

SEMTECH CORP  
Form 10-K  
March 29, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended January 29, 2012**

**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

Edgar Filing: SEMTECH CORP - Form 10-K

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class                    | Name of each exchange on which registered |
|----------------------------------------|-------------------------------------------|
| Common Stock par value \$.01 per share | The NASDAQ Stock Market LLC               |

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or 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.

## Edgar Filing: SEMTECH CORP - Form 10-K

Large accelerated filer  Accelerated filer   
Non-accelerated filer  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

The aggregate market value of the common stock held by non-affiliates of the registrant (based upon the closing sale price of \$23.30 on the NASDAQ Global Select Market) as of July 29, 2011 was approximately \$1.23 billion. Stock held by directors, officers and shareholders owning 5% or more of the outstanding common stock (as reported by shareholders on Schedules 13D and 13G) were excluded as they may be deemed affiliates. This determination of affiliate status is not a conclusive determination for any other purpose.

The number of shares of the Registrant's common stock outstanding at March 22, 2012 was 65,406,752.

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference in Part III, Item numbers 11, 12, 13 and 14 and portions of Item 10 of this report to: Definitive Proxy Statement in connection with registrant's annual meeting of shareholders to be held on June 21, 2012, to be filed no later than 120 days after the end of the registrant's fiscal year ended January 29, 2012.

---

**Table of Contents**

**SEMTECH CORPORATION**

**INDEX TO FORM 10-K**

**FOR THE YEAR ENDED JANUARY 29, 2012**

**PART I**

|         |                                  |    |
|---------|----------------------------------|----|
| Item 1  | <u>Business</u>                  | 2  |
| Item 1A | <u>Risk Factors</u>              | 10 |
| Item 1B | <u>Unresolved Staff Comments</u> | 20 |
| Item 2  | <u>Properties</u>                | 20 |
| Item 3  | <u>Legal Proceedings</u>         | 21 |
| Item 4  | <u>Mine Safety Disclosure</u>    | 21 |

**PART II**

|         |                                                                                                                     |    |
|---------|---------------------------------------------------------------------------------------------------------------------|----|
| Item 5  | <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | 21 |
| Item 6  | <u>Selected Financial Data</u>                                                                                      | 23 |
| Item 7  | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                        | 24 |
| Item 7A | <u>Quantitative and Qualitative Disclosures About Market Risk</u>                                                   | 36 |
| Item 8  | <u>Financial Statements and Supplementary Data</u>                                                                  | 37 |
| Item 9  | <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>                         | 70 |
| Item 9A | <u>Controls and Procedures</u>                                                                                      | 70 |
| Item 9B | <u>Other Information</u>                                                                                            | 71 |

**PART III**

|         |                                                                                                       |    |
|---------|-------------------------------------------------------------------------------------------------------|----|
| Item 10 | <u>Directors, Executive Officers and Corporate Governance</u>                                         | 72 |
| Item 11 | <u>Executive Compensation</u>                                                                         | 72 |
| Item 12 | <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> | 72 |
| Item 13 | <u>Certain Relationships and Related Transactions, and Director Independence</u>                      | 72 |
| Item 14 | <u>Principal Accounting Fees and Services</u>                                                         | 72 |

**PART IV**

|         |                                                |    |
|---------|------------------------------------------------|----|
| Item 15 | <u>Exhibits, Financial Statement Schedules</u> | 73 |
|         | <u>Signatures</u>                              | 78 |

---

**Table of Contents**

*Special Note Regarding Forward Looking and Cautionary Statements*

*This Annual Report on Form 10-K (the "Form 10-K") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We may also make forward-looking statements in other reports filed with the Securities and Exchange Commission ("SEC"), in materials delivered to shareholders and in press releases. In addition, Company representatives may make oral forward-looking statements from time to time. 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.*

*Forward-looking statements should be considered in conjunction with the cautionary statements contained in Item 1A Risk Factors and elsewhere in this Form 10-K, in our other filings with the SEC, and in material incorporated herein and therein by reference. In light of the risks and uncertainties inherent in all such projected matters, forward-looking statements should not be regarded as a representation by the Company 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. Financial results could differ materially from those projected in forward-looking statements due to known or unknown risks. We assume no obligation to update or revise 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 the consolidated financial statements requires us to draw conclusions and make interpretations, judgments, assumptions and estimates with respect to certain factual, legal, and accounting matters. Our financial statements might have been materially impacted if we had reached different conclusions or made different interpretations, judgments, assumptions or estimates.*

**PART I**

**Item 1. Business**  
**General**

Unless the context otherwise requires, the use of the terms Semtech, the Company, we, us and our in this Annual Report on Form 10-K refer to Semtech Corporation and, as applicable, its consolidated subsidiaries. We are a leading supplier of analog and mixed-signal semiconductor products and were incorporated in Delaware in 1960. We design, produce and market a broad range of products that are sold principally into applications within the high-end consumer, industrial, computing and communications end-markets.

*High-End Consumer:* handheld products, set-top boxes, digital televisions, tablet computers, digital video recorders and other consumer equipment.

*Industrial:* automated meter reading, military and aerospace, medical, security systems, automotive, industrial and home automation, and other industrial equipment.

*Computing:* desktops, notebooks, servers, graphic boards, monitors, printers and other computer peripherals.

*Communications:* base stations, optical networks, switches and routers, wireless LAN and other communication infrastructure equipment.

