in process research and development acquired as part of this acquisition.

The following unaudited pro forma summary results of operations assume that Galaxy and Netwatch s.r.o. had been acquired as of January 1, 2005 (in thousands, except per share data):

	Six Months Ended June 30, 2005
Net sales	\$ 108,295
Net earnings	10,758
Earnings per share - diluted	0.93

The information above is not necessarily indicative of the results of operations that would have occurred if the acquisitions had been consummated as of January 1, 2005. Such information should not be construed as a representation of the future results of operations of the Company.

A condensed combined balance sheet of the major assets and liabilities of Galaxy and Netwatch s.r.o., as of their acquisition dates is as follows:

Cash	\$ 311,856
Accounts receivable	3,687,331
Inventories	2,862,571
Prepaid expenses	96,120
Income taxes receivable	5,488
Property, plant and equipment	1,545,526
Other assets	32,083
Deferred tax asset	1,392,850
Goodwill	12,546,080
Intangible assets	1,960,000
Notes payable	(860,694)
Accounts payable	(2,129,165)
Accrued expenses	(465,002)
Net assets acquired	\$ 20,985,044

3. GOODWILL AND OTHER INTANGIBLES

Goodwill represents the excess of the purchase price and related acquisition costs over the value assigned to the net tangible and other intangible assets with finite lives acquired in a business acquisition.

Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets". Under SFAS No. 142, goodwill and intangible assets deemed to have indefinite lives are no longer amortized, but are subject to, at a minimum, an annual impairment test. If the carrying value of goodwill or intangible assets exceeds its fair market value, an impairment loss would be recorded.

Other intangibles include patents, product information, covenants not-to-compete and supply agreements. Amounts assigned to these intangibles have been determined by management. Management considered a number of factors in determining the allocations, including valuations and independent appraisals. Other intangibles are being amortized over 1 to 10 years. Amortization expense was \$1,299,000 and \$981,000 for the six months ended June 30, 2006 and 2005, respectively and \$504,000 and \$666,000 for the three months ended June 30, 2006 and 2005.

Under the terms of the E-Power Ltd ("E-Power") and Current Concepts, Inc. ("Current Concepts") acquisition agreements of May 11, 2001, the Company is required to make contingent purchase price payments up to an aggregate of \$7.6 million should the acquired companies attain specified sales levels. During February 2006, E-Power was paid \$2.0 million in contingent purchase price payments as E-Power's sales, as defined, reached \$15.0 million. An additional \$4.0 million will be paid if such sales reach \$25.0 million on a cumulative basis through May 2007. The contingent purchase price payments for E-Power are accounted for as additional purchase price and as an increase to goodwill when such payment obligations are incurred. Current Concepts will be paid 16% of sales, as defined, on the first \$10.0 million of sales through May 2007. This \$10 million benchmark was reached during the second quarter of 2006 and therefore no additional payments will be made. During the six months ended June 30, 2006 and 2005, the Company paid or accrued approximately \$447,000 and \$296,000, respectively, in contingent purchase price payments to Current Concepts. During the three months ended June 30, 2006 and 2005, the Company paid or accrued approximately \$268,000 and \$182,000, respectively, in contingent purchase price payments to Current Concepts. The contingent purchase price payments for Current Concepts are accounted for as additional purchase price and as an increase to covenants not to compete within intangible assets when such payment obligations are incurred.

The changes in the carrying value of goodwill classified by geographic reporting units, net of accumulated depreciation, for the six months ended June 30, 2006 and the year ended December 31, 2005 are as follows:

	Total	Asia	North America	Europe
Balance, January 1, 2005	\$ 9,881,854	\$ 6,407,435	\$ 2,869,092	\$ 605,327
Goodwill allocation				
related to acquisitions	12,546,080	-	11,543,846	1,002,234
Balance, December 31, 2005	22,427,934	6,407,435	14,412,938	1,607,561
Goodwill allocation				
related to acquisitions	2,000,000	2,000,000	-	-
Reclassification to intangible asset	(670,000)	-	(670,000)	-
Other purchase price and foreign				
exchange adjustments	431,314	-	395,690	35,624
Balance, June 30, 2006	\$ 24,189,248	\$ 8,407,435	\$ 14,138,628	\$ 1,643,185

The components of intangible assets other than goodwill by geographic reporting unit are as follows:

	December 31, 2005					
	Total		Asia		North America	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents and Product						
Information	\$ 2,935,000	\$ 1,812,853	\$ 2,653,000	\$ 1,634,566	\$ 282,000	\$ 178,287
Customer relationships	1,160,000	178,833	-	-	1,160,000	178,833
Covenants						
not-to-compete	5,021,034	4,342,160	4,221,034	3,813,589	800,000	528,571
	\$ 9,116,034	\$ 6,333,846	\$ 6,874,034	\$ 5,448,155	\$ 2,242,000	\$ 885,691

	June 30, 2006					
	Total		Asia		North America	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents and Product						
Information	\$ 2,935,000	\$ 2,042,808	\$ 2,653,000	\$ 1,850,397	\$ 282,000	\$ 192,411
Customer relationships	1,830,000	465,124	-	-	1,830,000	465,124
Covenants						
not-to-compete	5,467,605	5,125,378	4,667,605	4,408,711	800,000	716,667
	\$ 10,232,605	\$ 7,633,310	\$ 7,320,605	\$ 6,259,108	\$ 2,912,000	\$ 1,374,202

Estimated amortization expense for intangible assets for the next five years is as follows:

Year Ending December 31,	Estimated Amortization Expense
2006	\$ 563,274
2007	809,277
2008	534,287
2009	427,596
2010	134,904

2006 represents amortization from July 1, 2006 through December 31, 2006.

4. MARKETABLE SECURITIES

The Company has cumulatively acquired a total of 4,926,000 shares, or 5%, of the common stock of Toko, Inc. (“Toko”) at a total purchase price of \$15.6 million. Of these amounts, the Company acquired 101,000 shares at a cost of \$329,000 during July and August 2006 and currently plans to acquire additional shares. Toko had a market capitalization of approximately \$327 million as of August 1, 2006. These purchases are reflected on the Company’s consolidated balance sheet as marketable securities. These marketable securities are considered to be available for sale under SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities”. Thus, as of June 30, 2006, the Company has recorded an unrealized gain, net of income taxes, of approximately \$.5 million which is included in accumulated other comprehensive income as stated in the consolidated statement of stockholders’ equity. In connection with this transaction, the Company is obligated to pay an investment banker’s advisory fee to a third party of 20% of the appreciation in the stock of Toko, or \$1 million, whichever is lower. As of June 30, 2006, the Company has accrued a fee in the amount of approximately \$150,000. Such amount has been deferred within other assets. If the proposed acquisition of Toko is consummated, the fee will be capitalized as part of the acquisition costs. Such amount will be expensed at such time as the Company deems the consummation of the proposed acquisition to be unsuccessful.

The Company acquired a total of 2,037,500 shares of the common stock of Artesyn Technologies, Inc. (“Artesyn”) at a total purchase price of \$16,331,469. On April 28, 2006, Artesyn was acquired by Emerson Network Power for \$11.00 per share in cash. During the second quarter of 2006, in connection with the Company's sale of its Artesyn common stock, the Company recognized a gain of approximately \$5.2 million, net of investment banker’s advisory fees of \$850,000. The Company accrued bonuses of \$1.0 million in connection with the gain. For financial statement presentation purposes, the \$1.0 million bonus was classified within selling, general and administrative expenses and will be paid to key employees by December 31, 2006.

At June 30, 2006 and December 31, 2005, respectively, marketable securities have a cost of approximately \$15,122,000 and \$32,893,000, an estimated fair value of approximately \$15,874,000 and \$38,463,000 and gross unrealized gains of approximately \$752,000 and \$5,570,000. Such unrealized gains are included, net of tax, in accumulated other comprehensive income. The Company had realized gains of \$5.2 million and realized losses of \$88,000 for the six months ended June 30, 2006.

5. INVENTORIES

The components of inventories are as follows:

	June 30, 2006	December 31, 2005
Raw materials	\$ 21,073,927	\$ 19,342,703
Work in progress	7,767,316	2,515,174
Finished goods	10,032,050	11,089,226
	\$ 38,873,293	\$ 32,947,103

6. BUSINESS SEGMENT INFORMATION

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

	Six Months Ended June 30,		Three Months Ended June 30,	
	2006	2005	2006	2005
Total segment revenues				
North America	\$ 39,531,004	\$ 37,119,158	\$ 21,036,118	\$ 19,158,205
Asia	88,243,885	71,509,916	49,338,286	40,691,564
Europe	13,355,532	7,414,308	7,670,699	3,415,866
Total segment revenues	141,130,421	116,043,382	78,045,103	63,265,635
Reconciling items:				
Intersegment revenues	(20,030,075)	(13,059,676)	(11,571,005)	(5,720,214)
Net sales	\$ 121,100,346	\$ 102,983,706	\$ 66,474,098	\$ 57,545,421
Income (loss) from Operations:				
North America	\$ (927,078)	\$ 3,841,040	\$ 874,823	\$ 2,556,574
Asia	10,430,590	9,799,777	4,865,271	5,714,850
Europe	640,832	122,042	105,867	(36,736)
	\$ 10,144,344	\$ 13,762,859	\$ 5,845,961	\$ 8,234,688

7.

