

SEMTECH CORP
Form 10-Q
December 10, 2010
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

☒ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended October 31, 2010

or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number 1-6395

SEMTECH CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

95-2119684
(I.R.S. Employer

incorporation or organization)

Identification No.)

200 Flynn Road, Camarillo, California, 93012-8790

(Address of principal executive offices, Zip Code)

Registrant's telephone number, including area code: (805) 498-2111

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

Number of shares of Common Stock, \$0.01 par value per share, outstanding at December 1, 2010: 63,358,157

Table of Contents

SEMTECH CORPORATION

INDEX TO FORM 10-Q

FOR THE QUARTER ENDED OCTOBER 31, 2010

| | |
|--|-----------|
| <u>PART I - FINANCIAL INFORMATION</u> | 3 |
| <u>ITEM 1. Financial Statements</u> | 3 |
| <u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 17 |
| <u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 28 |
| <u>ITEM 4. Controls and Procedures</u> | 29 |
| <u>PART II - OTHER INFORMATION</u> | 30 |
| <u>ITEM 1. Legal Proceedings</u> | 30 |
| <u>ITEM 1A. Risk Factors</u> | 30 |
| <u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 31 |
| <u>ITEM 3. Defaults Upon Senior Securities</u> | 31 |
| <u>ITEM 4. (Removed and Reserved)</u> | 31 |
| <u>ITEM 5. Other Information</u> | 31 |
| <u>ITEM 6. Exhibits</u> | 32 |

Table of Contents**PART I FINANCIAL INFORMATION*****ITEM 1. Financial Statements*****SEMTECH CORPORATION AND SUBSIDIARIES****UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS**

(in thousands, except per share data)

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------|---------------------|---------------------|---------------------|
| | October 31, 2010 | October 25, 2009 | October 31, 2010 | October 25, 2009 |
| Net sales | \$ 123,125 | \$ 75,147 | \$ 338,232 | \$ 201,541 |
| Cost of sales | 49,304 | 33,776 | 139,932 | 91,286 |
| Gross profit | 73,821 | 41,371 | 198,300 | 110,255 |
| Operating costs and expenses: | | | | |
| Selling, general and administrative | 35,501 | 18,521 | 86,767 | 52,717 |
| Product development and engineering | 18,400 | 10,467 | 51,107 | 31,142 |
| Intangible amortization | 2,406 | 303 | 7,216 | 908 |
| Total operating costs and expenses | 56,307 | 29,291 | 145,090 | 84,767 |
| Operating income | 17,514 | 12,080 | 53,210 | 25,488 |
| Interest and other income, net | 3 | 1,136 | 508 | 2,708 |
| Income before taxes | 17,517 | 13,216 | 53,718 | 28,196 |
| Provision for taxes | 1,412 | 34,103 | 7,149 | 36,719 |
| NET INCOME (LOSS) | \$ 16,105 | \$ (20,887) | \$ 46,569 | \$ (8,523) |
| Earnings (Loss) per share: | | | | |
| Basic | \$ 0.26 | \$ (0.34) | \$ 0.75 | \$ (0.14) |
| Diluted | \$ 0.25 | \$ (0.34) | \$ 0.73 | \$ (0.14) |
| Weighted average number of shares used in computing earnings (loss) per share: | | | | |
| Basic | 62,493 | 61,030 | 61,950 | 60,622 |
| Diluted | 64,555 | 61,030 | 63,723 | 60,622 |

See accompanying notes. The accompanying notes are an integral part of these statements.

Table of Contents

SEMTECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(in thousands, except share data)

| | October 31, 2010 (unaudited) | January 31, 2010 |
|--|------------------------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 142,209 | \$ 80,598 |
| Temporary investments | 42,686 | 55,462 |
| Receivables, less allowances of \$1,186 at October 31, 2010 and \$1,302 at January 31, 2010 | 58,911 | 31,163 |
| Inventories | 43,203 | 33,819 |
| Deferred income taxes | 11,808 | 11,808 |
| Other current assets | 11,925 | 6,616 |
| Total current assets | 310,742 | 219,466 |
| Non-current assets: | | |
| Property, plant and equipment, net of accumulated depreciation of \$75,365 at October 31, 2010 and \$70,805 at January 31, 2010 | 50,568 | 38,063 |
| Investments, maturities in excess of 1 year | 43,810 | 26,163 |
| Deferred income taxes | 4,896 | 7,153 |
| Goodwill | 129,651 | 129,651 |
| Other intangibles, net | 77,127 | 84,343 |
| Other assets | 14,865 | 9,455 |
| Total non-current assets | 320,917 | 294,828 |
| TOTAL ASSETS | \$ 631,659 | \$ 514,294 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 36,273 | \$ 23,643 |
| Accrued liabilities | 48,946 | 34,008 |
| Income taxes payable | 6,536 | 8,512 |
| Deferred revenue | 5,210 | 3,276 |
| Accrued taxes | 2,609 | 2,609 |
| Deferred income taxes | 1,332 | 1,332 |
| Total current liabilities | 100,906 | 73,380 |
| Non-current liabilities: | | |
| Deferred income taxes | 16,505 | 16,505 |
| Accrued taxes | 9,597 | 9,497 |
| Other long-term liabilities | 14,030 | 9,171 |
| Stockholders' equity: | | |
| Common stock, \$0.01 par value, 250,000,000 shares authorized, 78,136,144 issued and 63,157,665 outstanding on October 31, 2010 and 78,136,144 issued and 61,261,015 outstanding on January 31, 2010 | 785 | 784 |
| Treasury stock, at cost, 14,978,479 shares as of October 31, 2010 and 16,868,879 shares as of January 31, 2010 | (245,500) | (279,306) |
| Additional paid-in capital | 353,208 | 348,741 |
| Retained earnings | 381,273 | 334,704 |
| Accumulated other comprehensive income | 855 | 818 |

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| | | |
|---|-------------------|-------------------|
| Total stockholders' equity | 490,621 | 405,741 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 631,659 | \$ 514,294 |

See accompanying notes. The accompanying notes are an integral part of these statements.

Table of Contents**SEMTECH CORPORATION AND SUBSIDIARIES****UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS****(in thousands)**

| | Nine Months Ended | |
|---|-----------------------------|-----------------------------|
| | October 31, 2010 | October 25, 2009 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 46,569 | \$ (8,523) |
| <i>Adjustments to reconcile net income (loss) to net cash provided by operations:</i> | | |
| Depreciation and amortization | 12,267 | 5,447 |
| Deferred income taxes | 1,909 | 30,900 |
| Stock-based compensation | 22,925 | 13,820 |
| Excess tax benefits on stock based compensation | (281) | (470) |
| Loss on disposition of property, plant and equipment | 69 | 53 |
| <i>Changes in assets and liabilities:</i> | | |
| Receivables, net | (27,748) | 1,965 |
| Inventories | (9,454) | 2,471 |
| Prepaid expenses and other assets | (3,051) | 840 |
| Accounts payable | 12,630 | 8,738 |
| Accrued liabilities | 13,899 | 1,056 |
| Deferred revenue | 1,934 | (440) |
| Income taxes payable and prepaid taxes | (9,271) | 1,207 |
| Other liabilities | 2,209 | 1,235 |
| Net cash provided by operations | 64,606 | 58,299 |
| Cash flows from investing activities: | | |
| Purchase of available-for-sale investments | (84,802) | (244,450) |
| Proceeds from sales and maturities of available-for-sale investments | 79,961 | 142,485 |
| Proceeds from sale of property, plant and equipment | 76 | 15 |
| Purchases of property, plant and equipment | (18,016) | (7,293) |
| Purchases of intangibles | | (2,300) |
| Net cash used in investing activities | (22,781) | (111,543) |
| Cash flows from financing activities: | | |
| Excess tax benefits on stock based compensation | 281 | 470 |
| Exercise of stock options | 22,218 | 11,313 |
| Repurchase of outstanding common stock | (2,714) | (3,110) |
| Net cash provided by financing activities | 19,785 | 8,673 |
| Effect of exchange rate changes on cash and cash equivalents | 1 | (42) |
| Net increase (decrease) in cash and cash equivalents | 61,611 | (44,613) |
| Cash and cash equivalents at beginning of period | 80,598 | 147,666 |
| Cash and cash equivalents at end of period | \$ 142,209 | \$ 103,053 |

See accompanying notes. The accompanying notes are an integral part of these statements.

Table of Contents**SEMTECH CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS****(Unaudited)*****Note 1: Basis of Presentation***

The accompanying interim consolidated condensed financial statements of Semtech Corporation and its subsidiaries (the Company) have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). In the opinion of the Company, these unaudited statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly, in all material respects, the financial position of Semtech Corporation and its subsidiaries for the interim periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the included disclosures are adequate to make the information presented not misleading.

The Company reports on the basis of 52 and 53 week periods and ends its fiscal year on the last Sunday in January. The other quarters generally end on the last Sunday of April, July and October. All quarters consist of 13 weeks except for one 14-week period in 53-week years. The third quarter of fiscal years 2011 and 2010 each consisted of 13 weeks. The first nine months of fiscal years 2011 and 2010 each consisted of 39 weeks.

These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's latest annual report on Form 10-K. The results reported in these consolidated condensed financial statements should not be regarded as necessarily indicative of results that may be expected for any subsequent period or for the entire year.

Certain amounts for prior periods have been reclassified to conform to the current presentation. These reclassifications were not significant and had no effect on previously reported consolidated operating income, income before taxes, net income, total assets or stockholder's equity.

Note 2: Comprehensive Income

The components of comprehensive income, net of tax, were as follows:

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------|---------------------|---------------------|---------------------|
| | October 31, 2010 | October 25, 2009 | October 31, 2010 | October 25, 2009 |
| (in thousands) | | | | |
| Net income (loss) | \$ 16,105 | \$ (20,887) | \$ 46,569 | \$ (8,523) |
| Change in net unrealized holding gain on available-for-sale investments | 10 | 108 | 36 | 79 |
| Gain on translation adjustment | 1 | (6) | 1 | 6 |
| Total comprehensive income (loss) | \$ 16,116 | \$ (20,785) | \$ 46,606 | \$ (8,438) |

Table of Contents**Note 3: Earnings (Loss) per Share**

The computation of basic and diluted earnings (loss) per common share was as follows:

| (in thousands, except per share amounts) | Three Months Ended | | Nine Months Ended | |
|---|---------------------|---------------------|---------------------|---------------------|
| | October 31, 2010 | October 25, 2009 | October 31, 2010 | October 25, 2009 |
| Net income (loss) | \$ 16,105 | \$ (20,887) | \$ 46,569 | \$ (8,523) |
| Weighted average common shares outstanding basic | 62,493 | 61,030 | 61,950 | 60,622 |
| Dilutive effect of employee equity incentive plans | 2,062 | | 1,773 | |
| Weighted average common shares outstanding diluted | 64,555 | 61,030 | 63,723 | 60,622 |
| Basic earnings (loss) per common share | \$ 0.26 | \$ (0.34) | \$ 0.75 | \$ (0.14) |
| Diluted earnings (loss) per common share | \$ 0.25 | \$ (0.34) | \$ 0.73 | \$ (0.14) |
| Anti-dilutive shares not included in the above calculations | 1,645 | 4,866 | 2,595 | 9,038 |

Basic earnings (loss) per common share is computed using the weighted-average number of common shares outstanding during the reporting period. Diluted earnings (loss) per common share incorporates the incremental shares issuable, calculated using the treasury stock method, upon the assumed exercise of stock options and the vesting of restricted stock.

