UNITED THERAPEUTICS Corp
Form 10-Q
October 28, 2010
Table of Contents

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 September 30, 2010

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 0-26301

United Therapeutics Corporation

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**52-1984749** (I.R.S. Employer Identification No.)
1040 Spring Street, Silver Spring, MD (Address of Principal Executive Offices)	**20910** (Zip Code)

(301) 608-9292

(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 Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or smaller reporting company. See definition of large accelerated filer , accelerated filer , and smaller reporting company in Rule 12b-2 of the Exchange Act:

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

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

The number of shares outstanding of the issuer s common stock, par value $.01 per share, as of October 22, 2010 was 56,917,094.

Table of Contents

INDEX

		Page
Part I.	**FINANCIAL INFORMATION (UNAUDITED)**	
Item 1.	Consolidated Financial Statements	
	Consolidated Balance Sheets	
	Consolidated Statements of Operations	
	Consolidated Statements of Cash Flows	
	Notes to Consolidated Financial Statements	
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	
Item 4.	Controls and Procedures	
Part II.	**OTHER INFORMATION**	
Item 1.	Legal Proceedings	
Item 1A.	Risk Factors	
Item 6.	Exhibits	
SIGNATURES		

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

UNITED THERAPEUTICS CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

		September 30, 2010 (Unaudited)		December 31, 2009
Assets				
Current assets:				
Cash and cash equivalents	$	210,186	$	100,352
Marketable investments		251,553		129,140
Accounts receivable, net of allowance of none for 2010 and 2009		75,569		50,626
Other current assets		8,285		2,638
Prepaid expenses		7,692		8,199
Inventories, net		33,422		26,360
Deferred tax assets		11,777		7,192
Total current assets		598,484		324,507
Marketable investments		164,167		148,628
Marketable investments and cash restricted		40,271		39,976
Goodwill and other intangibles, net		16,667		18,418
Property, plant and equipment, net		303,188		303,859
Deferred tax assets		151,872		200,969
Other assets (None and $6,741, respectively, measured under the fair value option)		8,135		15,187
Total assets	$	1,282,784	$	1,051,544
Liabilities and Stockholders Equity				
Current liabilities:				
Accounts payable	$	11,296	$	18,750
Accrued expenses		45,542		29,764
Convertible notes		231,932		220,272
Lease obligation current		31,152		
Other current liabilities		77,543		61,401
Total current liabilities		397,465		330,187
Lease obligation noncurrent				30,327
Other liabilities		33,706		27,139
Total liabilities		431,171		387,653
Commitments and contingencies:				
Common stock subject to repurchase		10,882		10,882
Stockholders equity:				
Preferred stock, par value $.01, 10,000,000 shares authorized, no shares issued				
Series A junior participating preferred stock, par value $.01, 100,000 authorized, no shares issued				
		592		567

Common stock, par value $.01, 245,000,000 and 100,000,000 shares authorized at September 30, 2010 and December 31, 2009, respectively, 59,239,731 and 56,682,369 shares issued at September 30, 2010, and December 31, 2009, respectively, and 56,778,078 and 54,220,779 shares outstanding at September 30, 2010, and December 31, 2009, respectively				
Additional paid-in capital		892,105		798,897
Accumulated other comprehensive loss		(6,193)		(4,314)
Treasury stock at cost, 2,461,653 and 2,461,590 shares at September 30, 2010 and December 31, 2009, respectively		(67,399)		(67,395)
Retained earnings (deficit)		21,626		(74,746)
Total stockholders equity		840,731		653,009
Total liabilities and stockholders equity	$	1,282,784	$	1,051,544

See accompanying notes to consolidated financial statements.

Table of Contents

UNITED THERAPEUTICS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(Unaudited)		(Unaudited)	
Revenues:				
Net product sales	$ 168,302	$ 94,058	$ 428,436	$ 251,925
Service sales	2,342	2,876	8,015	8,054
License fees	339	281	903	946
Total revenues	170,983	97,215	437,354	260,925
Operating expenses:				
Research and development	40,691	31,551	104,506	81,156
Selling, general and administrative	46,689	41,172	124,602	119,761
Cost of product sales	20,169	11,576	49,180	28,657
Cost of service sales	1,553	1,179	4,112	3,168
Total operating expenses	109,102	85,478	282,400	232,742
Income from operations	61,881	11,737	154,954	28,183
Other (expense) income:				
Interest income	564	1,085	2,310	4,141
Interest expense	(4,809)	(3,331)	(14,255)	(9,216)
Equity loss in affiliate	(39)	(42)	(130)	(99)
Other, net	137	(403)	455	491
Total other (expense) income, net	(4,147)	(2,691)	(11,620)	(4,683)
Income before income tax	57,734	9,046	143,334	23,500
Income tax (expense) benefit	(17,998)	2,891	(46,962)	(708)
Net income	$ 39,736	$ 11,937	$ 96,372	$ 22,792
Net income per common share:				
Basic	$ 0.70	$ 0.22	$ 1.73	$ 0.43
Diluted	$ 0.66	$ 0.21	$ 1.62	$ 0.41
Weighted average number of common shares outstanding:				
Basic	56,536	53,455	55,790	53,108
Diluted	60,216	57,653	59,545	55,297

See accompanying notes to consolidated financial statements.

Table of Contents

UNITED THERAPEUTICS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine Months Ended September 30, 2010	2009
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 96,372	$ 22,792
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,181	6,673
Provisions for bad debt and inventory obsolescence	1,844	985
Deferred tax expense	46,962	708
Share-based compensation	61,127	73,712
Amortization of debt discount and debt issue costs	12,520	11,685
Amortization of discount or premium on investments	1,465	1,132
Equity loss in affiliate and other	548	(3,488)
Excess tax benefits from share-based compensation	(18,726)	(2,710)
Changes in operating assets and liabilities:		
Accounts receivable	(25,313)	(17,345)
Inventories	(7,751)	(8,965)
Prepaid expenses	507	3,478
Other assets	(2,971)	(5,889)
Accounts payable	(7,451)	(2,723)
Accrued expenses	15,327	6,182
Other liabilities	(16,361)	(12,826)
Net cash provided by operating activities	172,280	73,401
Cash flows from investing activities:		
Purchases of property, plant and equipment	(13,199)	(73,893)
Acquisition of Tyvaso Inhalation System business		(3,378)
Purchases of held-to-maturity investments	(458,526)	(212,230)
Maturities of held-to-maturity investments	310,348	183,099
Sales of trading investments	36,200	225
Restrictions on cash	(20,747)	11,591
Net cash used in investing activities	(145,924)	(94,586)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	64,425	23,036
Excess tax benefits from share-based compensation	18,726	2,710
Net cash provided by financing activities	83,151	25,746
Effect of exchange rate changes on cash and cash equivalents	327	489
Net increase in cash and cash equivalents	109,834	5,050
Cash and cash equivalents, beginning of period	100,352	129,452
Cash and cash equivalents, end of period	$ 210,186	$ 134,502
Supplemental schedule of cash flow information:		
Cash paid for interest	$ 625	$ 625
Cash paid for income taxes	$ 2,335	$ 11,304

Non cash investing activities:				
Non-cash additions to property, plant and equipment	$	1,362	$	3,935
Acquisition of Tyvaso Inhalation System business	$		$	5,063

See accompanying notes to consolidated financial statements.