DEBT

a. Short-term debt

Previously the Company had available one domestic line of credit of \$10 million. During March 2005, the Company borrowed \$8 million against the line of credit to partially finance the acquisition of Galaxy. The outstanding balance was paid off in its entirety on June 20, 2005. During July 2005, the Company amended its credit agreement to increase the line of credit to \$20 million, which expires on July 21, 2008. During October 2005, the Company borrowed \$4 million against the line of credit. The outstanding balance was paid off in its entirety during December 2005. There was no balance outstanding as of June 30, 2006. At that date, the entire \$20 million line of credit was available to the Company to borrow. The loan is collateralized with a first priority security interest in and lien on 65% of all the issued and outstanding shares of the capital stock of certain of the foreign subsidiaries of the Company and all other personal property and certain real property of the Company. The loan bears interest at LIBOR plus 0.75% to 1.25% based on certain financial statement ratios maintained by the Company. As of June 30, 2006 the Company is in compliance with its debt covenants.

The Company's Hong Kong subsidiary has an unsecured line of credit of approximately \$2 million which was unused as of June 30, 2006. The line of credit expires during July 2007. Borrowing on the line of credit is guaranteed by the U.S. parent. The line of credit bears interest at a rate determined by the bank as the financing is extended.

b. Long-term debt

On March 21, 2003, the Company entered into a \$10 million secured term loan, which was paid off in June 2005. The loan was used to partially finance the Company's acquisition of Insilco's Passive Components Group. This term loan facility is no longer available to the Company.

For the six months ended June 30, 2006 and 2005, the Company recorded interest expense of \$44,000 and \$207,000, respectively. For the three months ended June 30, 2006 and 2005, the Company recorded interest expense of \$17,000 and \$140,000, respectively.

8. ACCRUED EXPENSES

Accrued expenses consist of the following:

	June 30, 2006	December 31, 2005
Sales commissions	\$ 2,022,569	\$ 1,812,135
Investment banking commissions	150,426	1,105,510
Subcontracting labor	1,799,445	1,597,279
Salaries, bonuses and related benefits	3,382,995	2,642,729
Other	5,843,260	3,509,905
	\$ 13,198,695	\$ 10,667,558

9. RETIREMENT FUND AND PROFIT SHARING PLAN

The Company maintains a domestic profit sharing plan and a contributory stock ownership and savings 401(K) plan, which combines stock ownership and individual voluntary savings provisions to provide retirement benefits for plan participants. The plan provides for participants to voluntarily contribute a portion of their compensation, subject to certain legal maximums. The Company will match, based on a sliding scale, up to \$350 for the first \$600 contributed by each participant. Matching contributions plus additional discretionary contributions is made with Company stock purchased in the open market. The expense for the six months ended June 30, 2006 and 2005 amounted to approximately \$280,000 and \$248,000, respectively. The expense for the three months ended June 30, 2006 and 2005 amounted to approximately \$144,000 and \$137,000, respectively. As of June 30, 2006, the plans owned 18,374 and 138,083 shares of Bel Fuse Inc. Class A and Class B common stock, respectively.

The Company's Far East subsidiaries have a retirement fund covering substantially all of their Hong Kong based full-time employees. Eligible employees contribute up to 5% of salary to the fund. In addition, the Company may contribute an amount up to 7% of eligible salary, as determined by Hong Kong government regulations, in cash or Company stock. The expense for the six months ended June 30, 2006 and 2005 amounted to approximately \$351,000 and \$208,000, respectively. The expense for the three months ended June 30, 2006 and 2005 amounted to approximately \$169,000 and \$105,000, respectively. As of June 30, 2006, the fund owned 3,323 and 17,342 shares of Bel Fuse Inc. Class A and Class B common stock, respectively.

The Supplemental Executive Retirement Plan (the "SERP" or the "Plan") is designed to provide a limited group of key management and highly compensated employees of the Company supplemental retirement and death benefits. The Plan was established by the Company in 2002. Employees are selected at the sole discretion of the Board of Directors of the Company to participate in the Plan. The Plan is unfunded. The Company utilizes life insurance to partially cover its obligations under the Plan. The benefits available under the Plan vary according to when and how the participant terminates employment with the Company. If a participant retires (with the prior written consent of the Company) on his normal retirement date (65 years old, 20 years of service, and 5 years of Plan participation), his normal retirement benefit under the Plan would be annual payments equal to 40% of his average base compensation (calculated using compensation from the highest 5 consecutive calendar years of Plan participation), payable in monthly installments for the remainder of his life. If a participant retires early from the Company (55 years old, 20 years of service, and 5 years of Plan participation), his early retirement benefit under the Plan would be an amount (i) calculated as if his early retirement date were in fact his normal retirement date, (ii) multiplied by a fraction, with the numerator being the actual years of service the participant has with the Company and the denominator being the years of service the participant would have had if he had retired at age 65, and (iii) actuarially reduced to reflect the early retirement date. If a participant dies prior to receiving 120 monthly payments under the Plan, his beneficiary would be entitled to continue receiving benefits for the shorter of (i) the time necessary to complete 120 monthly payments or (ii) 60 months. If a participant dies while employed by the Company, his beneficiary would receive, as a survivor benefit, an annual amount equal to (i) 100% of the participant's annual base salary at date of death for one year, and (ii) 50% of the participant's annual base salary at date of death for each of the following 4 years, each payable in monthly installments. The Plan also provides for disability benefits, and a forfeiture of benefits if a participant terminates employment for reasons other than those contemplated under the Plan. The expense for the six months ended June 30, 2006 and 2005 amounted to approximately \$640,000 and \$341,000, respectively. The expense for the three months ended June 30, 2006 and 2005 amounted to approximately \$226,000 and \$121,000, respectively.

The components of SERP expense are as follows:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2006	2005	2006	2005
Service cost	\$ 486,000	\$ 154,000	\$ 173,000	\$ 55,000
Interest cost	96,000	113,000	35,000	36,000
Amortization of adjustments	58,000	74,000	18,000	30,000
Total SERP expense	\$ 640,000	\$ 341,000	\$ 226,000	\$ 121,000

	June 30, 2006	December 31, 2005
Balance sheet amounts:		
Accrued pension liability	\$ 3,822,020	\$ 3,450,688
Intangible asset	1,655,362	1,655,362

10. SHARE-BASED COMPENSATION

On January 1, 2006, the Company adopted SFAS No. 123 (R) "Share-Based Payment" requiring the recognition of compensation expense in the Consolidated Statements of Operations related to the fair value of its employee share-based options and awards. SFAS No. 123 (R) revises SFAS No. 123 "Accounting for Stock-Based Compensation" and supercedes APB Opinion No. 25 "Accounting for Stock Issued to Employees." SFAS No. 123(R) is supplemented by SEC Staff Accounting Bulletin ("SAB") No. 107 "Share-Based Payment." SAB No. 107 expresses the SEC staff's views regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations including the valuation of share-based payment arrangements.

The Company recognizes the cost of all employee stock options on a straight-line attribution basis over their respective vesting periods, net of estimated forfeitures. The Company has selected the modified prospective method of transition; accordingly, prior periods have not been restated. Prior to adopting SFAS No. 123(R), the Company applied APB Opinion No. 25, and related interpretations in accounting for its stock-based compensation plans. All employee stock options were granted at or above the grant date market price. Accordingly, no compensation cost was recognized for fixed stock option grants.

On June 30, 2006, the Company has one stock-based compensation plan, which is described below. During the six months and three months ended June 30, 2006, the adoption of SFAS No. 123(R) resulted in incremental stock-based compensation expense of \$226,000 and \$113,000, respectively. The incremental stock-based compensation expense caused the basic and diluted earnings per common share to decrease by \$.02 and \$.01 per share, respectively. In addition, in connection with the adoption of SFAS No. 123 (R), net cash provided by operating activities decreased and net cash provided by financing activities increased during the six months ended June 30, 2006 by \$112,345 related to excess tax benefits from stock-based payment arrangements.

The aggregate compensation cost recognized in net earnings for stock based compensation (including incentive stock options, restricted stock and dividends on restricted stock, as further discussed below) amounted to \$790,000 and \$-0- for the six months ended June 30, 2006 and 2005, respectively. For the three months ended June 30, 2006 and 2005 the aggregate compensation cost recognized in net earnings amounted to \$409,000 and \$-0-. The Company did not use any cash to settle any equity instruments granted under share based arrangements during the six months ended June 30, 2006 and 2005.

Under the provisions of SFAS 123 (R), the recognition of deferred compensation as a component of equity representing the amount of unrecognized restricted stock expense that is reduced as expense is recognized at the date restricted stock is granted, is no longer required. Therefore, in the first quarter of 2006, the amount that had been in "Deferred compensation" in the Consolidated Balance Sheet was reversed to zero.