Note 4: Revenue Recognition

The Company recognizes product revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is probable. Product design and engineering revenue is recognized during the period in which services are performed.

The Company defers revenue recognition on shipment of products to certain customers, principally distributors, under agreements which provide for limited pricing credits or return privileges, until these products are sold through to end-users or the return privileges lapse. For sales subject to certain pricing credits or return privileges, the amount of future pricing credits or inventory returns cannot be reasonably estimated given the relatively long period in which a particular product may be held by the customer. Therefore, the Company has concluded that sales to customers under these agreements are not fixed and determinable at the date of the sale and revenue recognition has been deferred.

The estimated deferred gross margins on these sales, where there are no outstanding receivables, are recorded on the consolidated condensed balance sheets under the heading of Deferred revenue. The Company records a provision for estimated sales returns in the same period as the related revenues are recorded. The Company bases these estimates on historical sales returns and other known factors. Actual returns could be different from Company estimates and current provisions for sales returns and allowances, resulting in future charges to earnings.

Note 5: Stock-Based Compensation

Stock-based Payment Arrangements. The Company has various equity award plans (the Plans) that provide for granting stock-based awards to employees and non-employee directors of the Company. The Plans provide for the granting of several forms of stock-based compensation. As of October 31, 2010, the Company has granted stock options (Options) and restricted stock under the Plans and has also issued stock-based compensation outside of the Plans, including Options and restricted stock issued as inducements to join the Company.

Grant Date Fair Values and Underlying Assumptions; Contractual Terms. The Company uses the Black-Scholes pricing model to value Options. For awards classified as equity, stock-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized as an expense over the employee's or director's requisite service period. For awards classified as liabilities, stock-based

Table of Contents

compensation cost is measured at fair value at each reporting date until the date of settlement, and is recognized as an expense over the employee or director's requisite service period. Expected lives were determined using the mid-point between the last vest date and the award expiration or the combined weighted-time-outstanding for historical awards for awards granted in the third quarter of fiscal year 2011. The risk-free interest rate is derived by referencing the implied yields currently available from the U.S. Treasury's zero-coupon yield curve with a remaining term equal to the expected term of the award. Expected volatilities are based on historical volatility using daily and monthly stock price observations. The Company has not historically paid dividends.

Assumptions in Determining Fair Value of Options

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------------|-------------------|------------------|
| | October 31, 2010 | October 25, 2009 | October 31, 2010 | October 25, 2009 |
| Expected lives, in years | 4.3 | 5.0 | 4.3 - 5.0 | 5.0 |
| Estimated volatility | 40% | 40% | 40% | 40% |
| Dividend yield | | | | |
| Risk-free interest rate | 1.2% | 2.7% | 1.2%-2.3% | 2.2% |
| Weighted average fair value on grant date | \$5.73 | \$6.85 | \$6.30 | \$5.28 |

A summary of the activity for stock option awards for the first nine months of fiscal year 2011 is presented below:

| | Shares (in thousands) | Weighted average exercise price (per share) | Weighted average remaining contract lives (years) | Aggregate intrinsic value (in thousands) | Aggregate unrecognized compensation costs (in thousands) | Weighted average period over which expected to be recognized (years) |
|------------------------------------|-----------------------------|--|---|--|--|---|
| Outstanding as of January 31, 2010 | 9,151 | \$ 16.44 | | | | |
| Granted | 348 | 16.80 | | | | |
| Exercised | (1,671) | 13.95 | | | | |
| Forfeited | (193) | 11.51 | | | | |
| Expired | (387) | 26.78 | | | | |
| Outstanding as of October 31, 2010 | 7,248 | \$ 16.61 | 3.39 | | \$ 8,483 | 2.07 |
| Exercisable as of October 31, 2010 | 5,665 | \$ 17.29 | 3.32 | \$ 26,648 | | |

The estimated fair value of restricted stock was calculated based on the market price of the Company's common stock on the date of grant. Some of the restricted stock awarded in fiscal year 2011 and prior years are classified as liabilities rather than equity. For awards classified as liabilities, the value of these awards was re-measured on October 31, 2010.

A summary of the activity for restricted share awards is presented below:

| | Shares (in thousands) | Weighted average fair value (per share) | Aggregate unrecognized compensation costs (in thousands) | Weighted average period over which expected to be recognized (years) |
|------------------------------------|-----------------------------|--|--|--|
| Outstanding as of January 31, 2010 | 2,456 | \$ 15.65 | | |
| Granted | 1,228 | 16.99 | | |

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| | | | | |
|------------------------------------|-------|----------|-----------|------|
| Vested | (533) | 15.62 | | |
| Forfeited | (274) | 16.29 | | |
| Outstanding as of October 31, 2010 | 2,877 | \$ 15.86 | \$ 41,451 | 2.62 |

Financial Statement Effects and Presentation. The following tables show total pre-tax, stock-based compensation expense included in the consolidated condensed statements of operations for the three and nine month periods ended October 31, 2010 and October 25, 2009, respectively.

Table of ContentsAllocation of Stock-based Compensation

| (in thousands) | Three Months Ended | | Nine Months Ended | |
|---|---------------------|---------------------|---------------------|---------------------|
| | October 31, 2010 | October 25, 2009 | October 31, 2010 | October 25, 2009 |
| Cost of sales | \$ 305 | \$ 284 | \$ 1,477 | \$ 942 |
| Selling, general and administrative | 5,206 | 2,658 | 15,512 | 9,602 |
| Product development and engineering | 1,908 | 1,160 | 5,936 | 3,276 |
| Stock-based compensation, pre-tax | \$ 7,419 | \$ 4,102 | \$ 22,925 | \$ 13,820 |
| Net change in stock-based compensation capitalized into inventory | \$ 20 | \$ (52) | \$ (70) | \$ (88) |

Adjustments to Expense During the Three and Nine Months Ended October 31, 2010

During the second quarter of fiscal year 2011 and subsequent to the issuance of its May 2, 2010 unaudited consolidated financial statements, the Company implemented a new third-party stock-based compensation software package to replace the legacy software historically used. Upon implementation during the second quarter of fiscal year 2011, the Company performed a comparison of historical results as computed under the legacy system with results from the new software package, noting differences.

The new software package enables the Company to refine its estimates of forfeitures. The Company accounted for this as a change in estimate in the second quarter of fiscal year 2011. As the new software package was installed, the Company discovered accounting errors in previously issued financial statements. The new software allocates stock-based compensation by award instead of grouping awards into a defined tranche, resulting in higher levels of expense allocated to tax jurisdictions that record tax benefits for stock-based compensation. Consequently, the Company identified both a change in accounting estimate in the quarter ended August 1, 2010 and a correction of errors in previously issued financial statements for the three months ended May 2, 2010 and the years ended January 31, 2010, January 25, 2009 and January 27, 2008.

The Company determined that correcting the accounting errors in previously issued financial statements would have generated additional tax benefits and a corresponding increase in net income of \$196,000, \$115,000, \$120,000 and \$142,000 for the three months ended May 2, 2010 and the years ended January 31, 2010, January 25, 2009 and January 27, 2008, respectively. Earnings per fully diluted share would not have changed in any of these periods. See Note 10 for additional discussion.

The Company has determined that the impact of these errors is not material to the previously issued annual and interim financial statements using the guidance of SEC Staff Accounting Bulletin (SAB) No. 99 (SAB 99) and SAB No. 108. Accordingly, the unaudited condensed consolidated financial statements for the nine month period ended October 31, 2010 include the adjustment to increase stock-based compensation expense for a change in accounting estimate by \$328,000, net of tax effects and recognize the tax benefits and a corresponding increase to net income of \$868,000 (or \$0.01 of earnings per fully diluted share for the nine month period ended October 31, 2010) to correct this error. The Company does not believe the correction of these accounting errors in previously issued financial statements is material to the consolidated financial statements for the nine month period ended October 31, 2010 and does not believe that it will be material to the annual consolidated financial statements for the fiscal year ending January 30, 2011.

Note 6: Investments

Certain investments that mature within three months of the date of purchase are accounted for as cash equivalents. This includes money market funds, time deposits and U.S. government obligations. Temporary and long-term investments consist of government, bank and corporate obligations. Temporary investments mature within twelve months of the balance sheet date. Long-term investments mature in excess of one year from the balance sheet date. The Company determines the cost of securities sold based on the specific identification method. Realized gains or losses are reported in Interest and other income, net on the consolidated condensed statements of operations.

Table of Contents

The Company classifies its investments as available for sale because it may sell some securities prior to maturity. The Company's investments are subject to market risk, primarily interest rate and credit risks. The Company's investments are managed by a limited number of outside professional managers that operate within investment guidelines set by the Company. These guidelines include specified permissible investments, minimum credit quality ratings and maximum average duration restrictions and are intended to limit market risk by restricting the Company's investments to high quality debt instruments with relatively short-term maturities.