Table of Contents

UNITED THERAPEUTICS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2010

(UNAUDITED)

1. Organization and Business Description

United Therapeutics Corporation is a biotechnology company focused on the development and commercialization of unique products to address the unmet medical needs of patients with chronic and life-threatening conditions. As used in these notes to the consolidated financial statements, unless the context otherwise requires, the terms we, us, our, and similar terms refer to United Therapeutics Corporation and its consolidated subsidiaries.

Our lead product, Remodulin® (treprostinil) Injection (Remodulin), was approved in 2002 by the United States Food and Drug Administration (FDA). Remodulin is also approved for use in countries outside of the United States, predominantly for subcutaneous administration. In 2009, we received FDA approval for Adcirca® (tadalafil) tablets (Adcirca) and for Tyvaso® (treprostinil) Inhalation Solution (Tyvaso). Tyvaso is approved for marketing in the United States and our commercialization rights to Adcirca are limited to the United States and Puerto Rico. We have generated pharmaceutical revenues and license fees in the United States, Canada, the European Union, South America and Asia. In addition, we have generated non-pharmaceutical revenues from telemedicine products and services in the United States.

2. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the United States Securities and Exchange Commission (SEC) for interim financial information. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles (GAAP) for complete financial statements. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the accompanying notes to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the SEC on February 26, 2010.

In our management s opinion, the accompanying consolidated financial statements contain all adjustments, including normal, recurring adjustments, necessary to fairly present our financial position as of September 30, 2010, our results of operations for the three- and nine-month periods ended September 30, 2010 and 2009, and our cash flows for the nine-month periods ended September 30, 2010 and 2009. Interim results are not necessarily indicative of results for an entire year.

3. Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market (current replacement cost) and consist of the following, net of reserves (in thousands):

	September 30, 2010	December 31, 2009
Pharmaceutical products:		
Raw materials	$ 3,896	$ 4,751
Work-in-progress	17,563	12,101
Finished goods	10,793	8,899
Delivery pumps, cardiac monitoring equipment and medical supplies	1,170	609
Total inventories	$ 33,422	$ 26,360

4. Fair Value Measurements

Assets and liabilities subject to fair value measurements are required to be disclosed within a fair value hierarchy. The fair value hierarchy ranks the quality and reliability of inputs used to determine fair value and classifies assets and liabilities carried at, or permitted to be carried at, fair value in one of the following categories based on the lowest level input that is significant to a fair value measurement:

Level 1 Fair value is determined by using unadjusted quoted prices that are available in active markets for identical assets and liabilities.

Level 2 Fair value is determined by using inputs other than Level 1 quoted prices that are directly or indirectly observable. Inputs can include quoted prices for similar assets and liabilities in active markets or quoted prices for identical assets and liabilities in inactive markets. Related inputs can also include those used in valuation or other pricing models such as interest rates and yield curves that can be corroborated by observable market data.

Table of Contents

Level 3 Fair value is determined by using inputs that are unobservable and not corroborated by market data. Use of these inputs involves significant and subjective judgment.

The fair value of the major categories of assets and liabilities subject to fair value measurements is as follows (in thousands):

	As of September 30, 2010			
	Level 1	Level 2	Level 3	Balance
Assets				
Money market funds(1)	$ 122,354	$	$	$ 122,354
Federally-sponsored and corporate debt securities(2)		416,139		416,139
Available-for-sale equity investment	261			261
Total assets	$ 122,615	$ 416,139	$	$ 538,754
Liabilities				
Convertible senior notes	$ 379,101	$	$	$ 379,101
Contingent consideration Tyvaso Inhalation System acquisition(3)			1,629	1,629
Total liabilities	$ 379,101	$	$ 1,629	$ 380,730

	As of December 31, 2009			
	Level 1	Level 2	Level 3	Balance
Assets				
Auction-rate securities(4)	$	$	$ 29,332	$ 29,332
Auction-rate securities put option(5)			6,741	6,741
Money market funds(1)	48,220			48,220
Federally-sponsored and corporate debt securities(2)		269,649		269,649
Available-for-sale equity investment	161			161
Total assets	$ 48,381	$ 269,649	$ 36,073	$ 354,103
Liabilities				
Convertible senior notes	$ 361,843	$	$	$ 361,843
Contingent consideration Tyvaso Inhalation System acquisition(3)			5,602	5,602
Total liabilities	$ 361,843	$	$ 5,602	$ 367,445

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(1) Included in cash and cash equivalents and marketable investments and cash restricted on the accompanying consolidated balance sheets.

(2) Included in current and non-current marketable investments on the accompanying consolidated balance sheets. The fair value of these securities is derived using a market approach i.e., from pricing models that rely on relevant observable market data, including interest rates, yield curves, recently reported trades of comparable securities, credit spreads and benchmark securities. See also Note 5 *Investments Held-to-Maturity Investments* to these consolidated financial statements.

(3) Included in non-current liabilities on the accompanying consolidated balance sheets. The liability has been recognized in connection with our acquisition of the assets, properties and rights used to manufacture the Tyvaso Inhalation System from NEBU-TEC International Med Products Eike Kern GmbH (NEBU-TEC) in September 2009. The terms of the acquisition require us to pay contingent

consideration of up to 10.0 million in specified increments if the number of patients using the Tyvaso Inhalation System meets or exceeds certain thresholds measured at designated intervals. We also have the option to purchase NEBU-TEC s next generation nebulizer, the SIMNeb. If we exercise this option, we could no longer be required to make future contingent payments. The fair value of the contingent consideration has been measured using a probability weighted discounted cash flow (DCF) model which incorporates a discount rate based on our estimated weighted average cost of capital and our projections regarding the timing and number of patients using the Tyvaso Inhalation System. The DCF model also incorporates the probability and impact of exercising our option to acquire the SIMNeb and the potential introduction of new therapies.