Incentive Stock Options

The Company has a Qualified Stock Option Plan (the "Plan") which provides for the granting of "Incentive Stock Options" to key employees within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended. The Company believes that such awards better align the interest of its employees with those of its shareholders. The Plan provides for the issuance of 2,400,000 common shares. Substantially all options outstanding become exercisable twenty-five percent (25%) one year from the date of grant and twenty-five percent (25%) for each year of the three years thereafter. Upon exercise the Company will issue new shares. The exercise price of the options granted pursuant to the Plan is not to be less than 100 percent of the fair market value of the shares on the date of grant. An option may not be exercised within one year from the date of grant, and in general, no option will be exercisable after five years from the date granted.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2004, which was the last year options were granted; dividends yield of 0.9%, expected volatility of 35% for Class B; risk-free interest rate of 5% and expected lives of 5 years. No options were granted during the year ended December 31, 2005 or during the six and three months ended June 30, 2006. Expected lives of options previously granted were estimated using the historical exercise behavior of employees. Expected volatilities are based on implied volatilities from historical volatility of the Company's stock. The Company uses historical data to estimate employee forfeitures. The risk free rate is based on the U.S. Treasury yield curve in effect at the time of the grant.

A summary of option activity under the plan as of December 31, 2005 and changes during the six months ended June 30, 2006 is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2006	286,013	\$ 24.96		
Granted	-			
Exercised	(72,588)	26.00		\$ 696,879
Forfeited or expired	(12,400)	29.71		
Outstanding at June 30, 2006	201,025	\$ 24.29	1.5	\$ 1,712,676
Exercisable at June 30, 2006	90,025	\$ 23.12	1.5	\$ 872,235

During the six months ended June 30, 2006 and 2005 the Company received \$1,887,037 and \$2,067,330 from the exercise of share options and realized tax benefits of \$112,000 and \$190,000, respectively. The total intrinsic value of options exercised during the six months ended June 30, 2006 and 2005 was \$696,879 and \$1,455,859, respectively. Stock compensation expense for the six months ended June 30, 2006 and June 30, 2005 was \$226,000 and \$-0-.

A summary of the status of the Company's nonvested options as of December 31, 2005 and changes during the six months ended June 30, 2006 is presented below:

Nonvested Options	Options	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2005	177,500	\$ 24.28
Granted	-	
Vested	(54,100)	19.84
Forfeited	(12,400)	29.71
Nonvested at June 30, 2006	111,000	\$ 25.24

At June 30, 2006 there was \$278,883 of total unrecognized compensation cost related to non vested share-based compensation arrangements granted under the Plan. The cost is expected to be recognized over a weighted average period of 2 years. The total fair value of shares vested during the six months ended June 30, 2006 and 2005 was \$-0- and \$-0-, respectively.

Restricted Stock Awards

The Company provides common stock awards to certain officers and key employees. The Company grants these awards, at its discretion, from the shares available under the Stock Option plan. The shares awarded are earned in 25% increments on the second, third, fourth and fifth anniversaries of the award, respectively, and are distributed provided the employee has remained employed by the Company through such anniversary dates; otherwise the unearned shares are forfeited. The market value of these shares at the date of award is recorded as compensation expense on the straight-line method over the five-year periods from the respective award dates, as adjusted for forfeitures of unvested awards. Deferred stock-based compensation expense of \$3.6 million associated with unearned shares under this plan as of June 30, 2006, is reported within Stockholders' equity on the Company's consolidated balance sheets, net of deferred tax benefit. Pretax compensation expense was \$564,000 for the six months ended June 30, 2006 and \$248,000 for the year ended December 31, 2005.

A summary of the activity under the Restricted Stock Awards Plan as of December 31, 2005 and for the six months ended June 30, 2006 is presented below:

Restricted Stock Awards	Shares	Weighted Average Award Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2006	152,400	\$ 35.64		
Granted	-			
Awarded	21,600	30.00		
Forfeited	(4,000)	37.00		
Outstanding at June 30, 2006	170,000	34.89	4.5	\$ -
Exercisable at June 30, 2006	-		-	\$ -

As of June 30, 2006 there was \$5.0 million of total pre-tax unrecognized compensation cost related to non-vested share based compensation arrangements granted under the restricted stock award plan; that cost is expected to be recognized over a period of 4.5 years.

The Company's policy is to issue new shares to satisfy Restricted Stock Awards and incentive stock option exercises.

11. COMMON STOCK

During 2000, the Board of Directors of the Company authorized the purchase of up to ten percent (10%) of the Company's outstanding Class B common shares. As of December 31, 2005, the Company had purchased and retired 23,600 Class B common shares at a cost of approximately \$808,000 which reduced the number of Class B common shares outstanding. No stock was repurchased during the six and three months ended June 30, 2006.

The Company maintains two classes of outstanding common stock, Class A Common Stock ("Class A") and Class B Common Stock ("Class B"). The following is a summary of the pertinent rights and privileges of each class outstanding:

- Voting - Class A receives one vote per share; Class B is non-voting;
- Dividends (cash) - Cash dividends are payable at the discretion of the Board of Directors and is subject to a 5% provision whereby cash dividends paid out to Class B must be at least 5% higher per share annually than Class A. At the discretion of the Board of Directors, Class B may receive a cash dividend without Class A receiving a cash dividend.
- Dividends (other than cash) and distributions in connection with any recapitalization and upon liquidation, dissolution or winding up of the Company - Shared equally among Class A and Class B;
- Mergers and consolidations - Equal amount and form of consideration per share among Class A and Class B;
- Class B Protection - Any person or group that purchases 10% or more of the outstanding Class A (excluding certain shares, as defined) must make a public cash tender offer (within 90 days) to acquire additional shares of Class B to avoid disproportionate voting rights. Failure to do so will result in forfeiture of voting rights for those shares acquired after the recapitalization. Alternatively, the purchaser can sell Class A shares to reduce the purchaser's holdings below 10% (excluding shares owned prior to recapitalization). Above 10%, this protection transaction is triggered every 5% (i.e., 15%, 20%, 25%, etc.);
- Convertibility - Not convertible into another class of Common Stock or any other security by the Company, unless by resolution by the Board of Directors to convert such shares as a result of either class becoming excluded from quotation on NASDAQ, or if total outstanding shares of Class A falls below 10% of the aggregate number of outstanding shares of both classes (in which case, all Class B shares will be automatically converted in Class A shares).

- Transferability and trading - Both Class A and Class B are freely transferable and publicly traded on NASDAQ National Market;
- Subdivision of shares - Any split, subdivision or combination of the outstanding shares of Class A or Class B must be proportionately split with the other class in the same manner and on the same basis.

12. COMPREHENSIVE INCOME

Comprehensive income for the six and three months ended June 30, 2006 and 2005 consists of:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2006	2005	2006	2005
Net earnings	\$ 12,760,755	\$ 10,982,040	\$ 8,763,456	\$ 6,668,675
Currency translation adjustment	204,968	(614,665)	113,089	(424,138)
Increase (decrease) in unrealized gain on marketable securities				
- net of taxes	(3,024,527)	(3,143,296)	(5,532,198)	32,446
Comprehensive income	\$ 9,941,196	\$ 7,224,079	\$ 3,344,347	\$ 6,276,983

13. ASSETS HELD FOR SALE

On July 15, 2004, the Company entered into an agreement for the sale of a certain parcel of land located in Jersey City, New Jersey. The sales agreement is subject to a due diligence period by the buyer. The sales agreement expired during January 2006. The buyer and seller are continuing to negotiate about certain environmental matters among themselves and with the State of New Jersey. The seller and buyer are aware that a portion of the property may be subject to tidelands claims by the State of New Jersey. The Company believes that the property will be sold during 2006. Additionally, the Company is obligated for environmental remediation costs of up to \$350,000. As of June 30, 2006, the Company had also paid \$203,000 of legal, site testing and State of New Jersey Environmental Protection Agency fees. As these costs are incurred, the Company capitalizes them on the Company's consolidated balance sheet as assets held for sale. The Company has classified the asset as held for sale with a net book value of approximately \$848,000 on the Company's consolidated balance sheet at June 30, 2006. Management anticipates the property will be sold by December 31, 2006.

14.

NEW FINANCIAL ACCOUNTING STANDARDS

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" ("FIN 48"). The interpretation requires a two step approach for recognizing and measuring tax benefits based on a recognition threshold of "more likely than not". FIN 48 also requires explicit disclosures about uncertainties in tax positions including a detailed rollforward of tax benefits that do not qualify for financial statement recognition. The adoption of FIN 48 is effective for fiscal years beginning after December 15, 2006. The implementation of FIN 48 could have a material effect on the consolidated balance sheet and results of operations but the effect of such implementation is not determinable at this time.