The following table summarizes the Company's investments as of October 31, 2010 and January 31, 2010:

Investments

| (in thousands) | October 31, 2010 | | | January 31, 2010 | | |
|------------------------|------------------|------------|-----------------|------------------|------------|-----------------|
| | Market Value | Cost Basis | Unrealized Gain | Market Value | Cost Basis | Unrealized Gain |
| U.S. government issues | \$ 68,570 | \$ 68,399 | \$ 171 | \$ 62,555 | \$ 62,435 | \$ 120 |
| Corporate issues | 17,926 | 17,639 | 287 | 19,070 | 18,762 | 308 |
| Total investments | \$ 86,496 | \$ 86,038 | \$ 458 | \$ 81,625 | \$ 81,197 | \$ 428 |

The following table summarizes the maturities of the Company's investments at October 31, 2010 and January 31, 2010:

Investment maturities

| (in thousands) | October 31, 2010 | | January 31, 2010 | |
|------------------------------|------------------|------------|------------------|------------|
| | Market Value | Cost Basis | Market Value | Cost Basis |
| Within 1 year | \$ 42,686 | \$ 42,631 | \$ 55,462 | \$ 55,376 |
| After 1 year through 5 years | 43,810 | 43,407 | 26,163 | 25,821 |
| Total investments | \$ 86,496 | \$ 86,038 | \$ 81,625 | \$ 81,197 |

In the third quarter of fiscal years 2011 and 2010, the Company recognized \$10,000 and \$108,000, respectively, of unrealized gain (net of tax) on investments. These unrealized gains are the result of fluctuations in the market value of the Company's investments and are included in Accumulated other comprehensive income on the consolidated condensed balance sheets. The tax associated with these comprehensive income items for the third quarter of fiscal years 2011 and 2010 was a decrease to the deferred tax liability of \$1,000 and an increase to the deferred tax liability of \$30,000, respectively.

In the first nine months of fiscal years 2011 and 2010, the Company recognized an unrealized gain of \$36,000 and \$79,000 (net of tax), respectively, on investments. These unrealized gains are the result of fluctuations in the market value of the Company's investments and are included in Accumulated other comprehensive income on the consolidated condensed balance sheets. The tax associated with these comprehensive income items for the first nine months of fiscal years 2011 and 2010 was a decrease to the deferred tax liability of \$6,000 and an increase to the deferred tax liability of \$40,000, respectively.

Investments and cash and cash equivalents generated interest income of \$242,000 and \$486,000 in the third quarter of fiscal years 2011 and 2010, respectively. For the first nine months of fiscal years 2011 and 2010, investments and cash and cash equivalents generated interest income of \$693,000 and \$2.1 million, respectively.

Note 7: Fair Value

When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance. The Company uses a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Three levels of

inputs are used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Table of Contents

Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is disclosed is determined based on the lowest level input that is significant to the fair value measurement.

All items recorded or measured at fair value on a recurring basis in the accompanying consolidated condensed financial statements were based on the use of Level 1 inputs and consisted of the following items as of October 31, 2010:

| (in thousands) | Total | Quoted Prices in Active Markets for Identical Instruments (Level 1) |
|---|-----------|--|
| Assets | | |
| Temporary investments | \$ 42,686 | \$ 42,686 |
| Investments, maturities in excess of 1 year | 43,810 | 43,810 |
| Other investments-deferred compensation | 5,940 | 5,940 |
| | \$ 92,436 | \$ 92,436 |

Note 8: Inventories

Inventories, consisting of material, labor, and manufacturing overhead, are stated at the lower of cost (first-in, first-out) or market and consisted of the following:

Inventories:

| (in thousands) | October 31, 2010 | January 31, 2010 |
|-----------------|---------------------|---------------------|
| Raw materials | \$ 4,026 | \$ 3,445 |
| Work in process | 25,508 | 17,488 |
| Finished goods | 13,669 | 12,886 |
| | \$ 43,203 | \$ 33,819 |

Note 9: Intangible Assets

Goodwill Goodwill is not amortized, but is tested for impairment using a two-step method on an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The recoverability of goodwill is measured at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair market value of the reporting unit. The Company concluded that there were no indicators of impairment as of October 31, 2010.

There were no changes to goodwill during the first nine months of fiscal year 2011.

Purchased Intangibles Purchased intangibles are amortized on a straight-line basis over their estimated useful lives. In-process research and development is recorded at fair value as an indefinite-lived intangible asset until the completion or abandonment of the associated research and

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development efforts. Upon completion of development, acquired in-process research and development assets are transferred to finite-lived assets and amortized over their useful lives.

Table of Contents

Intangible assets consisted of the following:

| (in thousands) | Estimated Useful Life | Gross Carrying Amount | | Accumulated Amortization | | Net Book Value | |
|-------------------------------------|-----------------------|-----------------------|------------------|--------------------------|------------------|------------------|------------------|
| | | October 31, 2010 | January 31, 2010 | October 31, 2010 | January 31, 2010 | October 31, 2010 | January 31, 2010 |
| Core technologies | 2-10 years | \$ 65,900 | \$ 65,900 | \$ (12,061) | \$ (5,953) | \$ 53,839 | \$ 59,947 |
| In-process research and development | Indefinite | 12,370 | 12,370 | | | 12,370 | 12,370 |
| Customer relationships | 8-10 years | 12,130 | 12,130 | (1,232) | (214) | 10,898 | 11,916 |
| Other Intangibles | 2 years | 230 | 230 | (210) | (120) | 20 | 110 |
| Total other intangibles | | \$ 90,630 | \$ 90,630 | \$ (13,503) | \$ (6,287) | \$ 77,127 | \$ 84,343 |

Core technologies includes \$59.9 million of definite lived intangible assets from the December 9, 2009 acquisition of Sierra Monolithics, Inc. (SMI). These developed technology intangibles include current optical products, wireless products and microwave products.

The Company concluded that the intangibles classified as core technologies were identifiable intangible assets, separate from goodwill, since they were capable of being separated from SMI and sold, transferred or licensed, regardless of whether the Company intended to do so.

The fair value of these core technologies was determined using the multi-period excess earnings method. Each product technology was valued separately since each was determined to have a different remaining useful life.

For the three month periods ended October 31, 2010 and October 25, 2009, amortization expense related to intangible assets was \$2.4 million and \$303,000, respectively. Amortization expense related to intangible assets for the nine month periods ended October 31, 2010 and October 25, 2009 was \$7.2 million and \$908,000, respectively.

Note 10: Taxes

The effective tax rate differs from the 35 percent statutory corporate tax rate in part due to the impact of lower foreign tax rates.

The gross unrecognized tax benefits (before federal impact of state items) were \$13.8 million at October 31, 2010 and January 31, 2010, respectively. Included in the balances of unrecognized tax benefits at October 31, 2010 and January 31, 2010, are \$12.1 million of net tax benefits (after federal impact of state items) that, if recognized, would impact the effective tax rate. The liability for uncertain tax positions was \$12.2 million as of October 31, 2010 and \$12.1 million as of January 31, 2010. This liability is reflected on the consolidated condensed balance sheets as Accrued taxes. The Company's policy is to include net interest and penalties related to unrecognized tax benefits within the provision for taxes. The Company had approximately \$293,000 and \$193,000 of net interest and penalties accrued at October 31, 2010 and January 31, 2010, respectively.

In the third quarter of fiscal year 2011, the State of California enacted state law changes. These changes to state law, and the anticipated deduction for a \$20.0 million legal settlement discussed further in Note 12, will limit the Company's ability to utilize certain state carryforward net operating losses prior to their expiration. As a result, the Company recorded a valuation allowance of \$932,000 in the quarter ended October 31, 2010 to reflect these utilization concerns. In addition, the Company concluded that as a result of tax law changes scheduled to take effect for California in fiscal year 2012, the value of certain deferred tax assets needed to be reduced. Accordingly, in the quarter ended October 31, 2010, the Company reduced the value of state deferred tax assets by \$627,000 to reflect lower expected benefits as a result of the changes in state tax law. The impact of these adjustments was partially offset by higher levels of generated tax credits and a more favorable mix of regional income.

In the second quarter of fiscal year 2011, the Company recorded an \$868,000 increase to its deferred tax assets to reflect the impact of higher anticipated tax benefits from equity compensation expense. Specifically, a higher portion of historical stock-based compensation expense was determined to be associated with tax jurisdictions where the Company expects to realize a future tax benefit. See Note 5 for additional discussion regarding the tax impact from adjustments to stock-based compensation expense.

Tax years prior to 2006 (fiscal year 2007) are generally not subject to examination by the Internal Revenue Service except for items with tax attributes that could impact open tax years.

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In the second quarter of fiscal year 2011, the California Franchise Tax Board initiated a limited examination of the Company's filings for tax years 1998 through 2004. The Company believes that it has adequately provided for any adjustments that may result from this examination. For state returns, the Company is generally not subject to income tax examinations for years prior to 2005 (fiscal year 2006).

Table of Contents

The Company's significant foreign tax presence is in Switzerland. The Company's material Swiss tax filings have been examined through fiscal year 2009. The Company is also subject to routine examinations by various foreign tax jurisdictions in which it operates.

As of October 31, 2010, it was reasonably possible that the total amounts of unrecognized tax benefits would decrease by up to \$90,000 within twelve months due to the resolution of a foreign tax audit. Such resolution will result in tax payments by the Company if its positions are not sustained and will result in decreases in the liability for uncertain tax positions and a reduction to the tax provision if the Company's positions are sustained.

Note 11: Commitments and Contingencies

Legal Matters

From time to time in the ordinary course of its business, the Company is involved in various claims, litigation, and other legal actions that are normal to the nature of its business, including with respect to intellectual property, contract, product liability, employment, and environmental matters.

The Company records any amounts recovered in these matters when collection is certain. Liabilities for claims against the Company are accrued when it is probable that a liability has been incurred and the amount can be reasonably estimated. Any amounts recorded are based on periodic reviews by outside counsel, in-house counsel and management and are adjusted as additional information becomes available or assessments change.

While some insurance coverage is maintained for such matters, there can be no assurance that the Company has a sufficient amount of insurance coverage, that asserted claims will be within the scope of coverage of the insurance, or that the Company will have sufficient resources to satisfy any amount due not covered by insurance.

The Company's management is of the opinion that the ultimate resolution of such matters now pending will not, individually or in the aggregate, have a material adverse effect on the Company's consolidated results of operations, financial position or cash flows. However, the outcome of legal proceedings cannot be predicted with any degree of certainty.

Refer to the discussion in Note 11 to the consolidated financial statements in Item 8 of the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2010 filed with the SEC on April 1, 2010, Note 11 to the consolidated condensed financial statements in Part I, Item 1 of the Company's Quarterly Report on Form 10-Q for the period ended May 2, 2010 filed with the SEC on June 11, 2010 and Note 11 to the consolidated condensed financial statements in Part I, Item 1 of the Company's Quarterly Report on Form 10-Q for the period ended August 1, 2010 filed with the SEC on September 10, 2010. Except as discussed below, all proceedings discussed in the Form 10-K remain outstanding.