(4) Included in non-current marketable investments on the accompanying consolidated balance sheet at December 31, 2009. On June 30, 2010, we exercised our right to sell our auction-rate securities (ARS) to the investment firm that maintained our ARS account for their par value ($19.0 million) pursuant to the terms of the ARS put option that we acquired in November 2008. In connection with the transaction, we recognized a gain of $5.6 million, which has been included under the caption Other, net on the accompanying consolidated statements of operations for the nine-month period ended September 30, 2010. The sale was completed on July 1, 2010 and related proceeds from the sale were invested in other marketable investments in accordance with our investment policy.

Table of Contents

(5) Included within other non-current assets on the accompanying consolidated balance sheet at December 31, 2009. On June 30, 2010, we exercised the auction-rate securities put option to initiate the sale of our ARS. Consequently, we recognized a loss of $5.5 million to write off the value of this financial instrument as of the date of exercise. The loss has been included under the caption Other, net on our consolidated statement of operations for the nine-month period ended September 30, 2010.

A reconciliation of the beginning and ending balances of assets and liabilities measured at fair value using significant unobservable inputs (Level 3) for the three- and nine-month periods ended September 30, 2010, is presented below (in thousands):

	Auction-rate Securities	Contingent Consideration Tyvaso Inhalation System Acquisition	Total
Balance July 1, 2010 - asset (liability)	$ 19,025	$ (1,461)	$ 17,564
Transfers to (from) Level 3			
Total gains/(losses) realized/unrealized included in earnings(1)		(168)	(168)
Total gains/(losses) included in other comprehensive income			
Purchases/sales/issuances/settlements, net	(19,025)		(19,025)
Balance September 30, 2010 - asset (liability)	$	$ (1,629)	$ (1,629)

	Auction-rate Securities	Auction-Rate Securities Put Option	Contingent Consideration Tyvaso Inhalation System Acquisition	Total
Balance January 1, 2010 - asset (liability)	$ 29,332	$ 6,741	$ (5,602)	$ 30,471
Transfers to (from) Level 3				
Total gains/(losses) realized/unrealized included in earnings(1)	6,868	(6,741)	2,752	2,879
Total gains/(losses) included in other comprehensive income				
Purchases/sales/issuances/settlements, net	(36,200)		1,221	(34,979)
Balance September 30, 2010 - asset (liability)	$	$	$ (1,629)	$ (1,629)

(1) Includes a loss of $168,000 for the three month period ended September 30, 2010, attributable to the change in unrealized gains or losses from liabilities still held at September 30, 2010 and a net gain of $2.8 million for the nine-month period ended September 30, 2010 related to unrealized gains and losses on assets and liabilities held at September 30, 2010. Unrealized gains or losses have been included within selling, general and administrative expenses on our consolidated statements of operations.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivables, accounts payable and accrued expenses approximate their fair value because of their short maturities. The fair value of marketable investments is presented in Note 5 *Investments* to these consolidated financial statements, and the fair value of the 0.50% Convertible Senior Notes due October 2011 is reported within the fair value hierarchy above.

Table of Contents

5. Investments

Held-to-Maturity Investments

Marketable investments classified as held-to-maturity consist of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government-sponsored enterprises at September 30, 2010	$ 213,648	$ 108	$ (38)	$ 213,718
Corporate notes and bonds at September 30, 2010	202,311	185	(75)	202,421
Total	$ 415,959	$ 293	$ (113)	$ 416,139
As reported on the consolidated balance sheets at September 30, 2010:				
Current marketable securities	$ 251,553			
Noncurrent marketable securities	164,406			
	$ 415,959			

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government-sponsored enterprises at December 31, 2009	$ 172,531	$ 559	$ (247)	$ 172,843
Corporate notes and bonds at December 31, 2009	96,697	158	(49)	96,806
Total	$ 269,228	$ 717	$ (296)	$ 269,649
As reported on the consolidated balance sheets at December 31, 2009:				
Current marketable securities	$ 129,140			
Noncurrent marketable securities	140,088			
	$ 269,228			

Certain held-to-maturity investments have been pledged as collateral to Wachovia Development Corporation under the laboratory lease described in Note 10 *Lease Obligation* to these consolidated financial statements and are classified as restricted marketable investments and cash on our consolidated balance sheets.

The following table summarizes gross unrealized losses and the length of time marketable investments have been in a continuous unrealized loss position (in thousands):

	As of September 30, 2010		As of December 31, 2009	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Government-sponsored enterprises:				
Continuous unrealized loss position less than one year	$ 56,742	$ (38)	$ 54,299	$ (247)

Continuous unrealized loss position greater than one year								
		56,742		(38)		54,299		(247)
Corporate notes and bonds:								
Continuous unrealized loss position less than one year	$	98,401	$	(75)	$	64,499	$	(49)
Continuous unrealized loss position greater than one year								
		98,401		(75)		64,499		(49)
Total	$	155,143	$	(113)	$	118,798	$	(296)

We attribute the unrealized losses on held-to-maturity securities as of September 30, 2010, to the variability in related market interest rates. We do not intend to sell these securities, nor is it more likely than not that we will be required to sell them prior to the end of their contractual term. Furthermore, we believe these securities do not subject us to undue market risk or counterparty credit risk. As such, we do not consider these securities to be other than temporarily impaired.

Table of Contents

The following table summarizes the contractual maturities of held-to-maturity marketable investments at September 30, 2010 (in thousands):

	September 30, 2010	
	Amortized Cost	Fair Value
Due in less than one year	$ 252,053	$ 252,152
Due in one to two years	163,906	163,987
Due in three to five years		
Due after five years		
Total	$ 415,959	$ 416,139

Equity Investments

We own less than 1% of the common stock of Twin Butte Energy Ltd. Our investment in this company is classified as available-for-sale and reported at fair value based on the quoted market price.

We have an investment totaling approximately $4.9 million in the preferred stock of a privately held corporation. We account for this investment at cost, as its fair value is not readily determinable. The fair value of our investment has not been estimated as of September 30, 2010, as there have been no events or developments indicating that the investment may be impaired. This investment is reported within non-current other assets on our consolidated balance sheets.