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment", that requires compensation costs related to share-based payment transactions to be recognized in the financial statements. With limited exceptions, the amount of compensation cost is measured based on the grant-date fair value of the equity or liability instruments issued. In addition, liability awards are to be remeasured each reporting period. Compensation cost will be recognized over the period that an employee provides service in exchange for the reward. SFAS No. 123(R) is effective as to the Company as of the beginning of the Company's 2006 fiscal year. The Company accounted for stock-based compensation costs using the modified prospective method at the time of adoption. The adoption of SFAS 123(R) resulted in incremental stock-based compensation expense of \$226,000 during the six months ended June 30, 2006. The adoption of SFAS 123(R) did not have a material effect on the consolidated balance sheet as of June 30, 2006 or the consolidated statement of cash flows for the six months ended June 30, 2006.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets", an amendment of APB Opinion No. 29. SFAS No. 153 amends APB Opinion No. 29 by eliminating the exception under APB No. 29 for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for periods beginning after June 15, 2005. The adoption of SFAS No. 153 did not have a material effect on the Company's consolidated financial position or results of operations.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs", an amendment to Accounting Research Bulletin No. 43 chapter 4. SFAS No. 151 requires that abnormal costs of idle facility expenses, freight, handling costs and wasted material (spoilage) be recognized as current-period charges. SFAS No. 151 is effective for fiscal years beginning after June 15, 2005. Adoption of SFAS No. 151 did not have a material impact on the Company's consolidated financial position or results of operations.

15. Legal Proceedings

The Company and two of its officers are defendants in a wrongful termination lawsuit brought in the District Court of Frankfurt am Main, Germany by a former employee at a foreign subsidiary of the Company. The Company believes it has adequately accrued sufficient amounts for this liability in accordance with the terms of the ex-employee's employment agreement.

The Company is a plaintiff in a lawsuit captioned Bel Fuse Inc., a New Jersey corporation, and Bel Power, Inc., a Massachusetts corporation, v. Andrew Ferencz, Gregory Zovonar, Bernhard Schroter, EE2GO, Inc., a Massachusetts corporation, Howard E. Kaepplein and William Ng, Defendants brought in the Supreme Court of the Commonwealth of Massachusetts. The Company was granted injunctive relief and is seeking damages against the former stockholders of Galaxy Power, Inc., key employees of Galaxy and a corporation formed by some or all of the individual defendants. The Company has alleged that the defendants violated their written non-competition, non-disclosure and non-solicitation agreements, diverted business and usurped substantial business opportunities with key customers, misappropriated confidential information and trade secrets, and harmed the Company's business.

In a related matter, the Company is a defendant in a lawsuit captioned Robert Chimielski, P.C. on behalf of the stockholder representatives and the former stockholders of Galaxy Power, Inc. v. Bel Fuse Inc. et al brought in the Superior Court of the Commonwealth of Massachusetts. This complaint for damages and injunctive relief is based on an alleged breach of contract and other allegedly illegal acts in a corporate context arising out of the defendants' objection to the release of nearly \$2.0 million held in escrow under the terms of the stock purchase agreement between Galaxy and the Company.

The Company is a defendant in a lawsuit captioned Murata Manufacturing Company, Ltd. v. Bel Fuse Inc et al and brought in Illinois Federal District Court. Plaintiff claims that its patent covers all of the Company's modular jack products. That party had previously advised the Company that it was willing to grant a non-exclusive license to the Company under the patent for a 3% royalty on all future gross sales of ICM products; payment of a lump sum of 3% of past sales including sales of applicable Insilco products; an annual minimum royalty of \$500,000; payment of all attorney fees; and marking of all licensed ICM's with the third party's patent number. The Company is also a defendant in a lawsuit, captioned Regal Electronics, Inc. v. Bel Fuse Inc. and brought in California Federal District Court. Plaintiff claims that its patent covers certain of the Company's modular jack products. That party had previously advised the Company that it was willing to grant a non transferable license to the Company for an up front fee of \$500,000 plus a 6% royalty on future sales. The District Court has granted summary judgment in the Company's favor dismissing Regal Electronics' infringement claims, while at the same time the Court dismissed the Company's invalidity counterclaim against Regal Electronics. As of the date hereof, the Company has not been advised as to whether Regal will appeal the Court's rejection of its infringement claims. The Company believes that none of its products are covered by these patents and intends to vigorously defend its position and no accrual has been provided in the accompanying consolidated financial statements.

The Company cannot predict the outcome of these matters; or the impact on the Company's consolidated financial condition or results of operations.

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

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

The Company's quarterly and annual 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2005. 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, financial condition, operating results, and stock prices. Furthermore, this document and other documents filed by the Company with the Securities and Exchange Commission (the "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. These Forward-Looking Statements are subject to certain risks and uncertainties, including those detailed in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2005, 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 such statements are made or to reflect the occurrence of unanticipated events. An investment in the Company involves various risks, including those which are detailed from time to time in the Company's SEC filings.

Overview

Bel is a leading producer of electronic products that help make global connectivity a reality. The Company designs, manufactures and markets a broad array of magnetics, modules, circuit protection devices and interconnect products. While these products are deployed primarily in the computer, networking and telecommunication industries, Bel's expanding portfolio of products also finds application in the automotive, medical and consumer electronics markets. Bel's products are designed to protect, regulate, connect, isolate or manage a variety of electronic circuits.

We design our products to enhance the systems in which they operate. As our products typically become components in other third-party's systems, our revenues are largely driven by the extent to which our customers can design and develop new applications and the extent to which those customers have needs for the types of components that we can provide. We are problem-solvers; we design most of our products to combine various discrete components in a manner that will allow the systems designer to save space and to offer a more efficient product.

Our expenses are driven principally by the cost of the materials that we use and the cost of labor where our factories are located. In recent years, the increasing cost of copper, steel and petroleum-based products, increased transportation costs and the increased wage structure in the Far East have contributed to increases in manufacturing costs.

During the six months ended June 30, 2006, approximately \$4.6 million of the Company's sales increase was attributable to the acquisition by the Company of Galaxy Power, Inc. ("Galaxy"), which occurred on March 22, 2005, and Netwatch s.r.o. (now named Bel Stewart Net s.r.o.), which occurred on June 30, 2005. Galaxy was renamed Bel Power Inc. ("Power"). Excluding the 2005 acquisitions, the Company had an organic sales increase of 13.1% for the six months ended June 30, 2006. With these acquisitions, the Company's sales increased by 17.6%. The disclosure of the Company's revenues excluding the 2005 acquisitions may constitute a "Non-GAAP Financial Measure". The Company has provided a reconciliation by also including a reference to total revenues. The Company believes that the reference to revenues excluding the 2005 acquisitions improves the comparability of its disclosures. The 2005 acquisitions resulted in additional Cost of Sales and Selling, General and Administrative expenses in the six months ended June 30, 2006 of \$3.6 million and \$1.1 million, respectively.

Gross profit margins were lower during the six months ended June 30, 2006 compared to June 30, 2005, principally due to increased raw material costs resulting from higher commodity prices for copper, steel, and petroleum-based products and changes in the Company's product mix. Sales of the Company's DC-DC power products have increased. While these products are strategic to Bel's growth and important to total earnings, they return lower gross profit percentage margins as a larger percentage of their bills of material are purchased components. As these sales continue to increase, the Company's average gross profit percentage will likely decrease unless offset by increased sales of higher margin products. The increasing sales of the Company's DC-DC power products also have an impact on the accelerated write off of intangible assets related to the acquisition of Current Concepts. The contingent purchase price payments are accounted for as additional purchase price and as an increase to covenants not to compete within intangible assets when such payment obligations are incurred. Due to the shorter remaining lives of the covenants not to compete, any additional contingent purchase price payments that are allocated to covenants not to compete are amortized over a shorter remaining life, or will be expensed as incurred if the applicable covenant to compete has expired. During the quarter ended June 30, 2006, Current Concepts reached their benchmark sales target and no additional contingent purchase price payments will be made. Gross profit margins are also adversely affected to the extent that the Company manufactures lead-free products, as the Company has additional labor and manufacturing costs but cannot attain premium pricing for such products.

The Company also incurred \$0.8 million in pre-tax stock compensation expense during the six months ended June 30, 2006 in connection with its Restricted Stock Award and Incentive Stock Option Plan. This expense is reflected both in the Company's cost of sales and selling, general and administrative expenses which is principally consistent with the classification of employee compensation expense. During the six months ended June 30, 2005, the Company did not incur an expense for stock compensation.

During the six months ended June 30, 2006, the Company incurred a \$1.1 million pre-tax casualty loss primarily for uninsured raw materials destroyed by a fire at a Company leased manufacturing facility in the Dominican Republic.

During the six months ended June 30, 2006, the Company realized a gain on marketable securities of \$5.2 million, net of investment banking fees, offset by a \$1.0 million accrual (classified as a selling, general and administrative charge for accounting purposes) for performance bonuses awarded by the Board of Directors in connection with the gain.