Class Action Lawsuit. In Re: Semtech Corporation Securities Litigation, United States District Court, Central District of California, Case No. 2:07-CV-07114-CAS. In August 2007, a purported class action lawsuit was filed against the Company and certain current and former officers on behalf of persons who purchased or acquired Semtech securities from August 27, 2002 until July 19, 2006. The case alleges violations of Federal securities laws in connection with the Company's past stock option practices. A very similar lawsuit, filed in October 2007 by another plaintiff, was not served. In February 2008, the Mississippi Public Employees' Retirement System (MPERS) filed a motion in the US District Court for the Central District of California for consolidation of the cases described above, appointment of MPERS as lead plaintiff, and approval of selection of counsel. The MPERS motion was granted in late March 2008, and a Consolidated Amended Class Action Complaint was filed in May 2008, initiating the consolidated action with MPERS as the lead plaintiff. In December 2008, the Court granted motions to dismiss in favor of defendants Jason Carlson (former Chief Executive Officer of the Company) and Mohan Maheswaran (current Chief Executive Officer of the Company) regarding claims under Section 10(b) of the Securities Exchange Act of 1934. The Court denied all other motions of all defendants, including other motions to dismiss brought in relation to alternate allegations raised against Messrs. Carlson and Maheswaran, who remain pending as defendants in the matter. Following a May 2010 District Court ruling adverse to the Company on the discoverability and production of certain materials over which the Company asserts

Table of Contents

privileges and exclusions from production, the Company sought and has since been granted approval from the Ninth Circuit Court of Appeals to seek review of the District Court's ruling and order. On August 23, 2010, the Court certified the plaintiff class (as proposed by plaintiffs) to be persons who purchased or acquired Semtech securities from August 27, 2002 until July 19, 2006. Appellate proceedings on the evidentiary issue are proceeding. Trial related proceedings are proposed to be stayed due to the pending appellate proceedings. The full schedule of appellate proceedings has not been finalized.

On December 5, 2010, the Company entered into an agreement in principle to settle all claims asserted against all defendants in the putative class action concerning the Company's stock option accounting practices. The agreement in principle provides for the payment of \$20.0 million by the Company. The agreement in principle contemplates the negotiation and execution of a final settlement agreement. The proposed settlement would fully resolve all claims against the Company, all current officers and directors of the Company named in the lawsuit, and certain former officers and directors of the Company named in the lawsuit. No parties admit any wrongdoing as part of the proposed settlement. The settlement is subject to preliminary approval by the Court, notice to the putative class and subsequent final approval by the Court.

The Company recognized this subsequent event and increased its estimate to settle the Class Action Lawsuit from \$10.0 million at January 31, 2010 and July 31, 2010 to \$20.0 million at October 31, 2010. This resulted in additional expense of \$10.0 million reported in Selling, general and administrative expenses on the consolidated statements of income. This liability is reflected in Accrued liabilities on the consolidated balance sheets.

Product Warranties

The Company's general warranty policy provides for repair or replacement of defective parts. In some cases, a refund of the purchase price is offered. In certain instances the Company has agreed to other warranty terms, including some indemnification provisions. The table below summarizes changes in product warranty allowances in accrued liabilities.

(in thousands)

| | |
|---|----------|
| Balance at January 31, 2010 | \$ 2,250 |
| Current accruals | 99 |
| Accrual reversals | (260) |
| Settlements made (in cash or in kind) during period | (528) |
| Balance at October 31, 2010 | \$ 1,561 |

Note 12: Geographic Information and Concentration of Risk

The Company operates exclusively in the semiconductor industry and primarily within the analog and mixed-signal sector.

Net sales activity by geographic region is as follows:

Sales by Region

| (percentage of net sales) | Three Months Ended | | Nine Months Ended | |
|---------------------------|---------------------|---------------------|---------------------|---------------------|
| | October 31, 2010 | October 25, 2009 | October 31, 2010 | October 25, 2009 |
| North America | 24% | 23% | 25% | 25% |
| Asia-Pacific | 62% | 61% | 57% | 58% |
| Europe | 14% | 16% | 18% | 17% |
| | 100% | 100% | 100% | 100% |

The Company generally attributes sales to a country based on the ship-to address. The table below summarizes sales activity to countries that represented greater than 10% of total sales:

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| (percentage of total sales) | Three Months Ended | | Nine Months Ended | |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|
| | October 31, 2010 | October 25, 2009 | October 31, 2010 | October 25, 2009 |
| United States | 21% | 18% | 21% | 19% |
| China (including Hong Kong) | 36% | 28% | 33% | 25% |
| South Korea | 9% | 19% | 12% | 21% |
| Total net sales | 66% | 65% | 66% | 65% |

Table of Contents

Income (loss) from continuing operations before income taxes is as follows:

| (in thousands) | Three Months Ended | | Nine Months Ended | |
|----------------|---------------------|---------------------|---------------------|---------------------|
| | October 31, 2010 | October 25, 2009 | October 31, 2010 | October 25, 2009 |
| Domestic | \$ (10,263) | \$ (1,107) | \$ (10,598) | \$ 85 |
| Foreign | 27,780 | 14,323 | 64,316 | 28,111 |
| Total | \$ 17,517 | \$ 13,216 | \$ 53,718 | \$ 28,196 |

Domestic income (loss) from continuing operations include amortization of acquired intangible assets, litigation expenses and higher levels of stock-based compensation compared to foreign operations.

Sales to the Company's customers are generally made on open account, subject to credit limits the Company may impose, and the receivables are subject to the risk of being uncollectible.

Concentration of Net Sales - Significant Customers

| (percentage of net sales) | Three Months Ended | | Nine Months Ended | |
|--------------------------------------|---------------------|---------------------|---------------------|---------------------|
| | October 31, 2010 | October 25, 2009 | October 31, 2010 | October 25, 2009 |
| Samsung Electronics (and affiliates) | 12% | 19% | 13% | 18% |
| Frontek Technology Corp | 10% | 15% | 11% | 13% |
| Huawei Technologies (and affiliates) | 10% | | | |

Concentration of Accounts Receivable - Significant Customers

| (percentage of accounts receivable) | Balance as of | |
|---|---------------------|---------------------|
| | October 31, 2010 | October 25, 2009 |
| Samsung Electronics (and affiliates) | 14% | 14% |
| Huawei Technologies (and affiliates) | 17% | |
| Outside Subcontractors and Suppliers | | |

The Company relies on a limited number of outside subcontractors and suppliers for the production of silicon wafers, packaging and certain other tasks. Disruption or termination of supply sources or subcontractors, due to natural disasters or other causes, could delay shipments and could have a material adverse effect on the Company. Although there are generally alternate sources for these materials and services, qualification of the alternate sources could cause delays sufficient to have a material adverse effect on the Company. Several of the Company's outside subcontractors and suppliers, including third-party foundries that supply silicon wafers, are located in foreign countries, including China, Taiwan, Singapore, Thailand, Malaysia, the Philippines, Germany, Israel and Canada. The Company's largest source of silicon wafers is an outside foundry located in China and a significant amount of the Company's assembly and test operations are conducted by third-party contractors in China, Malaysia, Thailand and the Philippines.

Note 13: Matters Related to Historical Stock Option Practices

Since May 2006, the Company has incurred substantial expenses for legal and other professional services in connection with matters associated with or stemming from its historical stock option practices. All activity related to these matters is charged to Selling, general and administrative on the consolidated condensed statements of operations.

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In the third quarter of fiscal years 2011 and 2010, the Company incurred expenses of \$10.6 million (including \$10.0 million related to the agreement in principle to settle the Class Action Lawsuit) and \$1.1 million, respectively, in support of these matters. For the first nine months of fiscal years 2011 and 2010, the Company incurred expenses of \$13.3 million (including \$10.0 million related to the agreement in principle to settle the Class Action Lawsuit) and \$1.1 million (net of insurance recovery), respectively, in support of these matters. See Note 12 regarding the proposed settlement of the class action litigation.

Table of Contents***Note 14: Restructuring Costs***

During fiscal years 2009 and 2010, the Company initiated restructuring plans to reorganize certain Company operations, consolidate research and development activities and reduce its workforce. The following table summarizes the restructuring charge and liability balance included in Accrued liabilities and Other long-term liabilities on the consolidated condensed balance sheet as of October 31, 2010.

Lease termination costs

| (in thousands) | Restructuring at January 31, 2010 | Additional Restructuring | Cash Payments / Other | Restructuring at October 31, 2010 |
|----------------|--------------------------------------|-----------------------------|--------------------------|--------------------------------------|
| | \$ 484 | \$ 8 | \$ (175) | \$ 317 |

The outstanding liability for restructuring costs is classified on the Company's consolidated condensed balance sheet as of October 31, 2010 as follows:

| (in thousands) | |
|-----------------------------|--------|
| Accrued liabilities | \$ 154 |
| Other long-term liabilities | 163 |
| | \$ 317 |

Note 15: Stock Repurchase Program; Treasury Shares

In the first quarter of fiscal year 2009, the Company announced that its Board of Directors authorized the repurchase of up to \$50 million of the Company's common stock from time to time through negotiated or open market transactions (the 2008 Program). The 2008 Program does not have an expiration date.

In addition to repurchase activity under the 2008 Program, the Company withholds shares from vested restricted stock to pay employee payroll and income tax withholding liabilities.

Summary of Repurchase and Withholding Activity

| (in thousands, except share data) | Three Months Ended | | | | Nine Months Ended | | | |
|---|---------------------|----------|---------------------|--------|---------------------|----------|---------------------|----------|
| | October 31, 2010 | | October 25, 2009 | | October 31, 2010 | | October 25, 2009 | |
| | Shares | Value | Shares | Value | Shares | Value | Shares | Value |
| Repurchases under the 2008 Program | 74,702 | \$ 1,258 | | \$ | 74,702 | \$ 1,258 | 104,528 | \$ 1,390 |
| Shares withheld from vested restricted shares | 3,310 | 54 | 23,172 | 405 | 85,397 | 1,456 | 110,594 | 1,720 |
| Total activity | 78,012 | \$ 1,312 | 23,172 | \$ 405 | 160,099 | \$ 2,714 | 215,122 | \$ 3,110 |

The Company currently intends to hold the repurchased and withheld shares as treasury stock. The Company typically reissues treasury shares to settle stock option exercises and restricted share grants.

Note 16: Recent Accounting Pronouncements

FASB Accounting Standards Update (ASU) 2010-17, Revenue Recognition (Topic 605) Milestone Method of Revenue Recognition a consensus of the Financial Accounting Standards Board (FASB) Emerging Issues Task Force. In April 2010, the FASB issued new authoritative guidance on the milestone method of revenue recognition. The milestone method applies to research and development arrangements in which

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one or more payments are contingent upon achieving uncertain future events or circumstances. This guidance defines a milestone and provides criteria for determining whether the milestone method is appropriate. This standard is effective for milestones achieved in fiscal years beginning on or after June 15, 2010, on a prospective basis, with earlier application permitted. This standard is not expected to have a material impact on our financial statements.