6. Goodwill and Other Intangible Assets

Goodwill and other intangible assets comprise the following (in thousands):

	As of September 30, 2010			As of December 31, 2009		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Goodwill(1)	$ 8,697	$	$ 8,697	$ 8,763	$	$ 8,763
Other intangible assets(1):						
Technology, patents and tradenames	9,115	(5,193)	3,922	9,364	(4,586)	4,778
Customer relationships and non-compete agreements	4,892	(844)	4,048	5,150	(273)	4,877
Total	$ 22,704	$ (6,037)	$ 16,667	$ 23,277	$ (4,859)	$ 18,418

(1) Includes foreign currency translation adjustments as of September 30, 2010 and December 31, 2009.

Total amortization relating to other intangible assets for the five succeeding years and thereafter is presented below (in thousands):

Years ending December 31,		
2011	$	1,517
2012		1,368
2013		1,346
2014		1,338
2015		1,077
Thereafter		926
	$	7,572

Table of Contents

7. Supplemental Executive Retirement Plan

We maintain the United Therapeutics Corporation Supplemental Executive Retirement Plan (SERP) to provide retirement benefits to certain members of our management team. To help fund our expected obligations under the SERP, we maintain the United Therapeutics Corporation Supplemental Executive Retirement Plan Rabbi Trust Document (Rabbi Trust) that we entered into with the Wilmington Trust Company. The balance in the Rabbi Trust was approximately $5.1 million as of September 30, 2010, and December 31, 2009. The Rabbi Trust is irrevocable and SERP participants will have no preferred claim on, nor any beneficial ownership interest in, any assets of the Rabbi Trust. The investments in the Rabbi Trust are classified as restricted marketable investments and cash on our consolidated balance sheets.

The components of the periodic benefit cost consist of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Service cost	$ 988	$ 661	$ 2,700	$ 1,983
Interest cost	248	140	635	420
Amortization of prior period service costs	90	36	163	108
Amortization of net actuarial loss	32		87	
Net pension expense	$ 1,358	$ 837	$ 3,585	$ 2,511

We remeasured our expected obligation under the SERP as of July 1, 2010 to reflect the addition of a participant. The remeasurement resulted in an increase of $5.2 million in the estimated pension benefit obligation.

8. Share Tracking Awards Plan

We maintain the United Therapeutics Corporation Share Tracking Awards Plan (STAP) under which we grant long-term, equity-based compensation to eligible participants. Awards granted under the STAP (Awards) are non-dilutive as they are not settled in shares of our common stock. Rather, Awards convey the right to receive in cash an amount equal to the appreciation of our common stock, which is calculated as the positive difference between the closing price of our common stock on the date of exercise and the date of grant. Awards generally vest in equal increments on each anniversary of the date of grant over a three- or four-year period and expire on the tenth anniversary of the date of grant.

We account for outstanding Awards as a liability because they are required to be settled in cash. Accordingly, we estimate the fair value of Awards at each financial reporting date using the Black-Scholes-Merton valuation model until settlement occurs or Awards are otherwise no longer outstanding. Changes in the fair value of outstanding Awards are recognized as an adjustment to compensation expense on our consolidated statements of operations. The STAP liability balance was $98.4 million and $64.2 million at September 30, 2010 and December 31, 2009, respectively, and has been included within other current liabilities on our consolidated balance sheets.

In estimating the fair value of Awards, we are required to use inputs that materially impact the determination of fair value and the amount of compensation expense to be recognized. These inputs include the expected volatility of the price of our common stock, the risk-free interest rate, the expected term of Awards, the expected forfeiture rate and the expected dividend yield.

The table below presents the assumptions used to measure the fair value of Awards at September 30, 2010 and 2009:

	September 30, 2010	**September 30, 2009**
Expected volatility	45.7%	48.6%
Risk-free interest rate	1.2%	2.5%
Expected term of Awards (in years)	4.7	5.9
Expected forfeiture rate	5.5%	5.4%
Expected dividend yield	0.0%	0.0%

Table of Contents

A summary of the activity and status of Awards for the nine-month period ended September 30, 2010 is presented below:

	Number of Awards	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in Thousands)
Outstanding at January 1, 2010	6,363,720	$ 32.19		
Granted	2,420,779	54.46		
Exercised	(729,319)	27.47		
Forfeited	(181,140)	37.11		
Outstanding at September 30, 2010	7,874,040	$ 39.36	8.7	$ 131,143
Awards exercisable at September 30, 2010	2,352,250	$ 31.26	8.1	$ 58,223
Awards expected to vest at September 30, 2010	5,091,013	$ 42.81	8.9	$ 67,209

The weighted average fair value of Awards granted during the nine-month periods ended September 30, 2010 and 2009, was $26.23 and $19.38, respectively.

Share-based compensation expense related to outstanding Awards is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Cost of service sales	$ 177	$ 125	$ 291	$ 194
Research and development	13,449	9,200	23,173	17,801
Selling, general and administrative	15,558	10,555	25,899	23,044
Share-based compensation expense before taxes	29,184	19,880	49,363	41,039
Related income tax benefits	(10,725)	(3,678)	(18,141)	(7,592)
Share-based compensation expense, net of taxes	$ 18,459	$ 16,202	$ 31,222	$ 33,447
Share-based compensation capitalized as part of inventory	$ 1,171	$ 514	$ 1,710	$ 1,364

During the nine-month periods ended September 30, 2010 and 2009, we paid $16.9 million and $6.4 million, respectively, in connection with the exercise of Awards.

9. Debt

Convertible Senior Notes

On October 30, 2006, we issued at par value $250.0 million of 0.50% Convertible Senior Notes due October 2011 (Convertible Senior Notes). We pay interest on the Convertible Senior Notes semi-annually on April 15 and October 15 of each year. The Convertible Senior Notes are unsecured, unsubordinated debt obligations that rank equally with all of our other unsecured and unsubordinated indebtedness. The conversion price is $37.6129 per share and the number of shares of common stock used to determine the aggregate consideration upon conversion is approximately 6,646,000.

Conversion can occur: (1) anytime after July 15, 2011; (2) during any calendar quarter that follows a calendar quarter in which the price of our common stock exceeded 120% of the conversion price for at least 20 days during the 30 consecutive trading- day period ending on the last trading day of the quarter; (3) during the ten consecutive trading-day period following any five consecutive trading-day period in which the trading price of the Convertible Senior Notes was less than 95% of the closing price of our common stock multiplied by the then current number of shares underlying the Convertible Senior Notes; (4) upon specified distributions to our shareholders; (5) in connection with certain corporate transactions; or (6) in the event that our common stock ceases to be listed on the NASDAQ Global Select Market and is not listed for trading on another U.S. national or regional securities exchange.