Critical Accounting Policies

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. 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, intangible assets, investments, 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.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Allowance for Doubtful Accounts

The Company maintains allowances for doubtful accounts for estimated losses from the inability of its customers to make required payments. The Company determines its reserves by both specific identification of customer accounts where appropriate and the application of historical loss experience to non-specific accounts. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Inventory

The Company makes purchasing decisions principally based upon firm sales orders from customers, the availability and pricing of raw materials and projected customer requirements. Future events that could adversely affect these decisions and result in significant charges to the Company's operations include miscalculating customer requirements, technology changes which render certain raw materials and finished goods obsolete, loss of customers and/or cancellation of sales orders, stock rotation with distributors and unanticipated termination of distribution agreements. The Company writes down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon the aforementioned assumptions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

When inventory is written-off, it is never written back up; the cost remains at zero or the level to which it has been written-down. When inventory that has been written-off is subsequently used in the manufacturing process, the lower adjusted cost of the material is charged to cost of sales. Should any of this inventory be used in the manufacturing process for customer orders, the improved gross profit will be recognized at the time the completed product is shipped and the sale is recorded.

Acquisitions

Acquisitions continue to be a key element in the Company's growth strategy. If the Company's evaluation of an acquisition candidate misjudges its technology, estimated future sales and profitability levels, ability to keep pace with the latest technology, or working capital needs these factors could impair the value of the investment, which could materially adversely affect the Company's profitability.

Income Taxes

The Company files income tax returns in every jurisdiction in which it has reason to believe it is subject to tax. Historically, the Company has been subject to examination by various taxing jurisdictions. To date, none of these examinations has resulted in any material additional tax. Nonetheless, any tax jurisdiction may contend that a filing position claimed by the Company regarding one or more of its transactions is contrary to that jurisdiction's laws or regulations.

Revenue Recognition

The Company recognizes revenue in accordance with the guidance contained in SEC Staff Accounting Bulletin No. 104, "Revenue Recognition in Financial Statements". Revenue is recognized when the product has been delivered and title and risk of loss have passed to the customer, collection of the resulting receivable is deemed probable by management, persuasive evidence of an arrangement exists and the sale price is fixed and determinable.

Historically the Company has been successful in mitigating the risks associated with its revenue recognition. Some issues relate to product warranty, credit worthiness of its customers and concentration of sales among a few major customers.

The Company is not contractually obligated to accept returns from non-distributor customers except for defective product or in instances where the product does not meet the Company's quality specifications. If these conditions existed, the Company would be obligated to repair or replace the defective product or make a cash settlement with the customer. Distributors generally have the right to return up to 5% of their purchases over the previous three to six months and are obligated to purchase an amount at least equal to the return. If the financial conditions of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances for bad debt may be required which could have a material adverse effect on the Company's consolidated results of operations and financial condition. The Company has a significant amount of sales with several major customers. The loss of any one of these customers could have a material adverse effect on the Company's consolidated results of operations and financial position.

Results of Operations

The following table sets forth, for the periods presented, the percentage relationship to net sales of certain items included in the Company's consolidated statements of operations.

	Percentage of Net Sales Six Months Ended June 30,		Percentage of Net Sales Three Months Ended June 30,	
	2006	2005	2006	2005
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	74.5	71.3	75.6	70.7
Selling, general and administrative expenses	16.2	15.4	15.4	15.0
Casualty loss	0.9	-	0.2	-
Interest income and interest and financing expense	0.9	0.4	1.0	0.5
Gain on sale of marketable securities - net	4.3	-	7.9	-
Earnings before provision for income taxes	13.6	13.7	17.6	14.8
Income tax provision	3.0	3.1	4.5	3.2
Net earnings	10.5	10.6	13.2	11.6

The following table sets forth the year over year percentage increase of certain items included in the Company's consolidated statements of operations.

	Increase from Prior Period Six Months Ended June 30, 2006 compared with Six Months Ended June 30, 2005	Increase from Prior Period Three Months Ended June 30, 2006 compared with Three Months Ended June 30, 2006
Net sales	17.6%	15.5%
Cost of sales	23.0	23.6
Selling, general and administrative expenses	23.8	18.7
Net earnings	16.2	31.4

SIX MONTHS ENDED JUNE 30, 2006 VERSUS SIX MONTHS ENDED JUNE 30, 2005

Sales

Net sales increased 17.6% from \$103.0 million during the six months ended June 30, 2005 to \$121.1 million during the six months ended June 30, 2006. The Company attributes the increase to increased module sales of \$6.6 million, of which \$3.4 million is attributable to the acquisition of Galaxy, strong demand for interconnect products resulting in an increase of \$5.1 million in such sales, of which \$1.2 million is attributable to the acquisition of Netwatch, and strong demand for magnetic sales resulting in an increase of \$6.4 million in such sales, offsetting a decrease in circuit protection sales of \$0.1 million. Bel had an organic sales increase of 13.1% for the six months ended June 30, 2006.

The significant components of the Company's revenues for the six months ended June 30, 2006 were magnetic products of \$68.8 million (as compared with \$62.4 million during the six months ended June 30, 2005), interconnect products of \$23.4 million (as compared with \$18.3 million during the six months ended June 30, 2005), module products of \$19.4 million (as compared with \$12.7 million during the six months ended June 30, 2005), and circuit protection products of \$9.5 million (as compared with \$9.6 million during the six months ended June 30, 2005).

Based in part on conflicting opinions the Company received from customers and competitors in the electronics industry pertaining to revenue growth during 2005, the Company cannot predict with any degree of certainty sales revenue for 2006. During the second quarter of 2006, several customers have requested deliveries in excess of their forecasts. The Company has also received several last minute order changes. Although the Company's backlog has been stable, the Company feels that this is not a good indicator of revenues. The Company continues to have limited visibility as to future customer requirements. The Company had no customer with sales in excess of 10% of net sales during the six months ended June 30, 2006.

The Company cannot quantify the extent of sales growth arising from unit sales mix and/or price changes. Given the change in the nature of the products purchased by customers from period to period, the Company believes that neither unit changes nor price changes are meaningful. Over the past year, newer and more sophisticated products with higher unit selling prices have been introduced. Through the Company's engineering and research effort, the Company has been successful in adding additional value to existing product lines, which tends to increase sales prices initially until that generation of products becomes mature and sales prices experience price degradation. In general, as products become mature, average selling prices decrease.

Cost of Sales

Bel generally enters into processing arrangements with three independent third party contractors in the Far East. The Company uses the services of three additional sub-contractors without formal agreements. Costs are recorded as incurred for all products manufactured either at third party facilities or at the Company's own manufacturing facilities. Such amounts are determined based upon the estimated stage of production and include labor cost and fringes and related allocations of factory overhead. The Company manufactures finished goods at its own manufacturing facilities in Glen Rock, Pennsylvania, Inwood, New York, the Dominican Republic, Mexico, the Czech Republic and Macao.

Cost of sales as a percentage of net sales increased from 71.3 % during the six months ended June 30, 2005 to 74.5% during the six months ended June 30, 2006. The increase in the cost of sales percentage is primarily attributable to the following:

“The Company incurred a 4.2% increase in material costs as a percentage of net sales. The increase in raw material costs is principally related to increased manufacturing of value-added products (including new Power products in the second half of 2005), which have a higher raw material content than the Company's other products, and increased costs for raw materials such as copper, steel and petroleum-based products and increased transportation costs.

“The Company has also started to pay higher wage rates and benefits to its production workers in China. These higher rates and benefits are reflected in the Company's cost of goods sold.

“Sales of the Company’s DC-DC power products have increased. While these products are strategic to Bel’s growth and important to total earnings, they return lower gross profit percentage margins as a larger percentage of their bills of materials are purchased components. As these sales continue to increase, the Company’s average gross profit percentage will likely decrease. The increasing sales also have an impact on the accelerated write off of intangibles related to contingent purchase price payments arising from the acquisition of Current Concepts.

Included in cost of sales are research and development expenses of \$3.5 million and \$3.8 million for the six months ended June 30, 2006 and 2005, respectively. The principal reason for the decrease is less research and development expense in the United States offset in part by higher expenditures in the Far East.

Selling, General and Administrative Expenses

The percentage relationship of selling, general and administrative expenses to net sales increased from 15.4 % during the six months ended June 30, 2005 to 16.2% during the six months ended June 30, 2006. The Company attributes \$1.3 million of the \$3.8 million increase in the dollar amount of such expenses to increased selling expenses, including \$.2 million in Power related expenses. The \$2.5 million increase in general and administrative expenses includes \$1.0 million related to Power and Bel Net additional salaries, wages and bonuses of \$1.7 million, principally attributable to a \$1.0 million bonus approved by the Board of Directors in connection with the gain from the sale of Artesyn stock, raises and other bonus accruals, additional stock compensation expense of \$.5 million partially arising from the Company’s implementation of Statement of Financial Accounting Standards ("SFAS") 123 (R) during 2006 (see below and Notes 1 and 10 of the Notes to the Company's Consolidated Financial Statements) and additional professional fees of \$.3 million principally related to Sarbanes-Oxley compliance, offset in part by lower bad debt expense of \$.4 million and other decreases in several expense categories totaling \$.4 million.

During the six months ended June 30, 2006, the Company expensed share based compensation costs in accordance with SFAS No. 123(R), “Share-based Payment”. This expense is included in both cost of sales and selling, general and administrative expenses in the amount of approximately \$270,000 and \$520,000, respectively, for the six months ended June 30, 2006.