Table of Contents

Note 17: Subsequent Events

The Company has completed an evaluation of all subsequent events through the issuance date of these consolidated condensed financial statements. Except as provided below, the Company has concluded that no subsequent events have occurred that required recognition or disclosure.

On December 5, 2010, the Company entered into an agreement in principle to settle all claims asserted against all defendants in the putative class action concerning the Company's stock option accounting practices. The agreement in principle provides for the payment of \$20.0 million by the Company. The agreement in principle contemplates the negotiation and execution of a final settlement agreement. The proposed settlement would fully resolve all claims against the Company, all current officers and directors of the Company named in the lawsuit, and certain former officers and directors of the Company named in the lawsuit. No parties admit any wrongdoing as part of the proposed settlement. The settlement is subject to preliminary approval by the Court, notice to the putative class and subsequent final approval by the Court.

The agreement in principle was entered into after the Company announced its preliminary results of operations for the period ended October 31, 2010 on form 8-K on December 1, 2010, but prior to the filing of the Company's Quarterly Report on Form 10-Q with the U.S. Securities and Exchange Commission for the period ended October 31, 2010. As a result, the Company has reflected the impact of the agreement in principle, which is a subsequent event, in its financial statements for the period ended October 31, 2010.

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

You should read the following discussion of our financial condition and results of operations together with the consolidated condensed financial statements and the notes to the consolidated condensed financial statements included elsewhere in this Quarterly Report on Form 10-Q (this Quarterly Report).

Forward Looking Statements

This Quarterly Report contains forward-looking statements. Forward-looking statements are statements other than historical information or statements of current condition and relate to matters such as our future financial performance, future operational performance and our plans, objectives and expectations. Some forward-looking statements may be identified by use of terms such as expects, anticipates, intends, estimates, believes, projects, should, will, plans and similar words. In light of the risks and uncertainties inherent in all such projected matters, forward-looking statements should not be regarded as a representation by us or any other person that our objectives or plans will be achieved or that any of our operating expectations or financial forecasts will be realized. Results could differ materially from those projected in forward-looking statements, due to factors including, but not limited to, those set forth in the Risk Factors and Quantitative and Qualitative Disclosures About Market Risk sections of this Quarterly Report and the Risk Factors section of our Annual Report on Form 10-K for the fiscal year ended January 31, 2010 filed with the Securities and Exchange Commission (the SEC) on April 1, 2010. We undertake no duty to update any forward-looking statements, whether as a result of new information, future events or otherwise.

In addition to regarding forward-looking statements with caution, you should consider that the preparation of financial statements requires us to draw conclusions and make interpretations, judgments, assumptions and estimates with respect to factual, legal, and accounting matters. Different conclusions, interpretations, judgments, assumptions, or estimates could result in materially different results. See Note 1 to the consolidated condensed financial statements included in Part I, Item 1 of this Quarterly Report.

Overview

We design, develop, manufacture and market high-performance analog and mixed signal semiconductor products. We operate and report for results in one reportable segment. Our product lines include:

Power Management Products. Power management products control, alter, regulate and condition the power supplies within electronic systems. The highest volume product types within the power management product line are switching voltage regulators, combination switching and linear regulators, smart regulators and charge pumps. Our power management products feature highly integrated devices for the telecom industry and low-power, small form factor and high-efficiency products for mobile phones, notebook computers, computer peripherals and other portable devices. The primary application for these products is power regulation for computer, communications, high-end consumer and industrial systems.

Protection Products. We design, develop and market high performance protection devices, which are often referred to as transient voltage suppressors (TVS). TVS devices provide protection for electronic systems where voltage spikes (called transients), such as electrostatic

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discharge generated by the human body, can permanently damage voltage-sensitive components. Our portfolio includes filter and termination devices that can be sold as a complement to TVS devices. Our protection products feature low capacitance, providing robust protection while preserving signal integrity in high-speed voice and video interfaces and are low leakage, thus increasing battery life in electronic devices. Our protection products can be found in a broad range of applications including computer, data-communications, telecommunications and industrial applications.

Table of Contents

Advanced Communication and Sensing Products. We design, develop and market a portfolio of proprietary advanced wired communication, wireless communication, sensing integrated circuits (ICs) and ultra high speed Serializer/Deserializer (SerDes) products for transport communication. These ICs perform specialized timing and synchronization functions used in high-speed networks, specialized radio frequency (RF) functions used in a wide variety of industrial, medical and networking applications, and specialized sensing functions used in industrial and consumer applications and 40Gbps and 100Gbps chips and transceivers for short reach, metro and long haul applications and high performance transceivers for datacenter applications. Our advanced communications products feature a leading integrated timing solution for packet based communications networks. Our wireless and sensing products feature industry leading and longest range ISM radio, enabling low cost of ownership and increased reliability in all environments. Our unique sensing interface platforms can interface to any sensor and output digital data in any form. Our advanced communications and sensing products can be found in a broad range of applications including communications, industrial, medical and consumer applications.

Microwave and High-Reliability Products. We design, develop and market transceivers for wireless communications infrastructure, including 2G/3G/4G cellular repeaters, WiMAX CPE and base stations and defense and aerospace products, including satellite communication, ground to air beacons and unmanned air vehicles (UAV). This product group also includes our line of high-reliability discrete semiconductor products comprised of rectifiers, assemblies (packaged discrete rectifiers) and other products. These products are typically used to convert alternating currents (AC) into direct currents (DC) and to protect circuits against very high voltage spikes or high current surges. Our microwave and high-reliability products can be found in a broad range of applications including industrial, military, medical and communications systems.

We operate our business in one enterprise-wide reportable segment. Most of our sales to customers are made on the basis of individual customer purchase orders. Many customers include liberal cancellation provisions in their purchase orders. Trends within the industry toward shorter lead-times and just-in-time deliveries have resulted in our reduced ability to predict future shipments. As a result, we rely on orders received and shipped within the same quarter for a significant portion of our sales. Orders received and shipped in the third quarter of fiscal years 2011 and 2010, represented 31% and 41% of net sales, respectively. Sales made directly to customers during the third quarter of fiscal years 2011 and 2010 were 58% and 51% of net sales, respectively. The remaining sales were made through independent distributors.

Our business involves reliance on foreign-based entities. Most of our outside subcontractors and suppliers, including third-party foundries that supply silicon wafers, are located in foreign countries, including China, Taiwan, Singapore, Thailand, Malaysia, the Philippines, Germany, Israel and Canada. For the third quarter of fiscal year 2011, approximately 46% of our silicon, in terms of cost of wafers purchased, was manufactured in China.

Foreign sales during the third quarter of fiscal year 2011 constituted approximately 79% of our net sales. Approximately 62% of sales during the third quarter of fiscal year 2011 were to customers located in the Asia-Pacific region. The remaining foreign sales were primarily to customers in Europe, Canada, and Mexico.

Critical Accounting Policies and Estimates

In addition to the discussion below, you should refer to the disclosures regarding our critical accounting policies in Management's Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of our Annual Report on Form 10-K for the fiscal year ended January 31, 2010 filed with the SEC on April 1, 2010.

Revenue and Cost of Sales

We recognize product revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is probable. Product design and engineering revenue is recognized during the period in which services are performed. We record a provision for estimated sales returns in the same period as the related revenues are recorded. We base these estimates on historical sales

Table of Contents

returns and other known factors. Actual returns could be different from our estimates and current provisions for sales returns and allowances, resulting in future charges to earnings.

We defer revenue recognition on shipment of products to certain customers, principally distributors, under agreements which provide for limited pricing credits or product return privileges, until these products are sold through to end-users or the return privileges lapse. For sales subject to certain pricing credits or return privileges, the amount of future pricing credits or inventory returns cannot be reasonably estimated given the relatively long period in which a particular product may be held by the customer. Therefore, we have concluded that sales to customers under these agreements are not fixed and determinable at the date of the sale and revenue recognition has been deferred. We estimate the deferred gross margin on these sales by applying an average gross profit margin to the actual gross sales. The average gross profit margin is calculated for each category of products using current standard costs. The estimated deferred gross margin on these sales, where there are no outstanding receivables, is recorded on the balance sheet under the heading of Deferred revenue. There were no significant impairments of deferred cost of sales in fiscal year 2010 or the first nine months of fiscal year 2011.

The following table summarizes the deferred net revenue balance:

Deferred net revenue

| (in thousands) | October 31, 2010 | January 31, 2010 |
|---|-----------------------------|-----------------------------|
| Deferred revenues | \$ 6,989 | \$ 4,099 |
| Deferred cost of revenues | 1,990 | 1,771 |
| Deferred revenues, net | \$ 4,999 | \$ 2,328 |
| Deferred product design and engineering revenue | 211 | 948 |
| Total deferred revenue | \$ 5,210 | \$ 3,276 |

Gross Profit

Gross profit is equal to our net sales less our cost of sales. Our cost of sales includes materials, depreciation on fixed assets used in the manufacturing process, shipping costs, direct labor and overhead. We determine the cost of inventory by the first-in, first-out method.

Operating Costs

Our operating costs and expenses generally consist of selling, general and administrative, product development and engineering costs, costs associated with acquisitions, and other operating related charges.

Acquired Intangible Assets

The Company derived its estimates of fair value using market participant assumptions, including consideration of the highest and best use of the acquired intangibles. To establish the valuation premise related to highest and best use, we considered deal rationale, qualitative characteristics of the assets acquired, observations from past transactions within this industry regarding the use of similar assets subsequent to an acquisition, and potential deal rationale and likely use of assets by hypothetical acquirers. The Company concluded that the highest and best uses for the acquired Sierra Monolithics, Inc. (SMI) assets are achieved by applying an in-use valuation premise.

Core technology and In-Process Research and Development (IPRD). With regards to valuation of the core technology and IPRD acquired from SMI, we used the multi-period excess earnings method to estimate fair value. The principle behind this method is that the fair value of the intangible asset is equal to the present value of the after-tax cash flows attributable to the intangible asset only. This approach required us to forecast revenues attributable solely to the intangible asset; apply an appropriate margin to forecasted sales; apply an appropriate tax charge to estimate post-tax cash flows; apply post-tax contributory asset charges to reflect the return required on other assets that contribute to the generation of the forecast cash flows; discount the resulting net post-tax cash flows, using an appropriate discount rate to arrive at the net present value; and add a tax amortization benefit.