Upon conversion, holders of our Convertible Senior Notes will receive: (1) cash equal to the lesser of the principal amount of the notes or the conversion value (the number of shares underlying the Convertible Senior Notes multiplied by the then current conversion price per share); and (2) to the extent the conversion value exceeds the principal amount of the Convertible Senior Notes, shares of our common stock. In the event of a change in control, as defined in the indenture under which the Convertible Senior Notes have been issued, holders can require us to purchase from them all or a portion of their Convertible Senior Notes for 100% of the principal value plus any accrued and unpaid interest. At September 30, 2010, the aggregate conversion value of the Convertible Senior Notes exceeded their principal value by $122.3 million using a conversion price of $56.01, the closing price of our common stock on September&nAL-ALIGN: bottom" id=TBL3856.finRow.21.symb.4> **1,298** 1,271

Other (income) expense, net

(516) (1,897) **(1,172)** (1,934)

Income before income taxes

$30,993 $31,057 **$88,725** $96,446

(a) Included in Other operating income for the three and nine months ended September 29, 2012 are acquisitions related fees of $0.6 million, impairment charges of $0.5 million as described in Note 10, and a non-cash charge of $0.4 million for the sale of inventory that had been stepped-up to fair value at the acquisition date of Accel as required by purchase accounting rules. As the inventory was sold, the non-cash charge impacted operating income. Included in Other operating income for the three and nine months ended October 1, 2011 are asset impairment charges of $2.3 million. Included in Other operating income for the nine months ended October 1, 2011 are acquisition related fees of $1.0 million and a non-cash charge of $3.7 million for the sale of inventory that had been stepped-up to fair value at the acquisition date of Cole Hersee in 2010 as required by purchase accounting rules. As the inventory was sold, the non-cash charge impacted operating income.

The company's significant net sales by country for the three and nine months ended September 29, 2012 and October 1, 2011 are summarized as follows (in thousands):

	For the Three Months Ended[a]		For the Nine Months Ended[a]	
	September 29, 2012	October 1, 2011	**September 29, 2012**	October 1, 2011
United States	**$56,043**	$56,225	**$170,653**	$174,895
China	**39,282**	41,159	**107,409**	116,694
Other countries	**77,363**	76,603	**231,057**	226,173
Total	**$172,688**	$173,987	**$509,119**	$517,762

(a)Net sales by country represent sales to customer or distributor locations.

13

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

13. Business Unit Segment Information, continued

The company's significant long-lived assets by country as of September 29, 2012 and December 31, 2011 are summarized as follows (in thousands):

	Long-lived assets(b)	
	September 29, 2012	December 31, 2011
United States	**$98,603**	$92,482
China	**42,075**	45,466
Canada	**43,506**	42,299
Other countries	**117,698**	98,917
Total	**$301,882**	$279,164

(b) Long-lived assets include net property, plant and equipment, intangible assets, net of amortization, and goodwill.

14. Comprehensive Income and Accumulated Other Comprehensive Income (Loss)

The following table sets forth the computation of comprehensive income for the three and nine months ended September 29, 2012 and October 1, 2011, respectively (in thousands):

	For the Three Months Ended		For the Nine Months Ended	
	September 29, 2012	October 1, 2011	**September 29, 2012**	October 1, 2011
Net income	**$23,998**	$24,939	**$65,491**	$71,786
Other comprehensive income items:				
Currency translation adjustments	**11,522**	(14,678)	**9,270**	354
Unrealized gain (loss) on available-for-sale securities, net of $0 income taxes	**(1,127)**	(3,037)	**1,993**	(2,759)

Pension liability adjustment, net tax	**(73)**	77	**(80)**	(248)
Comprehensive income	**$34,320**	$7,301	**$76,674**	$69,133

The components of accumulated other comprehensive income (loss) at September 29, 2012 and December 31, 2011 were as follows (in thousands):

	September 29, 2012	December 31, 2011
Pension liability adjustment[a]	**$ (13,658)**	$ (13,578)
Unrealized gain on investments[b]	**8,635**	6,642
Foreign currency translation adjustment	**24,837**	15,567
Total	**$ 19,814**	$ 8,631

(a) Net of tax of $7,229 and $7,186 for 2012 and 2011, respectively.

(b) Net of tax of $0 and $0 for 2012 and 2011, respectively.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

15. Recent Accounting Pronouncements

In May, 2011, the Financial Accounting Standards Board (FASB) issued authoritative guidance that provides a consistent definition of fair value and ensures that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. The new guidance changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. The company adopted the new guidance on January 1, 2012 and will be applied prospectively. There was no significant impact on its consolidated financial statements upon adoption.

In June 2011, the FASB issued authoritative guidance that will require companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The guidance does not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. This guidance is effective for interim and annual periods beginning after December 15, 2011. The company adopted the new guidance on January 1, 2012, which resulted in a different presentation in its consolidated financial statements.

In September 2011, the FASB issued authoritative guidance on testing goodwill for impairment. Under the revised guidance, entities testing goodwill for impairment have the option of performing a qualitative assessment before calculating the fair value of the reporting unit (i.e., step 1 of the goodwill impairment test). If entities determine, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. The guidance does not change how goodwill is calculated or assigned to reporting units, nor does it revise the requirement to test goodwill annually for impairment. In addition, the guidance does not amend the requirement to test goodwill for impairment between annual tests if events or circumstances warrant; however, it does revise the examples of events and circumstances that an entity should consider. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The company adopted the new guidance on January 1, 2012 and has determined that it will have no effect on its consolidated financial statements.