Casualty Loss

The Company incurred an estimated loss of \$1.1 million as a result of a fire at its leased manufacturing facility in the Dominican Republic for raw materials and equipment in excess of estimated insurance proceeds. The production at this facility has been substantially restored during July 2006.

Interest Income

Interest income represents interest earned on cash and cash equivalents which increased by approximately \$541,000 during the six months ended June 30, 2006, as compared to the comparable period in 2005. The increase is due primarily to increased balances of cash and cash equivalent balances and marketable securities and higher yields on such balances.

Interest Expense

A \$10 million term loan was entered into on March 21, 2003, which was borrowed for the acquisition of Insilco's Passive Components Group. The loan bore interest at LIBOR plus 1.50% payable quarterly and was completely paid off by June 30, 2005. Interest expense related to these borrowings amounted to \$207,000 during the six months ended June 30, 2005. During the six months ended June 30, 2006, interest expense included \$44,000 of financing expenses related to the Company's credit facility in the United States.

Provision for Income Taxes

The provision for income taxes for the six months ended June 30, 2006 was \$3.7 million compared to \$3.2 million during the six months ended June 30, 2005. The Company's earnings before income taxes for the six months ended June 30, 2006 are approximately \$2.2 million higher than in 2005. During the six months ended June 30, 2006, the Company incurred higher taxes of approximately \$.5 million principally as a result of higher United States taxes resulting from the gain from the sale of marketable securities (Artesyn) and higher United States taxable income from operations offset in part by lower foreign taxes in the Far East due to the implementation by the Company of its Macao Commercial Offshore Company ("MCO") which is not subject to Macao corporation income taxes. This had an impact of reducing the effective tax rate from 22.6% for the six months ended June 30, 2005 to 22.3% for the six months ended June 30, 2006 (measured as the provision as a percentage of earnings before provision for income taxes).

The Company conducts manufacturing activities in the Far East. More specifically, the Company has the majority of its products manufactured in the People's Republic of China ("PRC"), Hong Kong and Macao and has not been subject to corporate income tax in the PRC. The Company's activities in Hong Kong have generally consisted of administration, quality control and accounting, as well as some limited manufacturing activities. Hong Kong imposes corporate income tax at a rate of 17.5 percent solely on income sourced to Hong Kong. That is, its tax system is a territorial one which only seeks to tax activities conducted in Hong Kong. Since the Bel entity in Hong Kong conducts most of its manufacturing and quality control activities in the PRC, a portion of this entity's income was deemed "offshore" and thus not fully taxable in Hong Kong.

The Company also conducts manufacturing operations in Macao. Macao has a statutory corporate income tax rate of 16 percent.

Since most of the Company's operations are conducted in the Far East, the majority of its profits are sourced in these three Far East jurisdictions (i.e. PRC, Hong Kong and Macao). Accordingly, the profits earned in the U.S. are comparatively small in relation to its profits earned in the Far East. Therefore, there is generally a significant difference between the statutory U.S. tax rate and the Company's effective tax rate.

During 2005, the Company was granted an offshore operating license from the government of Macao to set up a Commercial Offshore Company ("MCO") named Bel Fuse (Macao Commercial Offshore) Limited with the intent to handle all of the Company's sales to third party customers in Asia. Sales to third party customers commenced during the first quarter of 2006. Sales consist of products manufactured in the PRC. The MCO is not subject to Macao corporation income taxes. It is not possible at this time to determine the tax impact on the Company of the establishment of this new entity.

The Company has historically followed a practice of reinvesting a portion of the earnings of foreign subsidiaries in the expansion of its foreign operations. If the unrepatriated earnings were distributed to the parent corporation rather than reinvested in the Far East, such funds would be subject to United States Federal income taxes. During 2005, \$70.6 million of earnings were repatriated by the Company.

Inflation and Foreign Currency Exchange

During the past two years, the effect of inflation on the Company's profitability was not material. Historically, fluctuations of the U.S. Dollar against other major currencies have not significantly affected the Company's foreign operations as most sales have been denominated in U.S. Dollars or currencies directly or indirectly linked to the U.S. Dollar. Most significant expenses, including raw materials, labor and manufacturing expenses, are either incurred in U.S. Dollars or the currencies of the Hong Kong Dollar, the Macao Pataca or the Chinese Renminbi. Commencing with the acquisition of the Passive Components Group, the Company's European entity has sales transactions which are denominated principally in Euros and British Pounds. Conversion of these transactions into U.S. dollars has resulted in currency exchange gains of \$(203,000) and \$(105,000) for the six months ended June 30, 2006 and 2005, respectively, which were charged to expense, and approximately \$(205,000) and \$(615,000) for the six months ended June 30, 2006 and 2005, respectively, in unrealized exchange gains (losses) relating to the translation of foreign subsidiary financial statements which are included in accumulated other comprehensive income. Any change in linkage of the U.S. Dollar and the Hong Kong Dollar, the Chinese Renminbi or the Macao Pataca could have a material effect on the Company's consolidated financial position or results of operations. The Company's investment in Toko is denominated in Japanese yen. A significant change in the value of the yen versus the U.S. dollar could have a material effect on the investment value of Toko.

THREE MONTHS ENDED JUNE 30, 2006 VERSUS THREE MONTHS ENDED JUNE 30, 2005

Sales

Net sales increased 15.5% from \$57.5 million during the three months ended June 30, 2005 to \$66.5 million during the three months ended June 30, 2006. The Company attributes the increase to increased module sales of \$2.8 million, strong demand for interconnect products resulting in an increase of \$2.4 million in such sales, of which \$0.7 million is attributable to the acquisition of Netwatch, strong demand for magnetic sales resulting in an increase of \$3.5 million in such sales, and an increase in circuit protection sales of \$0.3 million. Bel had an organic sales increase of 14.4% for the three months ended June 30, 2006.

The significant components of the Company's revenues for the three months ended June 30, 2006 were magnetic products of \$36.9 million (as compared with \$33.4 million during the three months ended June 30, 2005), interconnect products of \$12.3 million (as compared with \$9.9 million during the three months ended June 30, 2005), module products of \$12.0 million (as compared with \$9.2 million during the three months ended June 30, 2005), and circuit protection products of \$5.3 million (as compared with \$5.0 million during the three months ended June 30, 2005.)

Cost of Sales

Bel generally enters into processing arrangements with three independent third party contractors in the Far East. The Company uses the services of three additional subcontractors without formal agreements. Costs are recorded as incurred for all products manufactured either at third party facilities or at the Company's own manufacturing facilities. Such amounts are determined based upon the estimated stage of production and include labor cost and fringes and related allocations of factory overhead. The Company manufactures finished goods at its own manufacturing facilities in Glen Rock, Pennsylvania, Inwood, New York, the Dominican Republic and Mexico, the Czech Republic and Macao.

Cost of sales as a percentage of net sales increased from 70.7% during the three months ended June 30, 2005 to 75.6% during the three months ended June 30, 2006. The increase in the cost of sales percentage is primarily attributable to the following:

- “ The Company incurred a 5.8% increase in material costs as a percentage of net sales. The increase in raw material costs is principally related to increased manufacturing of value-added products (including new Power products in the second half of 2005), which have a higher raw material content than the Company's other products, and increased costs for raw materials such as copper, steel and petroleum-based products and increased transportation costs.
- “ The Company has also started to pay higher wage rates and benefits to its production workers in China. These higher rates and benefits are reflected in the Company's cost of goods sold.
- “ The Company incurred a pre-tax amortization charge of \$289,000 related to intangibles acquired in the Power and Insilco acquisitions.
- “ The Company incurred \$270,000 of compensation expense pursuant to SFAS No. 123R that was charged to cost of sales.
- “ The Company has been required to run duplicate ROHS and non-ROHS production lines to support its customers as they convert to “lead free” products.

“ Sales of the Company’s DC-DC power products have increased. While these products are strategic to Bel’s growth and important to total earnings, they return lower gross profit percentage margins as a larger percentage of their bills of materials are purchased components. As these sales continue to increase, the Company’s average gross profit percentage will likely decrease. The increasing sales also have an impact on the accelerated write off of intangibles related to contingent purchase price payments arising from the acquisition of Current Concepts.

Included in cost of sales are research and development expenses of \$1.6 million and \$1.9 million for the three months ended June 30, 2006 and 2005, respectively.

Selling, General and Administrative Expenses

The percentage relationship of selling, general and administrative expenses to net sales increased from 15.0% during the three months ended June 30, 2005 to 15.4% during the three months ended June 30, 2006. The Company attributes \$.5 million of the \$1.6 million increase in the dollar amount of such expenses to increased selling expenses. The \$1.1 million increase in general and administrative expenses is principally attributable to the \$1.0 million bonus approved by the Board of Directors in connection with the gain from the sale of Artesyn Stock.

During the three months ended June 30, 2006, the Company expensed share based compensation costs in accordance with SFAS No. 123(R), “Share-based Payment”. This expense is included in both cost of sales and selling, general and administrative expenses in the amount of approximately \$270,000 and \$120,000, respectively, for the three months ended June 30, 2006.