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Customer Relationships. With regards to valuation of the customer relationships acquired from SMI, we used the incremental profit method to estimate fair value. This approach required us to forecast revenues

Table of Contents

attributable solely to the intangible asset as if the asset were in place; apply an appropriate margin to forecasted sales; add the expense necessary to recreate the asset; discount the resulting net post-tax cash flows, using an appropriate discount rate to arrive at the net present value; and add a tax amortization benefit.

Results of Operations

The following table sets forth, for the periods indicated, our statements of operations data expressed as a percentage of revenues.

| | Three Months Ended | | Nine Months Ended | |
|------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | October 31, 2010 | October 25, 2009 | October 31, 2010 | October 25, 2009 |
| Net Sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of Sales | 40.0% | 44.9% | 41.4% | 45.3% |
| Gross Profit | 60.0% | 55.1% | 58.6% | 54.7% |
| Operating costs and expenses: | | | | |
| Selling, general & administrative | 28.8% | 24.6% | 25.7% | 26.2% |
| Product development & engineering | 14.9% | 13.9% | 15.1% | 15.5% |
| Intangible amortization | 2.0% | 0.4% | 2.1% | 0.5% |
| Total operating costs and expenses | 45.7% | 39.0% | 42.9% | 42.1% |
| Operating income | 14.2% | 16.1% | 15.7% | 12.6% |
| Interest and other income, net | 0.0% | 1.5% | 0.2% | 1.3% |
| Income before taxes | 14.2% | 17.6% | 15.9% | 14.0% |
| Provision for taxes | 1.1% | 45.4% | 2.1% | 18.2% |
| Net income (loss) | 13.1% | (27.8%) | 13.8% | (4.2%) |

Percentages may not add precisely due to rounding.

Our regional mix of income (loss) from continuing operations before income taxes is as follows:

| | Three Months Ended | | Nine Months Ended | |
|-----------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| (in thousands) | October 31, 2010 | October 25, 2009 | October 31, 2010 | October 25, 2009 |
| Domestic | \$ (10,263) | \$ (1,107) | \$ (10,598) | \$ 85 |
| Foreign | 27,780 | 14,323 | 64,316 | 28,111 |
| Total | \$ 17,517 | \$ 13,216 | \$ 53,718 | \$ 28,196 |

Domestic income (loss) from continuing operations include amortization of acquired intangible assets, litigation expenses and higher levels of stock-based compensation compared to foreign operations.

Table of Contents**Comparison of The Three Months Ended October 31, 2010 and October 25, 2009**

We report on the basis of 52 and 53 week periods and end our fiscal year on the last Sunday in January. All quarters consist of 13 weeks, except for one 14-week quarter in 53-week years. The third quarter of fiscal years 2011 and 2010 were both 13-week periods.

Our estimates of sales by major end-market are detailed below:

| (dollars in thousands; % of net sales) | Three Months Ended | | | |
|--|--------------------|------|------------------|------|
| | October 31, 2010 | | October 25, 2009 | |
| Computing | \$ 11,081 | 9% | \$ 11,893 | 16% |
| Communications | 44,325 | 36% | 16,109 | 21% |
| High-end Consumer (1) | 43,094 | 35% | 31,905 | 43% |
| Industrial | 24,625 | 20% | 15,240 | 20% |
| Total | \$ 123,125 | 100% | \$ 75,147 | 100% |

- (1) Approximately \$6.4 million and \$4.7 million of our total sales to Samsung Electronics (and affiliates), which is a significant customer, in the third quarter of fiscal years 2011 and 2010, respectively, were for products that target the handheld market (which includes mobile phones). This activity is included in the High-end Consumer end-market category.

Net Sales. Net sales for the third quarter of fiscal year 2011 were \$123.1 million, an increase of 64% compared to \$75.1 million for the third quarter of fiscal year 2010. The higher revenue in the current quarter resulted from higher demand for products across the high-end consumer, communications and industrial end-markets and the benefit of sales of new products resulting from our acquisition of SMI in the fourth quarter of fiscal year 2010 which contributed net sales of \$26.8 million for the three-months ended October 31, 2010.

Gross Profit. During the third quarter of fiscal year 2011, gross profit increased to \$73.8 million from \$41.4 million in the third quarter of fiscal year 2010. Gross profit margins increased to 60.0% in the third quarter of fiscal year 2011 from 55.1% in the third quarter of fiscal year 2010. This increase in gross profit reflects the impact of substantially higher sales, and specifically a more favorable end-market product mix, and the benefit of higher manufacturing volumes. Also contributing to the higher margins was the impact of higher margin sales from new products from our acquisition of SMI which contributed 110 basis points to our overall gross margin. Our overall gross margin also benefited from the transition away from lower margin Computing products within Power Management.

Operating Costs and Expenses.

| (dollars in thousands) | Three Months Ended | | | | |
|-------------------------------------|--------------------|------|------------------|------|--------|
| | October 31, 2010 | | October 25, 2009 | | Change |
| Selling, general and administrative | \$ 35,501 | 63% | \$ 18,521 | 63% | 92% |
| Product development and engineering | 18,400 | 33% | 10,467 | 36% | 76% |
| Intangible amortization | 2,406 | 4% | 303 | 1% | 694% |
| Total operating costs and expenses | \$ 56,307 | 100% | \$ 29,291 | 100% | 92% |

Selling, General and Administrative Expenses.

Selling, general and administrative (SG&A) expenses were \$35.5 million and \$18.5 million in the third quarter of fiscal years 2011 and 2010, respectively or an increase of 91.7%. SG&A expenses for the three month period ended October 31, 2010 include a \$10.0 million expense related to the proposed settlement of the class action litigation discussed in Note 12 to the consolidated condensed financial statements included in Part I, Item 1 of this Quarterly Report. SG&A expenses in the third quarter of fiscal year 2011 were also impacted by higher selling costs attributable to higher sales volumes and higher salary costs associated with an overall increase in personnel, including personnel added as a result of the SMI acquisition. Additionally, stock-based compensation expense (which includes the impact of inducement awards issued to

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employees that joined our company as a result of the SMI acquisition) increased to \$5.2 million in the third quarter of fiscal year 2011 from \$2.7 million in the third quarter of fiscal year 2010.

Table of Contents

In addition to the \$10.0 million expense related to the proposed settlement of the class action litigation recognized in the third quarter of fiscal year 2011, SG&A expenses for the third quarter of fiscal years 2011 and 2010 include expense of approximately \$613,000 and \$1.1 million, respectively, for legal and other professional services incurred in connection with matters related to our historical stock option practices, including the government inquiries, the related litigation, and other associated matters. These expenses also include claims for advancement of legal expenses to current and former directors, officers and employees. See Note 13 to our consolidated financial statements included in Item 1 of this Quarterly Report for additional information regarding expenses related to the class action lawsuit and historical stock option matters.

Product Development and Engineering Expenses

Product development and engineering expenses were \$18.4 million and \$10.5 million in the third quarter of fiscal years 2011 and 2010, respectively or an increase of 75.8%. The increase is principally driven by higher product development and engineering expenses across the majority of product lines and incremental activity resulting from the acquisition of SMI.

Intangible Amortization

Intangible amortization, which reflects amortization costs associated with acquired intangibles, was \$2.4 million and \$303,000 in the third quarter of fiscal years 2011 and 2010, respectively. The increase reflects the impact of the amortization of intangibles associated with our acquisition of SMI.

Interest and Other Income, Net.

Interest and other income includes primarily interest income from investments, gains and losses from foreign exchange transactions, and gains and losses from the disposal of fixed assets. Net interest and other income was \$3,000 in the third quarter of fiscal year 2011, compared to \$1.1 million in the third quarter of fiscal year 2010. This decrease is attributable to a \$200,000 decrease in interest income due to declining yields and lower cash and investment balances and a \$730,000 insurance recovery that was received in the third quarter of fiscal year 2010.

Provision for Taxes.

Provision for income taxes was \$1.4 million for the third quarter of fiscal year 2011, compared to \$34.1 million in the third quarter of fiscal year 2010. The effective tax rates for the third quarter of fiscal years 2011 and 2010 were 8% and 258%, respectively. The effective tax rate for fiscal year 2011 does not include a benefit for the Federal research tax credit, which expired at the end of calendar year 2009.

In the third quarter of fiscal year 2011, the State of California enacted state law changes. These changes to state law, and the anticipated deduction for a \$20.0 million legal settlement discussed further in Note 12 to the consolidated condensed financial statements included in Part I, Item 1 of this Quarterly Report, will limit our ability to utilize certain state carryforward net operating losses prior to their expiration. As a result, we recorded a valuation allowance of \$932,000 in the quarter ended October 31, 2010 to reflect these utilization concerns. In addition, we concluded that as a result of tax law changes scheduled to take effect for California in fiscal year 2012, the value of certain deferred tax assets needed to be reduced. Accordingly, in the quarter ended October 31, 2010, we reduced the value of state deferred tax assets by \$627,000 to reflect lower expected benefits as a result of the changes in state tax law. The impact of these adjustments was partially offset by higher levels of generated tax credits and a more favorable mix of regional income.

In the third quarter of fiscal year 2010, in connection with the pending acquisition of SMI, we changed our prior assertions regarding the amount of foreign subsidiary earnings that were considered to be permanently reinvested offshore. This change in assertion resulted in a \$39.2 million increase in the tax provision for the period ended October 25, 2009. The impact of this change in assertion was partially offset by the release of \$6.4 million of valuation allowances. The released valuation allowances were related to research and development credits that we did not expect to be able to utilize as a result of expectations of insufficient generation of domestic income. With the anticipated repatriation of foreign subsidiary earnings, these utilization concerns were no longer applicable.

Table of Contents*Comparison of The Nine Months Ended October 31, 2010 and October 25, 2009*

We report on the basis of 52 and 53 week periods and end our fiscal year on the last Sunday in January. All quarters consist of 13 weeks, except for one 14-week quarter in 53-week years. The first nine months of fiscal years 2011 and 2010 were both 39 week periods.

Our estimates of sales by major end-market are detailed below:

| (dollars in thousands; % of net sales) | Nine Months Ended | | | |
|--|-------------------|------|------------------|------|
| | October 31, 2010 | | October 25, 2009 | |
| Computing | \$ 33,291 | 10% | \$ 30,158 | 15% |
| Communications | 119,390 | 35% | 40,545 | 20% |
| High-end Consumer (1) | 115,609 | 34% | 80,453 | 40% |
| Industrial | 69,942 | 21% | 50,385 | 25% |
| Total | \$ 338,232 | 100% | \$ 201,541 | 100% |

- (1) Approximately \$16.2 million and \$13.4 million of our total sales to Samsung Electronics (and affiliates), which is a significant customer, for the nine month periods ended October 31, 2010 and October 25, 2009, respectively, were for products that target the handheld market (which includes mobile phones). This activity is included in the High-end Consumer end-market category.