Our end-customers are primarily original equipment manufacturers and their suppliers, including Alcatel-Lucent, Apple, Inc., Cisco Systems, Inc., Ericsson, Finisar Corporation, Fujitsu, Hamilton Sundstrand, Huawei Technologies Co., Ltd., JDS Uniphase, LG Electronics, Motorola, Nokia Siemens Networks, Oclaro, Opnext, Inc., Phonak International, Research In Motion Limited, Samsung Electronics Co., Ltd., and ZTE Corporation.

**Overview of the Semiconductor Industry**

The semiconductor industry is broadly divided into analog and digital semiconductor products. Analog semiconductors condition and regulate real world functions such as temperature, speed, sound and electrical current. Digital semiconductors process binary information, such as that used by computers. Mixed-signal devices incorporate both analog and digital functions into a single chip and provide the ability for digital

## Edgar Filing: SEMTECH CORP - Form 10-K

electronics to interface with the outside world.

The market for analog and mixed-signal semiconductors differs from the market for digital semiconductors. The analog and mixed-signal industry is typically characterized by longer product life cycles than the digital industry. In addition, analog

## **Table of Contents**

semiconductor manufacturers tend to have lower capital investment requirements for manufacturing because their facilities tend to be less dependent than digital producers on state-of-the-art production equipment to manufacture leading edge process technologies. The end-product markets for analog and mixed-signal semiconductors are more varied and more specialized than the relatively standardized digital semiconductor product markets.

Another difference between the analog and digital markets is the amount of available talented labor. The analog industry relies more heavily than the digital industry on design and applications talent to distinguish its products from one another. Digital expertise is extensively taught in universities due to its overall market size, while analog and mixed-signal expertise tends to be learned over time based on experience and hands-on training. Consequently, personnel with analog training are scarcer than digital trained engineers. This has historically made it more difficult for new suppliers to quickly develop products and gain significant market share.

Advancements in digital processing technology typically drive the need for corresponding advancements in analog and mixed-signal solutions. We believe that the diversity of our applications allows us to take advantage of areas of relative market strength and reduces our vulnerability to competitive pressure in any one area.

## **Business Strategy**

Our objective is to be a leading supplier of analog and mixed-signal semiconductor devices to the fastest growing areas of our target markets. We intend to leverage our pool of skilled technical personnel to develop new products, or, where appropriate, use acquisitions to either accelerate our position in the fastest growing areas or to gain entry into these areas. In order to capitalize on our strengths in analog and mixed-signal processing design, development and marketing, we intend to pursue the following strategies:

### *Leverage our rare analog design expertise*

We have developed a strategy to invest heavily in human resources needed to define, design and market high-performance analog platform products. We have built a team of experienced engineers who combine industry expertise with advanced semiconductor design expertise to meet customer requirements and enable our customers to get their products to market rapidly. We intend to leverage this strategy to achieve new levels of integration, power reduction and performance, enabling our customers to achieve differentiation in their end systems.

### *Continue to release proprietary new products, achieve new design wins, and cross-sell products*

We are focused on developing unique, new, proprietary products that bring value to our target customers in our target markets. These products typically are differentiated in performance but are priced competitively. We also focus on achieving design wins for our products with current and future customers. Design wins are indications by the customer that they intend to incorporate our products into their new designs. Our technical talent works closely with our customers in securing design wins, defining new products and in implementing and integrating our products into their systems. We also focus on selling our complete portfolio of products to our existing customers, as we believe the technical expertise of our marketing and sales team allows us to identify and capitalize on cross-selling opportunities.

### *Focus on fast-growing market segments and regions*

We have chosen to target the analog segments of some of the fastest growing end-markets. We participate in these markets by focusing on specific product areas within the analog and mixed-signal market, including products for handheld equipment, high-end consumer equipment, and communications infrastructure and certain broad-based industrial markets. All of these markets are characterized by their need for leading-edge, high-performance analog and mixed-signal semiconductor technologies.

The computing, communications, high-end consumer and industrial end markets we supply are characterized by several trends that we believe drive demand for our products. The key trends that we target include:

Increasing bandwidth over high-speed networks, fueling growth in high speed voice, video and data transmission

Increasing electronic system requirements for smaller, lighter, highly integrated and feature rich devices

## Edgar Filing: SEMTECH CORP - Form 10-K

Increasing need for more efficient energy management in the home and in industrial environments and the proliferation of green standards

Our products address these market trends by providing solutions that are ultra-low power thus extending battery life, small form factor enabling smaller devices, highly integrated enabling more functionality within devices and high performance enabling product differentiation within our customer base. Additionally, as communications functions are increasingly integrated into a range of systems and devices, these products require analog sensing, processing and control capabilities, which increases the number and size of our end-markets. Finally, industrial, medical, high-end consumer and other end-market applications have increasingly incorporated data processing and communications features into their end systems resulting in more complex power and protection requirements, which in turn, has broadened the opportunities for selling our power and protection devices.



---

## **Table of Contents**

We believe that certain geographic markets, such as Asia and Europe represent opportunities for added sales and end-customer diversity. Accordingly, we have bolstered our efforts in these regions to enhance our ability to expand our customer base.

### **Leverage outsourced semiconductor fabrication capacity**

We outsource most of our manufacturing in order to focus more of our resources on defining, developing and marketing our products. We use outside wafer foundries. Our primary outside wafer foundries are based in China, Taiwan, the United States, Canada, Europe and Israel. Our largest wafer source is a foundry based in China. We believe that outsourcing provides us numerous benefits, including capital efficiency, the flexibility to adopt and leverage emerging process technologies without significant investment risk and a more variable cost of goods, which provides us with greater operating flexibility.