In July 2012, the FASB issued authoritative guidance on testing indefinite-lived intangible assets for impairment. Under the revised guidance, entities testing indefinite-lived intangible assets for impairment will have the option first to assess qualitative factors to determine whether the existence of events and circumstances indicate that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. The amendment is effective for annual and interim indefinite-lived asset impairment tests performed for fiscal years beginning after September 15, 2012. The company believes that adoption of new guidance will have no effect on its consolidated financial statements

15

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

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

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

	Third Quarter			Year-to-Date		
	2012	**2011**	**% Change**	**2012**	**2011**	**% Change**
Business Unit						
Electronics	**$ 87.8**	$ 96.3	(9 %)	**$ 254.3**	$ 282.0	(10 %)
Automotive	**51.9**	47.7	9 %	**156.0**	152.0	3 %
Electrical	**33.0**	30.0	10 %	**98.8**	83.8	18 %
Total	**$ 172.7**	$ 174.0	(1 %)	**$ 509.1**	$ 517.8	(2 %)

	Third Quarter			Year-to-Date		
	2012	**2011**	**% Change**	**2012**	**2011**	**% Change**
Geography[(a)]						
Americas	**$ 75.8**	$ 75.7	0 %	**$ 230.8**	$ 222.2	4 %
Europe	**27.3**	27.3	0 %	**82.1**	91.0	(10 %)
Asia-Pacific	**69.6**	71.0	(2 %)	**196.2**	204.6	(4 %)
Total	**$ 172.7**	$ 174.0	(1 %)	**$ 509.1**	$ 517.8	(2 %)

(a) Sales by geography represent sales to customer or distributor locations.

Results of Operations Third Quarter, 2012 compared to 2011

Net sales decreased $1.3 million or 1% to $172.7 million in the third quarter of 2012 compared to $174.0 million in the third quarter of 2011 due primarily to a decline in the electronics business offset by stronger electrical and automotive sales. The decline in the electronics business was primarily attributable to a reduction of inventory levels in the distribution channels in 2012 compared to inventory build in 2011. Net sales in 2012 included an incremental $5.5 million related to the company's acquisitions. The company also experienced $3.7 million in unfavorable foreign currency effects in the third quarter of 2012 as compared to the third quarter of 2011. The unfavorable foreign currency impact primarily resulted from sales denominated in euros.

Electronics sales decreased $8.5 million or 9% to $87.8 million in the third quarter of 2012 compared to $96.3 million in the third quarter of 2011. The lower sales in 2012 was primarily the result of a significant channel inventory build in the third quarter of 2011, as discussed above. The electronics segment experienced $1.3 million in unfavorable currency effects in the third quarter of 2012 primarily from sales denominated in euros.

Automotive sales increased $4.2 million or 9% to $51.9 million in the third quarter of 2012 compared to $47.7 million in the third quarter of 2011 due primarily to an incremental $5.1 million in sales related to Accel. Excluding Accel, automotive net sales decreased $0.9 million or 2% in the third quarter of 2012 as compared to the prior year's quarter. The automotive segment experienced $1.9 million in unfavorable currency effects primarily from sales denominated in euros.

Electrical sales increased $3.0 million or 10% to $33.0 million in the third quarter of 2012 compared to $30.0 million in the third quarter of 2011 due to continued growth for protection relays and custom mining products and an upturn in solar sales reflecting the success of new products. The electrical segment experienced $0.5 million in unfavorable currency effects in the third quarter of 2012 primarily from sales denominated in Canadian dollars.

On a geographic basis, sales in the Americas increased $0.1 million or less than 1% to $75.8 million in the third quarter of 2012 compared to $75.7 million in the third quarter of 2011 due to increased electrical and passenger vehicle sales offset by weaker electronics and commercial vehicle sales and $0.3 million in unfavorable currency effects from sales denominated in Canadian dollars.

Europe sales were unchanged at $27.3 million in both the third quarter of 2012 and the third quarter of 2011. Sales from the recently-acquired Accel and higher electrical sales were offset by lower sales of electronics and $3.2 million in unfavorable currency effects.

Asia-Pacific sales decreased $1.4 million or 2% to $69.6 million in the third quarter of 2012 compared to $71.0 million in the third quarter of 2011 primarily due to lower demand in consumer electronics offset by stronger automotive sales and $0.2 million in unfavorable currency effects primarily from sales denominated in Korean won.

Gross profit was $68.6 million or 39.7% of net sales for the third quarter of 2012 compared to $68.5 million or 39.4% of net sales in the same quarter last year. The slight increase in gross margin was primarily attributable to operating efficiencies and lower commodity costs partially offset by unfavorable currency effects.

Total operating expense was $37.7 million or 22% of net sales for the third quarter of 2012 compared to $38.9 million or 22% of net sales for the same quarter in 2011. The decrease in operating expenses primarily reflects operating expenses from impairment charges of $2.3 million recorded during the third quarter of 2011 versus impairment charges of $0.5 million in the third quarter of 2012 as discussed in Note 10.

Operating income for the third quarter of 2012 was approximately $31.0 million compared to operating income of $29.6 million for the same quarter in 2011 primarily due to higher gross margin and lower operating expenses as described above.

Interest expense was $0.5 million in the third quarter of 2012 compared to $0.4 million for the third quarter of 2011. Interest expense increased in the third quarter of 2012 compared to the same quarter last year due to higher debt balances in 2012 as compared to 2011. Other (income) expense, net, consisting of interest income, royalties, non-operating income, asset impairments and foreign currency items was $0.5 million of income for the third quarter of 2012 compared to $1.9 million of income in the third quarter of 2011. The year over year change resulted primarily from foreign exchange revaluation.

Income before income taxes was $31.0 million for the third quarter of 2012 compared to income before income taxes of $31.1 million for the third quarter of 2011. Income tax expense was $7.0 million with an effective tax rate of 22.6% for the third quarter of 2012 compared to income tax expense of $6.1 million with an effective tax rate of 19.7% in the third quarter of 2011. Although both periods benefited from favorable tax adjustments, the adjustments were larger in the third quarter of 2011.

Net income for the third quarter of 2012 was $24.0 million or $1.08 per diluted share compared to net income of $24.9 million or $1.12 per diluted share for the same quarter of 2011.

Results of Operations Nine Months, 2012 compared to 2011

Net sales decreased $8.7 million or 2% to $509.1 million for the first nine months of 2012 compared to $517.8 million in the first nine months of 2011 due primarily to swings in distributor inventory levels in the electronics business partially offset by growth in the electrical business and $10.0 million of incremental revenue from the acquisitions of Accel and Selco. The company also experienced $9.0 million in unfavorable currency effects primarily from sales denominated in euros and other currencies.

Electronics sales decreased $27.7 million or 10% to $254.3 million in the first nine months of 2012 compared to $282.0 million in the first nine months of 2011. In addition to swings in distributor inventory levels, the electronics segment experienced $2.9 million in unfavorable currency effects in the first nine months of 2012 as compared to the first nine months of 2011. This unfavorable impact primarily resulted from sales denominated in euros.

Automotive sales increased $4.0 million or 3% to $156.0 million in the first nine months of 2012 compared to $152.0 million in the first nine months of 2011 primarily due to an incremental $6.4 million of Accel sales offset by $4.5 million in unfavorable currency effects primarily from sales denominated in euros.