Net Sales. Net sales for the first nine months of fiscal year 2011 were \$338.2 million, an increase of 68% compared to \$201.5 million for the first nine months of fiscal year 2010. The higher revenue resulted from higher demand for products across all end-markets and the benefit of sales of new products resulting from our acquisition of SMI in the fourth quarter of fiscal year 2010 which contributed net sales of \$60.8 million for the first nine months of fiscal year 2011.

Gross Profit. During the first nine months of fiscal year 2011, gross profit increased to \$198.3 million from \$110.3 million in the first nine months of fiscal year 2010. Gross profit margins increased to 58.6% in the first nine months of fiscal year 2011 from 54.7% in the first nine months of fiscal year 2010. This increase in gross profit reflects the impact of substantially higher sales and specifically a more favorable end-market product mix and the benefit of higher manufacturing volumes. Also contributing to the higher margins was the transition away from lower margin Computing products within Power Management.

Operating Costs and Expenses.

| (dollars in thousands) | Nine Months Ended | | | | |
|-------------------------------------|-------------------|------|------------------|------|--------|
| | October 31, 2010 | | October 25, 2009 | | Change |
| Selling, general and administrative | \$ 86,767 | 60% | \$ 52,717 | 62% | 65% |
| Product development and engineering | 51,107 | 35% | 31,142 | 37% | 64% |
| Intangible amortization | 7,216 | 5% | 908 | 1% | 695% |
| Total operating costs and expenses | \$ 145,090 | 100% | \$ 84,767 | 100% | 71% |

Selling, General and Administrative Expenses.

SG&A expenses were \$86.8 million and \$52.7 million in the first nine months of fiscal years 2011 and 2010, respectively or an increase of 64.6%. SG&A expenses for the nine month period ended October 31, 2010 include a \$10.0 million expense related to the proposed settlement of the class action litigation discussed in Note 12 to the consolidated condensed financial statements included in Part I, Item 1 of this Quarterly Report. SG&A expenses in the first nine months of fiscal year 2011 were also impacted by higher selling costs attributable to higher sales volumes and higher salary costs associated with an overall increase in personnel, including personnel added as a result of the SMI acquisition. SG&A expenses in the first nine months of fiscal year 2010 benefited from various short-term cost reduction initiatives. Additionally, stock-based compensation expense (which includes the impact of inducement awards issued to employees that joined our company as a result of

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the SMI acquisition) increased to \$15.5 million in the first nine months of fiscal year 2011 from \$9.6 million in the first nine months of fiscal year 2010.

Table of Contents

In addition to the \$10.0 million expense related to the proposed settlement of the class action litigation recognized in the third quarter of fiscal year 2011, SG&A expenses for the first nine months of fiscal years 2011 and 2010 include approximately \$3.3 million and \$1.1 million (net of insurance recovery), respectively, for legal and other professional services incurred in connection with matters related to our historical stock option practices, including the government inquiries, the related litigation, and other associated matters. These expenses also include claims for advancement of legal expenses to current and former directors, officers and employees. See Note 13 to our consolidated financial statements included in Part I, Item 1 of this Quarterly Report for additional information regarding expenses related to the class action lawsuit and historical stock option matters.

Product Development and Engineering Expenses

Product development and engineering expenses were \$51.1 million and \$31.1 million in the first nine months of fiscal years 2011 and 2010, respectively or an increase of 64.1%. The increase is principally driven by higher product development and engineering expenses across the majority of product lines and incremental activity resulting from the acquisition of SMI. Additionally, stock-based compensation expense (which includes the impact of inducement and replacement awards issued to employees that joined our company as a result of the SMI acquisition) increased to \$5.9 million in the first nine months of fiscal year 2011 from \$3.3 million in the first nine months of fiscal year 2010.

Intangible Amortization

Intangible amortization, which reflects amortization costs associated with acquired intangibles, was \$7.2 million and \$908,000 in the first nine months of fiscal years 2011 and 2010, respectively. The increase reflects the impact of the amortization of intangibles associated with our acquisition of SMI.

Interest and Other Income, Net.

Interest and other income includes primarily interest income from investments, gains and losses from foreign exchange transactions, and gains and losses from the disposal of fixed assets. Net interest and other income was \$508,000 in the first nine months of fiscal year 2011, compared to \$2.7 million in the first nine months of fiscal year 2010. This decrease is attributable to a \$1.0 million decrease in interest income due to declining yields and lower cash and investment balances and a \$730,000 insurance recovery that was received in the third quarter of fiscal year 2010. Additionally, net interest and other income for the nine month periods ended October 31, 2010 and October 25, 2009 include a net foreign exchange transaction loss of \$200,000 and a net foreign exchange transaction gain of \$300,000, respectively.

Provision for Taxes.

Provision for income taxes was \$7.1 million for the first nine months of fiscal year 2011, compared to \$36.7 million for the first nine months of fiscal year 2010. The effective tax rate for the first nine months of fiscal years 2011 and 2010 was 13% and 130%, respectively. The effective tax rate for fiscal year 2011 does not include a benefit for the Federal research tax credit, which expired at the end of calendar year 2009.

In the third quarter of fiscal year 2011, the State of California enacted state law changes. These changes to state law, and the anticipated deduction for a \$20.0 million legal settlement discussed further in Note 12 to the consolidated condensed financial statements included in Part I, Item 1 of this Quarterly Report, will limit our ability to utilize certain state carryforward net operating losses prior to their expiration. As a result, we recorded a valuation allowance of \$932,000 in the quarter ended October 31, 2010 to reflect these utilization concerns. In addition, we concluded that as a result of tax law changes scheduled to take effect for California in fiscal year 2012, the value of certain deferred tax assets needed to be reduced. Accordingly, in the quarter ended October 31, 2010, we reduced the value of state deferred tax assets by \$627,000 to reflect lower expected benefits as a result of the changes in state tax law. The impact of these adjustments was partially offset by higher levels of generated tax credits and a more favorable mix of regional income.

In the third quarter of fiscal year 2010, in connection with the pending acquisition of SMI, we changed our prior assertions regarding the amount of foreign subsidiary earnings that were considered to be permanently reinvested offshore. This change in assertion resulted in a \$39.2 million increase in the tax provision for the period ended October 25, 2009. The impact of this change in assertion was partially offset by the release of \$6.4 million of valuation allowances. The released valuation allowances were related to research and development credits that we did not expect to be able to utilize as a result of expectations of insufficient generation of domestic income. With the anticipated repatriation of foreign subsidiary earnings, these utilization concerns were no longer applicable.

In the second quarter of fiscal year 2011, an \$868,000 adjustment was recorded to reflect higher expected tax benefits from stock-based compensation. See Note 5 to the consolidated condensed financial statements included in item 1 of this Quarterly Report.

Table of Contents

Business Outlook

On December 1, 2010, we announced our outlook for the fourth quarter of fiscal year 2011. At that time, we expected sequential revenue to be down approximately 6% to 11% from the third quarter in line with normal seasonality and we expected earnings per diluted share of approximately \$0.28 to \$0.32. Refer to Exhibit 99.1 of our Current Report on Form 8-K filed with the SEC on December 1, 2010 for the complete announcement.

Table of Contents***Liquidity and Capital Resources***

Our capital requirements depend on a variety of factors, including but not limited to, the rate of increase or decrease in our existing business base; the success, timing and amount of investment required to bring new products to market; revenue growth or decline; and potential acquisitions. We believe that we have the financial resources necessary to meet business requirements for the next 12 months, including funds needed for working capital requirements. As of October 31, 2010, our total shareholders' equity was \$490.6 million. At that date we also had approximately \$184.9 million in cash and short-term investments, as well as \$43.8 million in long-term investments. We have no outstanding debt.

Our primary sources and uses of cash during the comparative nine month periods are presented below:

| (in millions) | Nine Months Ended | |
|--|---------------------|---------------------|
| | October 31, 2010 | October 25, 2009 |
| Sources of Cash | | |
| Operating activities, including changes in working capital | \$ 64.6 | \$ 58.3 |
| Proceeds from exercise of compensatory stock plans, including tax benefits | 22.5 | 11.8 |
| | \$ 87.1 | \$ 70.1 |
| Uses of Cash | | |
| Capital expenditures, net of sale proceeds | \$ (17.9) | \$ (7.3) |
| Net increase in investments | (4.9) | (102.0) |
| Purchased intangibles | | (2.3) |
| Repurchase of outstanding common stock | (2.7) | (3.1) |
| | \$ (25.5) | \$ (114.7) |
| Net increase (decrease) in cash and cash equivalents | \$ 61.6 | \$ (44.6) |

We incur significant expenditures in order to fund the development, design, and manufacture of new products. We intend to continue to focus on those areas that have shown potential for viable and profitable market opportunities, which may require additional investment in equipment and the hiring of additional design and application engineers. Certain of these expenditures, particularly the addition of design engineers, do not generate significant payback in the short-term. We plan to finance these expenditures with cash generated by operations and our existing cash balances.

A meaningful portion of our capital resources, and the liquidity they represent, are held by our foreign subsidiaries. As of October 31, 2010, our foreign subsidiaries held approximately \$139.4 million of cash, cash equivalents and short-term investments, compared to \$108.0 million at January 31, 2010. If we need these funds for investment in domestic operations, any repatriation, such as that which occurred in fiscal year 2010 to partially fund the acquisition of SMI, could result in increased tax liabilities.

One of our primary goals is to improve the cash flows from our existing business activities. Our cash, cash equivalents and investments, when combined with the lack of any outstanding debt obligations, give us the flexibility to use our cash flow to return value to shareholders (in the form of stock repurchases) while also pursuing business improvement opportunities.

Additionally, we will continue to seek to maintain and improve our existing business performance with capital expenditures and, potentially, acquisitions that meet our rate of return requirements. Acquisitions might be made for either cash or stock consideration, or a combination of both. Alternatively, we could be willing to use debt to complete an acquisition.

Operating Activities

Net cash provided by operating activities is primarily due to net income adjusted for non-cash items plus fluctuations in operating assets and liabilities. Non-cash adjustments include deferred income taxes, stock-based compensation expense, depreciation, amortization of intangible

assets, and tax benefits from stock-based awards.

Table of Contents

During the first nine months of fiscal years 2011 and 2010, depreciation and amortization expense was \$12.3 and \$5.4 million, respectively. The increase is primarily attributable to the increase in fixed and intangible assets resulting from the acquisition of SMI in the fourth quarter of fiscal year 2010.