## **Products and Technology**

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

**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 discharge or secondary lightning surge energy that can permanently damage voltage-sensitive CMOS ICs. Our portfolio includes filter and termination devices that are integrated in with the TVS devices. Our protection products feature low capacitance, providing robust protection while preserving signal integrity in high-speed networking and video interfaces. These products also operate at very low voltage needed for today's low voltage ICs. Our protection products can be found in a broad range of applications including portable, TV, video, computer, data-communications, telecommunications and industrial applications.

**Advanced Communications Products.** We design, develop and market a portfolio of proprietary advanced wired communication, ultra-high speed Serializer/Deserializer ( SerDes ) and modulator driver products for transport communication. These integrated circuits (ICs) perform specialized timing, synchronization, and amplification functions used in high-speed networks, 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 also feature a leading integrated timing solution for packet based communications networks. Our advanced communications products are used in a variety of communications and industrial applications.

**Power Management and High-Reliability 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. Our high-reliability discrete semiconductor products comprised of rectifiers, assemblies (packaged discrete rectifiers) and other 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 high-reliability products can be found in a broad range of applications including industrial, military, medical, aerospace and defense systems, including satellite communications.

**Wireless and Sensing Products.** We design, develop and market a portfolio of 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. Our wireless and sensing products feature industry leading and longest range industrial, scientific and medical ( 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 wireless and sensing products can be found in a broad range of applications in the industrial, medical and consumer markets.

## Table of Contents

### Semtech End-Markets

Our products are sold to customers in the computing, communications, high-end consumer, and industrial markets. Our estimates of sales by major end-markets are detailed below:

| (percentage of net sales) | Fiscal Years |      |      |
|---------------------------|--------------|------|------|
|                           | 2012         | 2011 | 2010 |
| Computing                 | 9%           | 9%   | 14%  |
| Communications            | 39%          | 37%  | 23%  |
| High-End Consumer         | 35%          | 33%  | 40%  |
| Industrial and Other      | 17%          | 21%  | 23%  |
|                           | 100%         | 100% | 100% |

We believe that our diversity in end-markets provides stability to our business and opportunity for growth.

The following table depicts our main product lines and their end-market and product applications:

| Semtech s                                    | Specific End-Product Applications                                                                   |                                                                                                                 |                                                                                           |                                                                                |
|----------------------------------------------|-----------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| Main Product Lines                           | Computing                                                                                           | Communications                                                                                                  | High-End Consumer                                                                         | Industrial / Other                                                             |
| <b>Protection</b>                            | Notebook computers, USB ports, LAN cards                                                            | Base stations, DSL equipment, routers and hubs                                                                  | Smart phones, tablet PCs, PDAs, digital still/video cameras, handheld games, TVs          | Handheld measurement or instrumentation devices                                |
| <b>Advanced Communications</b>               | -                                                                                                   | SONET networks, routers, hubs, switches, 40G/100G line cards, fiber modems, and cellular base stations, routers | -                                                                                         | Military and aerospace                                                         |
| <b>Power Management and High-Reliability</b> | Servers, workstations, notebook computers, add-on cards, computer gaming systems, printers, copiers | Network cards, routers and hubs, telecom network boards, base stations                                          | Smart phones, tablet PCs, PDAs, digital still/video cameras, handheld games, TVs          | Power supplies, industrial systems, military, aerospace, medical               |
| <b>Wireless and Sensing</b>                  | -                                                                                                   | -                                                                                                               | Smart phones, media players, tablet PCs, personal navigation, digital still/video cameras | Automated meter reading, industrial process control and hearing aids (medical) |
| <b>Seasonality</b>                           | -                                                                                                   | -                                                                                                               | -                                                                                         | -                                                                              |

Historically, our results have reflected some seasonality, with demand levels generally being slightly higher in the computer and high-end consumer products segments during the third and fourth quarters of our fiscal year in comparison to the first and second quarters.

### Intellectual Capital and Product Development

The design of intellectual property ( IP ) and the resulting development of proprietary products is a critical success factor for us. The recruiting and retaining of key technical talent is the foundation for designing, developing and selling this IP, in the form of new proprietary products, in the global marketplace. One of our strategies to recruit this talent is the establishment of multiple design center locations. As a result, we have design centers throughout the world.

## Edgar Filing: SEMTECH CORP - Form 10-K

Circuit design engineers, layout engineers, product and test engineers, application engineers and field application engineers are our most valuable employees. Together they perform the critical tasks of designing and laying out integrated circuits, turning these circuits into silicon devices, and conferring with customers about designing these devices into their applications. The majority of our engineers fit into one of these categories. Most of these engineers have many years of experience in the design, development and layout of circuits targeted for use in protection, advanced communications, power management and high-

**Table of Contents**

reliability and wireless and sensing applications. We also employ a number of software engineers and systems engineers that specialize in the development of software and systems architecture, who enable us to develop systems oriented products in select markets.

In fiscal year 2012, we incurred \$80.6 million of product development and engineering expense. This represents 17% of net sales. Product development and engineering costs were \$69.6 million or 15% of net sales and \$44.8 million or 16% of net sales in fiscal years 2011 and 2010, respectively. We intend to make further investments in research and development in the future, which may include increasing our employee headcount and investing in design and development equipment.

**Sales and Marketing**

Sales made directly to customers during fiscal year 2012 were approximately 56% of net sales. The remaining 44% of net sales were made through independent distributors. We have direct sales personnel located throughout the United States, Europe and Asia who manage the sales activities of independent sales representative firms and independent distributors. We expense our advertising costs as they are incurred.