Casualty Loss

The Company incurred an estimated loss of \$.1 million as a result of a fire at its leased manufacturing facility in the Dominican Republic for raw materials and equipment in excess of estimated insurance proceeds. The production at this facility has been substantially restored during July 2006.

Interest Income

Interest income represents interest earned on cash and cash equivalents which increased by approximately \$254,000 during the three months ended June 30, 2006, as compared to the comparable period in 2005. The increase is due primarily to increased balances of cash and cash equivalent balances and marketable securities and increased yields on such balances.

Interest Expense

A \$10 million term loan was entered into on March 21, 2003, which was borrowed for the acquisition of Insilco's Passive Components Group. The loan bore interest at LIBOR plus 1.50% payable quarterly and was completely paid off by June 30, 2005. Interest expense related to these borrowings amounted to \$140,000 during the three months ended June 30, 2005. During the three months ended June 30, 2006, interest and other expenses included \$17,000 of financing expenses related to the Company's credit facility in the United States.

Provision for Income Taxes

The provision for income taxes for the three months ended June 30, 2006 was \$3.0 million compared to \$1.8 million during the three months ended June 30, 2005. The Company's earnings before income taxes for the three months ended June 30, 2006 are approximately \$3.2 million higher than in 2005. The reasons for the increase in taxes and pre-tax income are principally attributable to the same reasons as set forth in the six month analysis.

Inflation and Foreign Currency Exchange

During the past two years, the effect of inflation on the Company's profitability was not material. Historically, fluctuations of the U.S. Dollar against other major currencies have not significantly affected the Company's foreign operations as most sales have been denominated in U.S. Dollars or currencies directly or indirectly linked to the U.S. Dollar. Most significant expenses, including raw materials, labor and manufacturing expenses, are either incurred in U.S. Dollars or the currencies of the Hong Kong Dollar, the Macao Pataca or the Chinese Renminbi. Commencing with the acquisition of the Passive Components Group, the Company's European entity has sales transactions which are denominated principally in Euros and British Pounds. Conversion of these transactions into U.S. dollars has resulted in currency exchange losses of \$245,000 and \$22,000 for the three months ended June 30, 2006 and 2005, respectively, which were charged to expense, and approximately \$113,000 and \$425,000 for the three months ended June 30, 2006 and 2005, respectively, in unrealized exchange gains (losses) relating to the translation of foreign subsidiary financial statements which are included in accumulated other comprehensive income. Any change in linkage of the U.S. Dollar and the Hong Kong Dollar, the Chinese Renminbi or the Macao Pataca could have a material effect on the Company's consolidated financial position or results of operations.

-47-

Liquidity and Capital Resources

Historically, the Company has financed its capital expenditures primarily through cash flows from operating activities, as supplemented by bank borrowings. Management believes that the cash flow from operations after payments of dividends combined with its existing capital base and the Company's available lines of credit, will be sufficient to fund its operations for at least the next 12 months. Such statement constitutes a Forward Looking Statement. Factors which could cause the Company to require additional capital include, among other things, a softening in the demand for the Company's existing products, an inability to respond to customer demand for new products, potential acquisitions requiring substantial capital, future expansion of the Company's operations and net losses that would result in net cash being used in operating, investing and/or financing activities which result in net decreases in cash and cash equivalents. Net losses may result in the loss of domestic and foreign credit facilities and preclude the Company from raising debt or equity financing in the capital markets.

Previously, the Company had one domestic line of credit of \$10 million. During March 2005, the Company borrowed \$8 million against this line of credit to partially finance the acquisition of Galaxy. The outstanding balance was paid off in its entirety on June 20, 2005. During July 2005, the Company amended its credit agreement to increase the line of credit to \$20 million, which expires on July 31, 2008. During October 2005, the Company borrowed \$4.0 million against the line of credit which was paid off during December 2005. As of June 30, 2006 there was no loan balance on the line of credit. The loan bears interest at LIBOR plus 0.75% to 1.25% based on certain financial statement ratios maintained by the Company. As of December 31, 2005 and June 30, 2006, the entire \$20 million line of credit was available to the Company to borrow. The loan is collateralized with a first priority security interest in and lien on 65% of all the issued and outstanding shares of the capital stock of certain of the foreign subsidiaries of the Company and all other personal property and certain real property of the Company.

The Company's Hong Kong subsidiary has an unsecured line of credit of approximately \$2 million, which was unused at June 30, 2006. This line of credit expires during July 2007. Borrowing on this line of credit is guaranteed by the Company.

For information regarding further commitments under the Company's operating leases, see Note 15 of Notes to Company's Consolidated Financial Statements in the Company's 2005 Annual Report on Form 10-K.

The Company has cumulatively acquired a total of 4,926,000 shares, or 5%, of the common stock of Toko, Inc. (“Toko”) at a total purchase price of \$15.6 million. Of these amounts, the Company acquired 101,000 shares at a cost of \$329,000 subsequent to June 30, 2006. Toko had a market capitalization of approximately \$327 million as of August 1, 2006. These purchases are reflected on the Company’s consolidated balance sheet as marketable securities. These marketable securities are considered to be available for sale under SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities”. Thus, as of June 30, 2006, the Company has recorded an unrealized gain, net of income taxes, of approximately \$.5 million which is included in accumulated other comprehensive income as stated in the consolidated statement of stockholders’ equity. In connection with this transaction, the Company is obligated to pay an investment banker’s advisory fee to a third party of 20% of the appreciation in the stock of Toko, or \$1 million, whichever is lower. As of June 30, 2006, the Company has accrued a fee in the amount of approximately \$150,000. Such amount has been deferred within other assets. If the proposed acquisition of the Toko is consummated, the fee will be capitalized as part of the acquisition costs. Such amount will be expensed at such time as the Company deems the consummation of the proposed acquisition to be unsuccessful.

The Company acquired a total of 2,037,500 shares of the common stock of Artesyn Technologies, Inc. (“Artesyn”) at a total purchase price of \$16,331,469. On April 28, 2006, Artesyn was acquired by Emerson Network Power for \$11.00 per share in cash. During the second quarter of 2006, in connection with the Company’s sale of Artesyn stock, the Company recognized a gain of approximately \$5.2 million, net of investment banker’s advisory fees of \$850,000. The Company accrued bonuses of \$1.0 million in connection with the gain. For financial statement presentation purposes, the \$1.0 million bonus was classified as a selling, general and administrative expense to be paid to key employees by December 31, 2006.

The Company is constructing a 117,000 square foot manufacturing facility in Zhongshan City, PRC for approximately \$2.3 million. As of June 30 2006, the Company has paid approximately \$2.1 million toward the construction. The Company expects to complete the construction during 2006.

On July 15, 2004, the Company entered into an agreement for the sale of a certain parcel of land located in Jersey City, New Jersey. The sales agreement is subject to a due diligence period by the buyer. The sales agreement expired during January 2006. The buyer and seller are continuing to negotiate about certain environmental matters among themselves and with the State of New Jersey. The seller and buyer are aware that a portion of the property may be subject to tidelands claims by the State of New Jersey. The Company believes that the property will be sold during 2006. Additionally, the Company is obligated for environmental remediation costs of up to \$350,000. As of June 30, 2006, the Company had also paid \$203,000 of legal, site testing and State of New Jersey Environmental Protection Agency Fees. As these costs are incurred, the Company capitalizes them on the Company's consolidated balance sheet as assets held for sale. The Company has classified the asset as held for sale with a net book value of approximately \$848,000 on the Company's consolidated balance sheet at June 30, 2006.

Under the terms of the E-Power Ltd ("E-Power") and Current Concepts, Inc. ("Current Concepts") acquisition agreements of May 11, 2001, the Company is required to make contingent purchase price payments up to an aggregate of \$7.6 million should the acquired companies attain specified sales levels. During February 2006, E-Power was paid \$2.0 million in contingent purchase price payments as E-Power's sales, as defined, reached \$15.0 million. An additional \$4.0 million will be paid if such sales reach \$25.0 million on a cumulative basis through May 2007. The contingent purchase price payments for E-Power are accounted for as additional purchase price and as an increase to goodwill when such payment obligations are incurred. Current Concepts will be paid 16% of sales, as defined, on the first \$10.0 million of sales through May 2007. This \$10.0 million benchmark was reached during the second quarter of 2006 and therefore no additional payments will be made. During the six months ended June 30, 2006 and 2005, the Company paid approximately \$447,000 and \$296,000, respectively, in contingent purchase price payments to Current Concepts. The contingent purchase price payments for Current Concepts are accounted for as additional purchase price and as an increase to covenants not to compete within intangible assets when such payment obligations are incurred.

On May 9, 2000, the Board of Directors authorized the repurchase of up to 10% of the Company's outstanding common shares from time to time in market or privately negotiated transactions. As of June 30, 2006, the Company had cumulatively purchased and retired 23,600 Class B shares at a cost of approximately \$808,000, which reduced the number of Class B common shares outstanding. No shares were repurchased during the six months ended June 30, 2006.