Stock-based compensation was \$22.9 million and \$13.8 million for the first nine months of fiscal years 2011 and 2010, respectively. The increase is primarily attributable to the following: 1) inducement and replacement awards issued to employees that joined the Company as a result of the acquisition of SMI; 2) increased level of awards granted to executives; 3) higher anticipated performance vesting achievement on performance based awards; and 4) mark-to-market adjustments associated with liability based awards.

Fluctuations in operating assets and liabilities used cash on a net basis in the first nine months of fiscal year 2011, driven primarily by the following:

Accounts receivable increased by \$27.7 million due to higher sales

Inventory increased by \$9.4 million due to higher build levels to support increases in demand

Accounts payable increased by \$12.6 million primarily due to higher levels of operating expenses and capital expenditures resulting from the overall increase in sales and related business activities

Prepaid and other assets increased by \$10.3 million primarily as a result of prepaid taxes recorded as part of the integration of SMI activities into our global structure.

Accrued liabilities increased by \$13.9 million due primarily to an increase in our estimate to settle a class action lawsuit.

On December 5, 2010, we entered into an agreement in principle to settle a class action lawsuit, subject to final approval by the Court, for \$20.0 million. We do not expect to receive final approval by the Court before the second quarter of fiscal year 2012. We have sufficient resources available to fund this settlement.

Investing Activities

Cash used in investing activities is primarily attributable to capital expenditures and purchases and sales/maturities of investments.

Capital expenditures, net of proceeds from disposals, were \$17.9 million for the first nine months of fiscal year 2011 compared to \$7.3 million for the first nine months of fiscal year 2010. The increase in capital expenditures were made primarily to maintain and expand our test capacity, support engineering and manufacturing functions, and upgrade our facilities. We expect capital expenditures in the fourth quarter of fiscal year 2011 to increase to \$10.0 million to support new product platforms and new process technologies.

Financing Activities

Cash provided by financing activities is primarily attributable to the proceeds from the exercise of stock options offset by the payment of statutory tax withholding obligations related to the vesting of restricted stock, and the repurchase of common stock, if any.

For the first nine months of fiscal year 2011, cash received from the exercise of stock options, excluding tax benefits, was \$22.2 million compared with \$11.3 million in the first nine months of fiscal year 2010.

We do not directly control the timing of the exercise of stock options. Such exercises are independent decisions made by grantees and are influenced most directly by the stock price and the expiration dates of stock awards. Such proceeds are difficult to forecast, resulting from several factors which are outside our control. We believe that such proceeds will remain an important secondary source of cash after cash flow from operating activities.

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We currently have in effect a stock repurchase program. This program represents one of our principal efforts to return value to our shareholders. In the first nine months of fiscal year 2011, we repurchased 74,702 shares under this program for \$1.3 million. In addition to the stock repurchase program, shares valued at \$1.5 million were withheld in connection with the vesting of restricted stock to cover statutory tax withholding obligations in the first nine months of fiscal year 2011.

Table of Contents

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, as those arrangements are defined by the SEC, that are reasonably likely to have a material effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

We do not have any unconsolidated subsidiaries or affiliated entities. We have no special purpose or limited purpose entities that provide off-balance sheet financing, liquidity or market or credit risk support, engage in leasing, hedging, research and development services, or other relationships that expose us to liability that is not reflected on the face of the financial statements.

Certain contractual obligations, representing various commitments we have associated with our business, such as lease commitments and open purchase obligations, are not recorded as liabilities on our balance sheet because we have not yet received the related goods or services as of October 31, 2010.

Contractual Obligations

There were no material changes in our contractual obligations during the first nine months of fiscal year 2011 from those disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of our Annual Report on Form 10-K for the fiscal year ended January 31, 2010 filed with the SEC on April 1, 2010.

Inflation

Inflationary factors have not had a significant effect on our performance over the past several years. A significant increase in inflation would affect our future performance.

Available Information

General information about us can be found on our website at www.semtech.com. The information on our website is for informational purposes only and should not be relied on for investment purposes. The information on our website is not incorporated by reference into this Quarterly Report and should not be considered part of this or any other report filed with the SEC.

We make available free of charge, either by direct access on our website or by a link to the SEC website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC. Our reports filed with, or furnished to, the SEC are also available directly at the SEC's website at www.sec.gov.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to a variety of market risks, including commodity risk as discussed below and the risks related to foreign currency, interest rates and market performance that are discussed in Item 7A of our Annual Report on Form 10-K for fiscal year 2010 that ended on January 31, 2010 filed with the SEC on April 1, 2010. Many of the factors that can have an impact on our market risk are external to us, and so we are unable to fully predict them.

Global Economic Conditions

Current global economic conditions pose a risk to the overall economy as consumers and businesses may continue to defer purchases in response to the uncertainty around tighter credit and negative financial news. These conditions could reduce demand for our products. Such demand could be different from our expectations due to many factors including changes in business and economic conditions, conditions in the credit market that affect consumer confidence, customer acceptance of our products, changes in customer order patterns, including order cancellations, and changes in the level of inventory held by vendors.

Table of Contents

Commodity Risk

We are subject to risk from fluctuating market prices of certain commodity raw materials, particularly gold, that are incorporated into our end products or used by our suppliers to process our end products. Increased commodity prices are passed on to us in the form of higher prices from our suppliers, either in the form of general price increases or a commodity surcharge. Although we generally deal with our suppliers on a purchase order basis rather than on a long-term contract basis, we generally attempt to obtain firm pricing for volumes consistent with planned production. Our gross margins may decline if we are not able to increase selling prices of our products or obtain manufacturing efficiencies to offset the increased cost. We do not enter into formal hedging arrangements to mitigate against commodity risk.

ITEM 4. Controls and Procedures

Disclosure Controls

We carried out, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures were effective.

Changes in Internal Controls

There was no change in our internal control over financial reporting during the fiscal quarter ended October 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

In the second quarter of fiscal year 2011, we implemented a new third-party stock-based compensation software package to replace the legacy software historically used. The implementation of the new software package was the result of an initiative to upgrade and improve the functionality of our software. We assessed the change as a significant change in our internal controls. The upgrade was not in response to an identified internal control deficiency or material weakness. Upon implementation, we performed a comparison of historical results as computed under the legacy system with results from the new software package, noting differences. These differences, which include accounting errors that impacted previously issued financial statements, are discussed in Note 5 to the consolidated condensed financial statements included in Part I, Item 1 of this Quarterly Report.

Table of Contents

PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

Information about legal proceedings is set forth in Note 11 to the consolidated condensed financial statements included in Part I, Item 1 of this Quarterly Report.

ITEM 1A. Risk Factors

You should carefully consider and evaluate all of the information in this Quarterly Report and the risk factors set forth in our Annual Report on Form 10-K for the fiscal year ended January 31, 2010 filed with the SEC on April 1, 2010. The risks set forth in our Annual Report on Form 10-K are not the only ones we face. Additional risks not now known to us or that we currently deem immaterial may also impair our business operations. If any of these risks actually occur, our business could be materially harmed. If our business is harmed, the trading price of our common stock could decline.

The risk factors associated with our business have not materially changed, as compared to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended January 31, 2010 filed with the SEC on April 1, 2010. Also see Management's Discussion and Analysis of Financial Condition and Results of Operations in this Quarterly Report for a discussion of certain factors that may affect our future performance.

Table of Contents***ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds******Recent Sales of Unregistered Securities***

We did not make any sales of unregistered securities during the third quarter of fiscal year 2011.

Issuer Purchase of Equity Securities

This table provides information with respect to purchases by us of shares of our common stock during the third quarter of fiscal year 2011.

| Fiscal Month/Year | Total Number of Shares Purchased (2) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Approximate Dollar Value of Shares That May Yet Be Purchased Under The Program (1) |
|--------------------------|---|---|---|---|
| August 2010 | | | | |
| (08/02/10 - 08/29/10) | | \$ | | \$ 15.0 million |
| September 2010 | | | | |
| (08/30/10-09/26/10) | 74,702 | \$ 16.85 | 74,702 | \$ 13.7 million |
| October 2010 | | | | |
| (09/27/10-10/31/10) | | \$ | | \$ 13.7 million |
| Total third quarter | 74,702 | | 74,702 | |

(1) On March 4, 2008, we announced that our Board of Directors authorized the repurchase of up to \$50 million of our common stock from time to time through negotiated or open market transactions. This stock repurchase program does not have an expiration date.

(2) The table does not include shares surrendered to us in connection with the cashless exercise of stock options by employees and directors or shares surrendered to us to cover tax liabilities upon vesting of restricted stock.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. (Removed and Reserved)***ITEM 5. Other Information***

None.

Table of Contents**ITEM 6. Exhibits**

Documents that are not physically filed with this report are incorporated herein by reference to the location indicated.

| Exhibit No. | Description | Location |
|--------------------|---|--|
| 3.1 | Restated Certificate of Incorporation of Semtech Corporation | Exhibit 3.1 to our Quarterly Report on Form 10-Q for the quarterly period ended October 26, 2003 |
| 3.2 | Bylaws of Semtech Corporation | Exhibit 3.2 to our Annual Report on Form 10-K for the year ended January 27, 2008 |
| 10.1 | Semtech Corporation Executive Change in Control Retention Plan | Exhibit 10.1 to our Current Report on Form 8-K filed on October 1, 2010 |
| 10.2 | Form of Participation Agreement under the Semtech Corporation Executive Change in Control Retention Plan for non-Swiss employees | Exhibit 10.2 to our Current Report on Form 8-K filed on October 1, 2010 |
| 10.3 | Form of Participation Agreement under the Semtech Corporation Executive Change in Control Retention Plan for Swiss employees | Exhibit 10.3 to our Current Report on Form 8-K filed on October 1, 2010 |
| 31.1 | Certification of the Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended | |
| 31.2 | Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended | |
| 32.1 | Certification of the Chief Executive Officer Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Exhibit 32.1 is being furnished and shall not be deemed filed) | |
| 32.2 | Certification of the Chief Financial Officer Pursuant 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Exhibit 32.2 is being furnished and shall not be deemed filed) | |
| 101.INS | XBRL Instance Document* | |
| 101.SCH | XBRL Taxonomy Extension Schema Document* | |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document* | |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document* | |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document* | |

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

Table of Contents

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.

Date: December 10, 2010

Date: December 10, 2010

SEMTECH CORPORATION

Registrant

/s/ Mohan R. Maheswaran
Mohan R. Maheswaran
Chief Executive Officer

/s/ Emeka N. Chukwu
Emeka N. Chukwu
Vice President Finance, Chief Financial Officer