We operate internationally primarily through our wholly-owned Swiss subsidiary, Semtech International AG. Semtech International AG serves the European markets from its headquarters in Wil, Switzerland and through its wholly-owned subsidiaries based in France, Germany, Neuchatel Switzerland, the United Kingdom, China and Malaysia. Semtech International AG maintains branch offices, either directly or through one of its wholly owned subsidiaries, in Taiwan, Korea and Japan. Semtech International also maintains a representative office in China. Independent representatives and distributors are also used to serve customers throughout the world. Some of our distributors and sales representatives also offer products from our competitors, as is customary in the industry.

**Customers, Sales Data and Backlog**

As a result of the breadth of our products and markets, we have a broad range of customers.

**Representative Customers by End-Markets:**

| <b>Computing</b> | <b>Communications</b> | <b>High-End Consumer</b> | <b>Industrial</b> |
|------------------|-----------------------|--------------------------|-------------------|
| Apple            | Cisco                 | Apple                    | General Atomics   |
| Hewlett-Packard  | Finisar               | LG Electronics           | Honeywell         |
| Lenovo           | Huawei                | Quanta                   | Itron             |
| Quanta           | Motorola              | Research in Motion       | Phonak            |
| Samsung          | Nokia Siemens         | Samsung                  | Raytheon          |
|                  | Opnext                | Sony Ericsson            | Siemens           |
|                  | Samsung               |                          |                   |
|                  | ZTE                   |                          |                   |

Our customers include major original equipment manufacturers ( OEMs ) and their subcontractors in the computing, communications, high-end consumer and industrial end-markets. Our products are typically purchased by these customers for our performance, price, or technical support, as compared to our competitors.

During fiscal years 2012, 2011 and 2010, U.S. sales contributed 20%, 23% and 19%, respectively to our net sales. Foreign sales constituted 80%, 77% and 81% of our net sales during fiscal years 2012, 2011 and 2010, respectively. A majority of foreign sales were to customers located in the Asia-Pacific region, with sales to customers located in South Korea, Japan, and China (including Hong Kong) comprising 8%, 8%, and 38% of our net sales, respectively, in fiscal year 2012. No other foreign country comprised more than 8% of net sales in fiscal year 2012. See Note 14 to our consolidated financial statements included in Item 8 of this report for additional financial information by geographic region.

A summary of net sales by region follows.

**Sales by Region**

(in thousands)

Edgar Filing: SEMTECH CORP - Form 10-K

|                 | Fiscal Years |      |            |      |            |      |
|-----------------|--------------|------|------------|------|------------|------|
|                 | 2012         |      | 2011       |      | 2010       |      |
| North America   | \$ 114,552   | 24%  | \$ 112,404 | 25%  | \$ 72,818  | 25%  |
| Asia-Pacific    | 298,477      | 62%  | 272,079    | 60%  | 165,880    | 58%  |
| Europe          | 67,572       | 14%  | 70,019     | 15%  | 47,862     | 17%  |
| Total Net Sales | \$ 480,601   | 100% | \$ 454,502 | 100% | \$ 286,560 | 100% |

**Table of Contents**

The following table sets forth the concentration of net sales and accounts receivable among the customers that accounted for more than 10% of our net sales in fiscal year 2012:

**Concentration of Net Sales - Significant Customers**

(percentage of net sales)

|                                      | Fiscal Years |      |      |
|--------------------------------------|--------------|------|------|
|                                      | 2012         | 2011 | 2010 |
| Samsung Electronics (and affiliates) | 13%          | 12%  | 17%  |
| Frontek Technology Corp              | 10%          | 11%  | 13%  |

**Concentration of Accounts Receivable - Significant Customers**

(percentage of net accounts receivable as of fiscal year end)

|                                      | Fiscal years |      |
|--------------------------------------|--------------|------|
|                                      | 2012         | 2011 |
| Samsung Electronics (and affiliates) | 14%          | 15%  |
| Frontek Technology Corp              | 10%          | 12%  |
| Dragon Technology                    | 11%          |      |
| Huawei Technologies Co,              | 11%          |      |

For fiscal year 2012, end-market concentration for our significant customers was as follows:

| (percentage of net sales) | Samsung Electronics (and affiliates) | Frontek Technology Corp |
|---------------------------|--------------------------------------|-------------------------|
| Computing                 | 1%                                   | 2%                      |
| Communications            | 1%                                   | 2%                      |
| High-end Consumer         | 10% (1)                              | 6%                      |
| Industrial                | 0%                                   | 0%                      |
|                           | 12%                                  | 10%                     |

(1) For Samsung Electronics, approximately 49% of the sales into the High-end Consumer end-market relate to products focused on the handheld market, which includes cell phones

Our backlog of orders as of the end of fiscal years 2012, 2011 and 2010 was approximately \$75.6 million, \$112.3 million and \$78.8 million, respectively. The majority of our backlog is typically requested for delivery within six months. In markets where the end system life cycles are relatively short, customers typically request delivery in four to eight weeks. A backlog analysis at any given time gives little indication of our future business except on a short-term basis, principally within the next 45 days. We do not have any significant contracts with our customers calling for shipments over a period of more than 18 months.

**Manufacturing Capabilities**

Our strategy is to outsource the majority of our manufacturing functions to third-party foundries and assembly and test contractors. The third-party foundries fabricate silicon wafers and the assembly and test contractors package and test our products. We believe this outsourcing permits us to take advantage of the best available technology, leverage the capital investment of others, and reduce our operating costs associated with manufacturing assets.

## Edgar Filing: SEMTECH CORP - Form 10-K

We perform a limited amount of internal probe and final test activities at our facilities in Camarillo, Irvine, Redondo Beach and San Diego, California; Neuchatel, Switzerland; and Reynosa, Mexico. These activities accommodate situations in which tight coupling with product design is desirable or where there are unique requirements. Our packaged discrete rectifier products are packaged and tested in-house in Reynosa, Mexico. Almost all of our other products are packaged and tested by outside subcontractors.