During the six months ended June 30, 2006, the Company's cash and cash equivalents increased by \$26.4 million reflecting approximately \$8.7 million provided by operating activities (principally as a result of the Company's net income of \$12.8 million), and proceeds of \$1.9 million from the exercise of stock options, offset in part by \$2.7 million used principally for acquisitions, \$4.3 million for the purchase of property, plant and equipment, and \$1.1 million for payments of dividends.

Cash, marketable securities and cash equivalents and accounts receivable comprised approximately 53.9% and 53.6% of the Company's total assets at June 30, 2006 and December 31, 2005, respectively. The Company's current ratio (i.e., the ratio of current assets to current liabilities) was 4.0 to 1 and 4.5 to 1 at June 30, 2006 and December 31, 2005, respectively.

The following table sets forth at June 30, 2006 the amounts of payments due under specific types of contractual obligations, aggregated by category of contractual obligation, for the time periods described below.

Contractual Obligations	Total	Payments due by period			
		Less than one year	1-3 years	3-5 years	More than 5 years
Capital expenditure obligations	\$ 2,715,548	\$ 2,715,548	\$ -	\$ -	\$ -
Contingent purchase price commitments	2,383,516	2,383,516			
Operating leases	3,802,996	1,392,957	1,546,563	863,476	
Raw material purchase obligations	19,349,197	19,349,197	-	-	-
Total	\$ 28,251,257	\$ 25,841,218	\$ 1,546,563	\$ 863,476	\$ -

The Company is required to pay its SERP obligations at the occurrence of certain events. As of June 30, 2006 the SERP had an estimated unfunded benefit obligation of approximately \$3.8 million.

Other Matters

The Company believes that it has sufficient cash reserves to fund its foreseeable working capital needs. It may, however, seek to expand such resources through bank borrowings, at favorable lending rates, from time to time. Should the Company pursue additional acquisitions during 2006, the Company may be required to pursue public or private equity or debt transactions to finance the acquisitions and to provide working capital to the acquired companies.

New Financial Accounting Standards

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" ("FIN 48"). The interpretation requires a two step approach for recognizing and measuring tax benefits based on a recognition threshold of "more likely than not". The FASB also requires explicit disclosures about uncertainties in tax positions including a detailed rollforward of tax benefits that do not qualify for financial statement recognition. The adoption of FIN 48 is effective for fiscal years beginning after December 15, 2006. The implementation of FIN 48 could have a material effect on the consolidated balance sheet and results of operations but the effect of such implementation is not determinable at this time.

In December 2004, FASB issued SFAS No. 123(R), "Share-Based Payment", that requires compensation costs related to share-based payment transactions to be recognized in the financial statements. With limited exceptions, the amount of compensation cost is measured based on the grant-date fair value of the equity or liability instruments issued. In addition, liability awards are to be remeasured each reporting period. Compensation cost will be recognized over the period that an employee provides service in exchange for the reward. SFAS No. 123(R) is effective as to the Company as of the beginning of the Company's 2006 fiscal year. The Company accounted for the stock-based compensation costs using the modified prospective method at the time of adoption. The adoption of SFAS 123(R) resulted in incremental stock-based compensation expense of \$226,000 (pre-tax) during the six months ended June 30, 2006. The adoption of SFAS 123(R) did not have a material effect on the consolidated balance sheet as of June 30, 2006 or the consolidated statement of cash flows for the six months ended June 30, 2006.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets", an amendment of APB Opinion No. 29. SFAS No. 153 amends APB Opinion No. 29 by eliminating the exception under APB No. 29 for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for periods beginning after June 15, 2005. The adoption of SFAS No. 153 did not have a material effect on the Company's consolidated financial position or results of operations.

In November 2004 the FASB issued SFAS No. 151, "Inventory Costs", an amendment to Accounting Research Bulletin No. 43 chapter 4. SFAS No. 151 requires that abnormal costs of idle facility expenses, freight, handling costs and wasted material (spoilage) be recognized as current-period charges. SFAS No. 151 is effective for fiscal years beginning after June 15, 2005. Adoption of SFAS No. 151 did not have a material impact on the Company's results of operations or financial position.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Fair Value of Financial Instruments — The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements SFAS No. 107. The estimated fair values of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies.

However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

The Company has not entered into, and does not expect to enter into, financial instruments for trading or hedging purposes. The Company does not currently anticipate entering into interest rate swaps and/or similar instruments.

The Company's carrying values of cash, marketable securities, accounts receivable, accounts payable and accrued expenses are a reasonable approximation of their fair value.

The Company enters into transactions denominated in U.S. Dollars, Hong Kong Dollars, the Macao Pataca, the Chinese Renminbi, Euros and British Pounds. Fluctuations in the U.S. dollar exchange rate against these currencies could significantly impact the Company's consolidated results of operations.

The Company believes that a change in interest rates of 1% or 2% would not have a material effect on the Company's consolidated statement of operations or balance sheet.

-53-

Item 4. Controls and Procedures

- a. Disclosure controls and procedures. As of the end of the Company's most recently completed fiscal quarter 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 upon that evaluation, the Company's chief executive officer and vice president of finance concluded that the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to our management, including our Chief Executive Officer and our Vice President of Finance, as appropriate to allow timely decisions regarding required disclosure.
- b. Changes in internal controls over financial reporting: There have been no changes in the Company's internal controls over financial reporting that occurred during the Company's last fiscal quarter to which this report relates that have materially affected, or are reasonable likely to materially affect, the Company internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

The Company and two of its officers are defendants in a wrongful termination lawsuit brought in District Court of Frankfurt am Main, Germany by a former employee at a foreign subsidiary of the Company. The Company believes it has adequately accrued sufficient amounts for this liability in accordance with the terms of the ex-employee's employment agreement.

The Company is a plaintiff in a lawsuit captioned Bel Fuse Inc., a New Jersey corporation, and Bel Power, Inc., a Massachusetts corporation, v. Andrew Ferencz, Gregory Zovonar, Bernhard Schroter, EE2GO, Inc., a Massachusetts corporation, Howard E. Kaepplein and William Ng, Defendants brought in the Supreme Court of the Commonwealth of Massachusetts. The Company was granted injunctive relief and is seeking damages against the former stockholders of Galaxy Power, Inc, the Company's recent acquisition, and key employees of Galaxy and a corporation formed by some or all of the individual defendants. The Company has alleged that the defendants violated their written non-competition, non-disclosure and non-solicitation agreements, diverted business and usurped substantial business opportunities with key customers, misappropriated confidential information and trade secrets, and harmed the Company's business.

In a related matter, the Company is a defendant in a lawsuit captioned Robert Chimielski, P.C. on behalf of the stockholder representatives and the former stockholders of Galaxy Power, Inc. v. Bel Fuse Inc. et al brought in the Superior Court of the Commonwealth of Massachusetts. This complaint for damages and injunctive relief is based on an alleged breach of contract and other allegedly illegal acts in a corporate context arising out of the defendant's objection to the release of nearly \$2.0 million held in escrow under the terms of the stock purchase agreement between Galaxy and the Company.

The Company is a defendant in a lawsuit captioned Murata Manufacturing Company, Ltd. v. Bel Fuse Inc et al and brought in Illinois Federal District Court. Plaintiff claims that its patent covers all of the Company's modular jack products. That party had previously advised the Company that it was willing to grant a non-exclusive license to the Company under the patent for a 3% royalty on all future gross sales of ICM products; payment of a lump sum of 3% of past sales including sales of applicable Insilco products; an annual minimum royalty of \$500,000; payment of all attorney fees; and marking of all licensed ICM's with the third party's patent number. The Company is also a defendant in a lawsuit, captioned Regal Electronics, Inc. v. Bel Fuse Inc. and brought in California Federal District Court. Plaintiff claims that its patent covers certain of the Company's modular jack products. That party had previously advised the Company that it was willing to grant a non transferable license to the Company for an up front fee of \$500,000 plus a 6% royalty on future sales. The District Court has granted summary judgment in the Company's favor dismissing Regal Electronics' infringement claims, while at the same time the Court dismissed the Company's invalidity counterclaim against Regal Electronics. As of the date hereof, the Company has not been advised as to whether Regal will appeal the Court's rejection of its infringement claims. The Company believes that none of its products are covered by these patents and intends to vigorously defend its position and no accrual has been provided in the accompanying consolidated financial statements.

The Company cannot predict the outcome of these matters or the impact on the Company's consolidated financial condition or results of operations.

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

Item 4. Submission of Matters to a Vote of Security Holders

The Company's annual meeting of security holders was held on May 17, 2006. At the meeting the Board's nominees were elected to the Board of Directors for terms of three years. The votes were cast as follows:

	For	Withheld
Howard Bernstein	2,428,653	16,326
John Tweedy	2,428,653	16,326

Item 6. Exhibits

(a) Exhibits:

- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of the Vice President of Finance pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes - Oxley Act of 2002.
- 32.2 Certification of the Vice-President of Finance pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

-57-

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.

By: /s/ Daniel Bernstein

Daniel Bernstein, President and
Chief Executive Officer

By: /s/ Colin Dunn

Colin Dunn, Vice President of Finance

Dated: August 9, 2006

-58-

EXHIBIT INDEX

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