Electrical sales increased $15.0 million or 18% to $98.8 million in the first nine months of 2012 compared to $83.8 million in the first nine months of 2011 primarily due to continued growth in protection relays and custom products and an upturn in solar sales reflecting the success of new products. The electrical segment also experienced $1.6 million in unfavorable currency effects primarily from sales denominated in Canadian dollars.

On a geographic basis, sales in the Americas increased $8.6 million or 4% to $230.8 million in the first nine months of 2012 compared to $222.2 million in the first nine months of 2011 primarily due to increased sales in the electrical business segment. The Americas region also experienced $1.3 million in unfavorable currency effects from sales denominated in Canadian dollars.

Europe sales decreased $8.9 million or 10% to $82.1 million in the first nine months of 2012 compared to $91.0 million in the first nine months of 2011 due to decreased automotive and electronics sales partially offset by an increase in sales to the electrical market. The Europe region also experienced $7.6 million in unfavorable currency effects primarily from sales denominated in euros.

Asia-Pacific sales decreased $8.4 million or 4% to $196.2 million in the first nine months of 2012 compared to $204.6 million in the first nine months of 2011 primarily due to decreased electronic sales partially offset by increased automotive and electrical sales. The decline in electronics sales resulted from an inventory correction in the first nine months of 2012 and lower demand. The Asia-Pacific region also experienced $0.1 million in unfavorable currency effects primarily from sales denominated in Japanese yen and Korean won.

Gross profit was $199.1 million or 39% of net sales for the first nine months of 2012 compared to $203.2 million or 39% of net sales in the first nine months of last year. Gross profit for the first nine months of 2011 was negatively impacted by a $3.7 million charge which was the additional cost of goods sold for Cole Hersee inventory which had been stepped-up to fair value at the acquisition date as required by purchase accounting rules. Excluding the impact of this adjustment, gross profit was $206.9 million or 40% of net sales for the first nine months of 2011. The decline in gross margin was attributable to lower sales volume and negative currency effects in 2012.

Total operating expense was $110.2 million or 22% of net sales for the first nine months of 2012 compared to $107.4 million or 21% of net sales for the first nine months in 2011. The increase in operating expense for 2012 primarily reflects incremental operating expenses of $5.3 million from business acquisitions. Excluding the impact of acquisitions, operating expense was $104.9 million or 21% of net sales for the first nine months of 2012.

Operating income for the first nine months of 2012 was approximately $88.7 million compared to $95.8 million for the first nine months in 2011 due to the decrease in sales and incremental operating expense discussed above.

Interest expense was $1.3 million in both the first nine months of 2012 and 2011. Other expense (income), net, consisting of interest income, royalties, non-operating income and foreign currency items was $1.2 million of income for the first nine months of 2012 compared to $1.9 million of income in the first nine months of 2011. The year over year change resulted primarily from foreign exchange revaluation.

Income before income taxes was $88.7 million for the nine months of 2012 compared to income before income taxes of $96.4 million for the first nine months of 2011. Income tax expense was $23.2 million with an effective tax rate of 26.2% for the first nine months of 2012 compared to $24.7 million with an effective tax rate of 25.6% in the first nine months of 2011. The change in effective tax rate is primarily due to the mix of income by jurisdiction.

Net income for the first nine months of 2012 was $65.5 million or $2.96 per diluted share compared to net income of $71.8 million or $3.19 per diluted share for the first nine months of 2011.

Liquidity and Capital Resources

The company historically has financed capital expenditures through cash flows from operations. Management expects that cash flows from operations and available lines of credit will be sufficient to support both the company's operations and its debt obligations for the foreseeable future.

Revolving Credit Facilities

On June 13, 2011 the company entered into a domestic unsecured financing agreement, which expires on June 13, 2016, consisting of a credit agreement with certain commercial banks that provides a $150.0 million revolving credit facility, with a potential to increase up to $225.0 million upon request of the company and agreement with the lenders. At September 29, 2012, the company had available $61.9 million of borrowing capacity under the revolving credit facility at an interest rate of LIBOR plus 1.25% (1.46% as of September 29, 2012).

This arrangement contains covenants that, among other things, impose limitations on the incurrence of additional indebtedness, and restrict future mergers, sales of assets, payment of dividends, and changes in control, as defined in the agreement. In addition, the company is required to satisfy certain financial covenants and tests relating to, among other things, interest coverage and leverage. At September 29, 2012, the company was in compliance with all covenants under the revolving credit facility.

The company also had $0.8 million outstanding in letters of credit at September 29, 2012. No amounts were drawn under these letters of credit at September 29, 2012.

The company has a secured bank credit line in Sweden that provides a 1.0 million (approximately $1.3 million) line of credit at an interest rate of LIBOR plus 2.1% (2.3% as of September 29, 2012). The company had available 0.2 million of borrowing capacity (approximately $0.3 million) under this line of credit at September 29, 2012.

Other Obligations

The company started 2012 with $164.0 million of cash and cash equivalents. Net cash provided by operating activities was approximately $76.1 million for the first nine months of 2012 reflecting $65.5 million in net income and $27.8 million in non-cash adjustments (primarily $23.5 million in depreciation and amortization) offset by $17.1 million in net changes to various operating assets and liabilities. Changes in various operating assets and liabilities (including short-term and long-term items) that impacted cash flows negatively for the first nine months of 2012 consisted of net increases in accounts receivable ($12.8 million) due to higher sales in the third quarter of 2012 as compared to the fourth quarter of 2011, prepaid and other assets ($0.7 million), accrued payroll ($4.6 million), and accrued expenses ($5.2 million). The decrease in accrued expenses was due primarily to a $5.0 million pension contribution made during the first quarter of 2012. Changes that had a positive impact on cash flows were increases in accounts payable ($5.6 million), increases in accrued income taxes ($0.5 million) and decreases in inventory (less than $0.1 million).

Net cash used in investing activities was approximately $43.1 million and included expenditures for business acquisitions, net of cash acquired of $34.0 million, a $10.0 million additional investment in Shocking Technologies and $12.8 million in capital spending, offset by net proceeds of $13.2 million for maturities of short-term investments and $0.5 million in proceeds from sales of assets.