In keeping with our mostly fabless business model, we have no wafer fabrication facilities except for our operation in Reynosa, Mexico. For fiscal year 2012, the Reynosa facility provided almost all of the silicon for our packaged discrete rectifier products, which were approximately 4% of our end product sales. The remaining 96% of our end products were supported with finished silicon wafers purchased from outside wafer foundries in China, Taiwan, the United States, Canada, Europe and Israel. We anticipate that more than 90% of all silicon wafers we require will come from outside foundries in fiscal year 2013.

Despite our use of outside wafer foundries for sourcing a majority of our silicon needs, we do maintain internal process development capabilities. Our process engineers work closely with our outside foundries on the improvement and development of

---

## **Table of Contents**

process capabilities. In fiscal year 2012, we purchased the vast majority of our wafers from approximately nine different third-party wafer foundries and used various manufacturing processes, including Bipolar, High-Speed Bipolar, Complementary Metal-Oxide-Semiconductor ( CMOS ), RF-CMOS, Bi-CMOS and SiGe processes.

While we do have some redundancy of fabrication processes by using multiple outside foundries, any interruption of supply by one or more of these foundries could materially impact us. As a result, we maintain some amount of business interruption insurance to help reduce the financial risk associated with a wafer supply interruption, but we are not fully insured against this risk.

Although our products are made from basic materials (principally silicon, metals and plastics), all of which are available from a number of suppliers, capacity at wafer foundries sometimes becomes constrained. The limited availability of certain materials, such as silicon wafer substrates, may impact our suppliers' ability to meet our demand needs or impact the price we are charged. The prices of certain other basic materials, such as metals, gases and chemicals used in the production of circuits have all increased in recent years as demand has grown for these basic commodities. In most cases we do not procure these materials ourselves but we are nevertheless reliant on these materials for producing our products because our outside foundry and package and test subcontractors must procure them. To help minimize risks associated with constrained capacity, we use multiple foundries and have taken other steps to reserve capacity at certain foundries.

Our largest wafer source is a foundry in China. In fiscal year 2012, this Chinese foundry provided 59% of our total silicon requirements in terms of cost of wafers purchased. We have consigned certain equipment to this foundry to support our specialized processes run at the foundry and to ensure a specified level of capacity over the next few years. While the provision of these assets to the wafer foundry may be factored into certain pricing arrangements with the foundry, the impact of any pricing adjustments is insignificant and does not impact our margin trends.

Most of our ultra-high speed SerDes products and microwave and high-reliability products are dependent on a single fabrication facility, located within the United States, for wafers.

We use third-party subcontractors to perform almost all of our assembly and test operations. A majority of our assembly and test activity is conducted by third-party subcontractors based in Malaysia, the Philippines, Thailand and China. We have operations offices located in the Philippines, Malaysia and China that support and coordinate some of the worldwide shipment of products. We have installed our own test equipment at some of our packaging and testing subcontractors in order to ensure a certain level of capacity, assuming the subcontractor has ample employees to operate the equipment.

Our arrangements with both outside wafer foundries and package and test subcontractors are designed to provide some assurance of capacity but are not expected to assure access to all the manufacturing capacity we may need in the future.

## **Competition**

The analog and mixed-signal semiconductor industry is highly competitive, and we expect competitive pressures to continue. Our ability to compete effectively and to expand our business will depend on our ability to continue to recruit key engineering talent, our ability to execute on new product developments and our ability to persuade customers to design these new products into their applications. Our industry is characterized by decreasing unit selling prices over the life of a product as the volumes typically increase. However, price decreases can sometimes be quite rapid and faster than the rate of increase of the associated product volumes. We believe we compete effectively based upon our ability to capitalize on efficiencies and economies of scale in production and sales, and our ability to maintain or improve our productivity and product yields to reduce manufacturing costs.

We are in direct and active competition, with respect to one or more of our product lines, with numerous manufacturers of varying size, technical capability and financial strength. A number of these competitors are dependent on semiconductor products as their principal source of income, and some are much larger than we are. The number of competitors has grown due to expansion of the market segments in which we participate. We consider our primary competitors with respect to our protection products to include STMicroelectronics N.V., NXP Semiconductors N.V., Littelfuse, ON Semiconductor Corporation, Protek Devices and Infineon Technologies AG. Our primary competitors with respect to our Advanced Communications products are Broadcom Corporation, Inphi Corporation, Hittite Microwave Corporation, L3 Communications Holdings Inc., Gallium Arsenide Product Manufacturers and our customer's own internal solutions. With respect to our Power Management and High Reliability products, we consider our primary competitors to include Texas Instruments Inc., Linear Technology Corporation, Maxim Integrated Products Inc., Intersil Inc., Micrel Inc., Advanced Analogic Technologies Inc., Microsemi and Monolithic Power Systems Inc. Our primary competitors with respect to our Wireless and Sensing products include Silicon Laboratories, Texas Instruments Inc. and Analog Devices Inc.





## **Table of Contents**

### **Intellectual Property and Licenses**

We have been granted 92 U.S. patents and 34 foreign patents and have numerous patent applications pending with respect to our products and to technologies associated with our business. The expiration dates of issued patents range from 2014 to 2030. Although we consider patents to be helpful in maintaining a competitive advantage, we do not believe they create definitive competitive barriers to entry. There can be no assurance that our patent applications will lead to issued patents, that others will not develop or patent similar or superior products or technologies, or that our patents will not be challenged, invalidated, or circumvented by others.

We have registered many of our trademarks in the U.S. and in various foreign jurisdictions. Registration generally provides rights in addition to basic trademark protections and is typically renewable upon proof of continued use. We have registered, or are in the process of registering, our SEMTECH trademark in many jurisdictions. In one location use of this trademark is prohibited, but we are permitted to use our Semtech International trade name. This restriction has not had a material impact on our business to date and we do not anticipate it will have a material impact in the future.

We also have registered certain materials in which we have copyright ownership, which provides additional protection for this intellectual property.

### **Employees**

As of January 29, 2012, we had 929 full-time employees. There were 277 employees in research and development, 177 in sales, marketing and field services, and 126 in general, administrative and finance. The remaining employees support operational activities, including product and test engineering, assembly, manufacturing, distribution and quality functions.

We have not had a work stoppage in at least the last decade and the only unionized employees are approximately 113 Mexican nationals who work at our manufacturing facility in Reynosa, Mexico. Our employee relations during the last fiscal year have been, and remain, satisfactory.

We adjust our workforce from time to time to meet the changing needs of our business. Competition for key design engineering talent globally is significant.

### **Government Regulations and Environmental Matters**

We are required to comply, and it is our policy to comply, with numerous government regulations that are normal and customary to businesses in our industry and that operate in our markets and operating locations.

Our sales that serve the military and aerospace markets primarily consist of our Microwave and High-Reliability products that have been qualified to be sold in these markets by the U.S. Department of Defense ( DOD ). In order to maintain these qualifications, we must comply with certain specifications promulgated by the DOD. As part of maintaining these qualifications, we are routinely audited by the DOD. Based on current specifications, we believe we can maintain our qualifications for the foreseeable future. However, these specifications could be modified by the DOD in the future or we could become subject to other government requirements, which could make the manufacturing of these products more difficult and thus could adversely impact our profitability in the Power Management and High Reliability and Advanced Communications product lines. The U.S. State Department has determined that a small number of special assemblies from the Power Management and High Reliability and Advanced Communications product lines are subject to the International Traffic in Arms Regulations ( ITAR ). We have a Technical Assistance Agreement in place that permits us to assemble certain of these products in Mexico. Other products subject to ITAR regulations are manufactured in our Redondo Beach, CA facilities. International shipments of these products require a State Department license.

Our facilities throughout the world are subject to various environmental laws and regulations and we believe our operations are in substantial compliance with those laws and regulations. Due to our limited manufacturing operations, the expense related to environmental compliance for our ongoing operations was immaterial for fiscal years 2012, 2011 and 2010 and has not had any material adverse effect on our capital expenditures, net income, or competitive position. New laws or regulations or changes to existing laws or regulations could subject our ongoing operations to different or additional environmental standards that could increase our cost of compliance in the future. In addition, our cost of doing business could increase if our suppliers increase prices to recoup the cost of their compliance with environmental laws or regulations.

We have incurred, and may continue to incur, liabilities under various statutes for the cleanup of pollutants at locations we have operated and at third-party disposal and recycling sites we have used (see Note 12 to our consolidated financial statements included in Item 8 of this report). During fiscal years 2012, 2011 and 2010, the expense incurred with respect to these clean up matters was not material.

## Edgar Filing: SEMTECH CORP - Form 10-K

We have used an environmental firm, specializing in hydrogeology, to perform monitoring of the groundwater at our former facility in Newbury Park, California that we leased for approximately forty years. We vacated the building in May 2002. Certain

---

## **Table of Contents**

contaminants have been found in the local groundwater and site soils. Groundwater monitoring results to date over a number of years indicate that groundwater contaminants are in full or in material part from adjacent facilities. Responsibility for soil contamination remains under investigation. The location of key soil contamination is concentrated in an area of an underground storage tank that the Company believes to have been installed and used in the early 1960s by a former tenant at the site who preceded the Company's tenancy. There are no claims pending or asserted by the U.S. Environmental Protection Agency with respect to environmental matters at the Newbury Park site. However, the applicable regulatory agency having authority over the site issued joint instructions in November 2008, ordering the Company and the current owner of the site to perform additional assessments and surveys, and to create ongoing groundwater monitoring plans before any final regulatory action for "no further action" may be approved. In September 2009, the regulatory agency issued supplemental instructions to the Company and the current site owner regarding the previously ordered site assessments, surveys and groundwater monitoring. The costs to perform all site work directed by the regulatory agency to date are not anticipated to be material. The Company and the site owner have agreed on an equitable cost sharing arrangement for current site work. At January 29, 2012, accrued liabilities include approximately \$58,000 of fees payable in connection with pending testing and monitoring activities at this site. It is not currently possible to determine the ultimate amount, if any, of future site clean-up costs that may be directed by the regulatory agency following the current site assessments and surveys. Accordingly, no reserve for site clean-up costs has been provided at this time.

### **Available Information**

General information about us can be found on our website at [www.semtech.com](http://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 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 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 Exchange Act, 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](http://www.sec.gov).