Net cash provided by financing activities was approximately $6.5 million and included $2.8 million in net payments from borrowing, the exercise of stock options including tax benefits of $15.9 million offset by cash dividends paid of $12.2 million. The effects of exchange rate changes increased cash and cash equivalents by approximately $4.0 million. The net cash provided by operating activities combined with the effects of exchange rate changes less net cash used in investing and financing activities resulted in a $43.4 million increase in cash, which left the company with a cash and cash equivalents balance of $207.4 million at September 29, 2012.

The ratio of current assets to current liabilities was 2.7 to 1 at the end of the third quarter of 2012 compared to 2.5 to 1 at year-end 2011 and 2.3 to 1 at the end of the third quarter of 2011. Days sales outstanding in accounts receivable was approximately 58 days at the end of the third quarter of 2012 compared to 58 days at the end of the third quarter of 2011 and 57 days at year-end 2011. Days inventory outstanding was approximately 71 days at the end of the third quarter of 2012 compared to 73 days at the year-end 2011 and 71 days at end of the third quarter of 2011.

Outlook

Momentum in the company's sales and order rates has slowed. End demand has softened in several of the company's key markets including consumer electronics, commercial vehicle and passenger vehicle. As a result of this market weakness, the outlook for the fourth quarter of 2012 is for a somewhat greater-than-seasonal decline in sales and earnings compared to the third quarter of 2012.

The company continues to invest in plant and infrastructure in support of the company's growth initiatives. However, capital spending for 2012, which was previously estimated to be $25 million, is now expected to be less than $20 million due to the delay of several capacity-related projects.

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

The statements in this section and the other sections of this report that are not historical facts are intended to constitute forward-looking statements entitled to the safe-harbor provisions of the PSLRA. These statements may involve risks and uncertainties, including, but not limited to, risks relating to product demand and market acceptance, economic conditions, the impact of competitive products and pricing, product quality problems or product recalls, capacity and supply difficulties or constraints, coal mining exposures reserves, failure of an indemnification for environmental liability, exchange rate fluctuations, commodity price fluctuations, the effect of the company's accounting policies, labor disputes, restructuring costs in excess of expectations, pension plan asset returns less than assumed, integration of acquisitions and other risks which may be detailed in the company's other Securities and Exchange Commission filings. Should one or more of these risks or uncertainties materialize or should the underlying assumptions prove incorrect, actual results and outcomes may differ materially from those indicated or implied in the forward-looking statements. This report should be read in conjunction with information provided in the financial statements appearing in the company's Annual Report on Form 10-K for the year ended December 31, 2011. For a further discussion of the risk factors of the company, please see Item 1A. *Risk Factors* to the company's Annual Report on Form 10-K for the year ended December 31, 2011.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The company is exposed to market risk from changes in interest rates, foreign exchange rates and commodity prices.

Interest Rates

The company had $88.5 million in debt outstanding under revolving credit facilities at September 29, 2012, at variable rates. While 100% of this debt has variable interest rates, the company's interest expense is not materially sensitive to changes in interest rate levels since debt levels and potential interest expense increases are small relative to earnings.

Foreign Exchange Rates

The majority of the company's operations consist of manufacturing and sales activities in foreign countries. The company has manufacturing facilities in Mexico, Canada, Denmark, Lithuania, China, Taiwan and the Philippines. During the first nine months of 2012, sales to customers outside the U.S. were 66.5% of total net sales. Substantially all sales in Europe are denominated in euros and substantially all sales in the Asia-Pacific region are denominated in U.S. dollars, Japanese yen, Korean won, Chinese yuan or Taiwanese dollars.

The company's foreign exchange exposures result primarily from sale of products in foreign currencies, foreign currency denominated purchases, employee-related and other costs of running operations in foreign countries and translation of balance sheet accounts denominated in foreign currencies. The company's most significant long exposure is to the euro, with lesser long exposures to the Canadian dollar, Japanese yen and Korean won. The company's most significant short exposures are to the Chinese yuan, Mexican peso and Philippine peso. Changes in foreign exchange rates could affect the company's sales, costs, balance sheet values and earnings. The company uses netting and offsetting intercompany account management techniques to reduce known foreign currency exposures where possible. From time to time, the company has utilized derivative instruments to hedge certain foreign currency exposures deemed to be material.

Commodity Prices

The company uses various metals in the manufacturing of its products, including copper, zinc, tin, gold and silver. Prices of these commodities can and do fluctuate significantly, which can impact the company's earnings. The most significant of these exposures is to copper, zinc, gold, and silver where at current prices and volumes, a 10% price change would affect annual pre-tax profit by approximately $1.9 million for copper, $0.6 million for zinc, $0.6 million for gold, and $1.0 million for silver. From time to time, the company has utilized derivative instruments to hedge certain commodity exposures deemed to be material.

Item 4. Controls and Procedures.

As of September 29, 2012, the Chief Executive Officer and Chief Financial Officer of the company evaluated the effectiveness of the disclosure controls and procedures of the company and concluded that these disclosure controls and procedures are effective to ensure that material information relating to the company and its consolidated subsidiaries has been made known to them by the employees of the company and its consolidated subsidiaries during the period preceding the filing of this Quarterly Report on Form 10-Q and that such information is accurately recorded, processed, summarized and reported within the time periods specified in SEC rules. There were no changes in the company's internal control over financial reporting during the period covered by this Report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors.

A detailed description of risks that could have a negative impact on our business, revenues and performance results can be found under the caption Risk Factors in our most recent Form 10-K, filed with the SEC on February 24, 2012. There have been no material changes from risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011 in response to Item 1A to Part 1 of Form 10-K.

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

The company's Board of Directors authorized the repurchase of up to 1,000,000 shares of the company's common stock under a program for the period May 1, 2012 to April 30, 2013. The company did not repurchase any shares of its common stock during the first nine months of fiscal 2012 and 1,000,000 shares may yet be purchased under the current authorization as of September 29, 2012. The company withheld 27,417 shares of stock in lieu of withholding taxes on behalf of employees who became vested in restricted stock option grants during the first nine months of 2012.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit	Description
10.1	First Amendment to the Littelfuse, Inc. Retirement Plan effective January 1, 2012.
31.1	Certification of Gordon Hunter, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Philip G. Franklin, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Quarterly Report on Form 10-Q for the quarter ended September 29, 2012, to be signed on its behalf by the undersigned thereunto duly authorized.

	Littelfuse, Inc.	
Date: November 2, 2012	By:	/s/ Philip G. Franklin Philip G. Franklin Vice President, Operations Support, Chief Financial Officer and Treasurer (As duly authorized officer and as the principal financial and accounting officer)

24