### **Item 1A. Risk Factors**

*You should carefully consider and evaluate all of the information in this report, including the risk factors listed below. The risks described below are not the only ones facing our company. 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.*

*As discussed earlier in "Special Notes Regarding Forward Looking and Cautionary Statements," this report contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward looking statements as a result of certain factors including the risks faced by us described below and elsewhere in this report, in our other filings with the SEC, and in material incorporated herein and therein by reference. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

### **Risks Relating to General Business Conditions**

#### **Our future results may fluctuate, fail to match past performance or fail to meet expectations**

Our results may fluctuate in the future, may fail to match our past performance or fail to meet the expectations of analysts and investors. Our results and related ratios, such as gross margin, operating income percentage and effective tax rate may fluctuate as a result of:

general economic conditions in the countries where we sell our products;

seasonality and variability in the computer market and our other end-markets;

## Edgar Filing: SEMTECH CORP - Form 10-K

the timing of new product introductions by us and our competitors;

product obsolescence;

the scheduling, rescheduling or cancellation of orders by our customers;

the cyclical nature of demand for our customers' products;

our ability to develop new process technologies and achieve volume production;

our ability to integrate and realize synergies from recent acquisitions;

changes in manufacturing yields;

capacity utilization;

## **Table of Contents**

product mix and pricing;

movements in exchange rates, interest rates or tax rates;

the availability of adequate supply commitments from our outside suppliers;

the manufacturing and delivery capabilities of our subcontractors; and

litigation and regulatory matters.

As a result of these factors, our past financial results are not necessarily indicative of our future results.

### **Downturns in the business cycle could adversely affect our revenues and profitability**

The semiconductor industry is highly cyclical and has experienced significant downturns, which are characterized by reduced product demand, production overcapacity, increased levels of inventory, industry-wide fluctuations in the demand for semiconductors and the significant erosion of average selling prices. The cyclical nature of the semiconductor industry may cause us to experience substantial period-to-period fluctuations in our results of operations. The growth rate of the global economy is one of the factors affecting demand for semiconductor components. Many factors could adversely affect regional or global economic growth including increased price inflation for goods, services or materials, rising interest rates in the United States and the rest of the world, or tight credit markets. In addition, economic slowdowns may also affect our customers' ability to pay for our products. Accordingly, economic slowdowns may harm our business.

### **Current global economic conditions could reduce demand for our products**

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.

### **Business interruptions could harm our business**

Our corporate headquarters, a portion of our assembly and research and development activities and certain other critical business operations are located near major earthquake fault lines. We do not maintain earthquake insurance and our business could be harmed in the event of a major earthquake. We generally do not maintain flood coverage, including for our Asian locations where certain of our operations support and sales offices are located. Such flood coverage has become very expensive; as a result the Company has elected not to purchase this coverage. If one of these locations were to experience a major flood, our business may be harmed.

Our business could be harmed if natural disasters interfere with production of wafers by our suppliers, assembly and testing of products by our subcontractors, or our distribution network. We maintain some business interruption insurance to help reduce the effect of such business interruptions, but we are not fully insured against such risks. Likewise, our business could be adversely impacted if a natural disaster were to shut down or significantly curtail production by one or more of our end customers. Any such loss of revenue due to a slowdown or cessation of end customer demand is uninsured.

When natural disasters, like the 2011 earthquake and Tsunami in Japan (whose market represents approximately 8% of our revenue), or the 2011 flooding in Thailand, result in wide-spread destruction, the impact on our business may not be readily apparent. This is especially true when trying to assess the impact of the disaster on our end customers, who themselves may not fully understand the impact of the event on their business. The full extent and scope of natural disaster impacts, both in terms of direct impact on the Company and our supply chain, as well as on our end customers (to include their own supply chain issues as well as end market issues), may not be known for a considerable period of time following the disaster. When any such natural disaster occurs, there can be no assurance that our results of operations may not be materially affected as a result of the impact of the disaster on the Company or on our end customers.

## Edgar Filing: SEMTECH CORP - Form 10-K

We rely on third party freight firms for nearly all of our shipments from vendors to assembly and test sites, primarily in Asia, and for shipments of our final product to customers. This includes ground and air transportation. Any significant disruption of such freight business globally or in certain parts of the world, particularly where our operations are concentrated, could materially affect our ability to generate revenues. Business interruption insurance may not provide enough protection to compensate us for losses that may occur. Accordingly, any of these disruptions could significantly harm our business.

---

## Table of Contents

Terrorist attacks, wars and other acts of violence, such as those that may result from the tension in the Middle East and the Korean peninsula, or any other national or international crisis, calamity or emergency, may result in interruption to the business activities of many entities, business losses and overall disruption of the U.S. economy at many levels. These events may directly impact our physical facilities or those of our customers and suppliers. Additionally, these events or armed conflicts may cause some of our customers or potential customers to reduce the level of expenditures on their services and products that ultimately may reduce our revenue. The consequences of these reductions are unpredictable, and we may not be able to foresee events that could have an adverse effect on our business. For example, as a result of these events, insurance premiums for businesses may increase and the scope of coverage may be decreased. Consequently, we may not be able to obtain adequate insurance coverage for our business and properties. To the extent that these disruptions result in delays or cancellations of customer orders, a general decrease in corporate spending, or our inability to effectively market our services and products, our business and results of operations could be harmed.

We operate a manufacturing facility in Reynosa, Mexico. Certain regions in Mexico have experienced high levels of violence. Any significant disruption of our operations at this facility could materially affect our ability to generate revenues for certain products within our High-Reliability product line. Some of the products that we produce at this facility require certification by the Defense Contract Audit Agency ( DCAA ). As a result of the recent violence in Mexico, the DCAA suspended sending its auditors to Mexico. Onsite audit by DCAA is expected to resume early in our fiscal year 2013. While certification renewal is not expected to be required within the next twelve months, if we are unable to obtain required certification renewals, either directly through the DCAA or through a qualifying third party, our revenues for certain products within our High-Reliability product line could materially decline.

A large percentage of our sales are to customers located in Asia and a large percentage of our products are manufactured in Asia. One of our largest customer bases in Asia is located in Taiwan. Our largest wafer source is located in China. An outbreak of SARS or other health related issues, such as an avian influenza (bird flu) pandemic, could have a negative impact on consumer demand, on travel needed to secure new business or manage our operations, on transportation of our products from our suppliers or to our customers, or on workers needed to sell or manufacture our products or our customers' products.

### Risks Relating to Production Operations

#### **We obtain many essential components and materials and certain critical manufacturing services from a limited number of suppliers and subcontractors, most of which are foreign-based entities**

Our reliance on a limited number of subcontractors and suppliers for wafers, packaging, testing and certain other processes involves several risks, including potential inability to obtain an adequate supply of required components and reduced control over the price, timely delivery, reliability and quality of components. These risks are attributable to several factors, including limitations on resources, labor problems, equipment failures or the occurrence of natural disasters. The good working relationships we have established with our suppliers and subcontractors could be disrupted, and our supply chain could suffer, if a supplier or subcontractor were to experience a change in control. There can be no assurance that problems will not occur in the future with suppliers or subcontractors. Disruption or termination of our supply sources or subcontractors could significantly delay our shipments and harm our business. Delays could also damage relationships with current and prospective customers. Any prolonged inability to obtain timely deliveries or quality manufacturing or any other circumstances that would require us to seek alternative sources of supply or to manufacture or package certain components internally could limit our growth and harm our business.

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 commodity surcharges. 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.

Most of our outside subcontractors and suppliers, including third-party foundries that supply silicon wafers, are located in foreign countries, including China, Belgium, Taiwan, Israel, Canada and Germany. For fiscal year 2012, approximately 59% of our silicon in terms of cost of wafers, was supplied by a third-party foundry in China, and this percentage could be even higher in future periods. For fiscal years 2011 and 2010, approximately 49% and 50%, respectively, of our silicon in terms of cost of wafers was supplied by this third-party foundry in China. While our utilization of multiple outside foundries does create some redundancy of fabrication processes, any interruption of supply by one or more of these foundries could materially impact us. We maintain some amount of business interruption insurance to help reduce the risk of wafer supply interruption, but we are not fully insured against such risk.





---

## **Table of Contents**

A majority of our package and test operations are performed by third-party contractors based in Malaysia, Korea, the Philippines and China. Our international business activities, in general, are subject to a variety of potential risks resulting from political and economic uncertainties. Any political turmoil or trade restrictions in these countries, particularly China, could limit our ability to obtain goods and services from these suppliers and subcontractors. The effect of an economic crisis or political turmoil on our suppliers located in these countries may impact our ability to meet the demands of our customers. If we find it necessary to transition the goods and services received from our existing suppliers or subcontractors to other firms, we would likely experience an increase in production costs and a delay in production associated with such a transition, both of which could have a significant negative effect on our operating results, as these risks are substantially uninsured.

Our ultra-high speed SerDes products and most of our microwave products are dependent on a single fabrication facility, located within the United States, for wafers. Any extended or continued interruption of supply by this supplier facility could materially impact our ability to ship these products to customers. An extended or protracted failure by us to deliver products to customers in accordance with contractual delivery commitments could result in lost business opportunities and may in certain circumstances trigger contractual penalties or other contractual liabilities to customers, including stipulated delay fees and/or the cost differential of substitute products.

### **Our products may be found to be defective, product liability claims may be asserted against us and we may not have sufficient liability insurance**

One or more of our products may be found to be defective after shipment, requiring a product replacement, recall, or a software solution that would cure the defect but impede performance of the product. We may also be subject to product returns in the ordinary course of our business which could impose substantial costs and harm our business. Beyond the potential direct cost associated with product failures, loss of confidence by major customers could cause sales of our other products to drop significantly.

Product liability claims may be asserted with respect to our technology or products. Our products are typically sold at prices that are significantly lower than the cost of the modules or end-products into which they are incorporated. A defect or failure in our product could give rise to failures in the module or the ultimate end-product, so we may face claims for damages that are disproportionately higher than the revenues and profits we receive from the products involved, especially if our customer seeks to recover for damage claims made against it by its own customers. While we maintain some insurance for such events, there can be no assurance that we have obtained a sufficient amount of insurance coverage, and that asserted claims will be within the scope of coverage of the insurance, or that we will have sufficient resources to satisfy any asserted claims not covered by insurance.

Our 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, we have agreed to other warranty terms, including some indemnification provisions, which could prove to be significantly more costly than repair, replacement or refund. If there is a substantial increase in the rate of customer claims, if our estimate of probable losses relating to identified warranty exposures prove inaccurate, or if our efforts to contractually limit liability prove inadequate, we may record a charge against future cost of sales.

### **Risks Relating to Research and Development, Engineering, Intellectual Property and New Technologies**

#### **We may be unsuccessful in developing and selling new products, which is central to our objective of maintaining and expanding our business**

We operate in a dynamic environment characterized by price erosion, rapid technological change, and design and other technological obsolescence. Our competitiveness and future success depend on our ability to achieve design wins for our products with current and future customers and introduce new or improved products that meet customer needs while achieving favorable margins. A failure to achieve design wins, to introduce these new products in a timely manner, or to achieve market acceptance for these products could harm our business.

The introduction of new products presents significant business challenges because product development commitments and expenditures must be made well in advance of product sales. The success of a new product depends on accurate forecasts of long-term market demand and future technological developments, as well as on a variety of specific implementation factors, including:

timely and efficient completion of process design and development;

timely and efficient implementation of manufacturing and assembly processes;

product performance;

the quality and reliability of the product; and

effective marketing, sales and service.

---

**Table of Contents**

The failure of our products to achieve market acceptance due to these or other factors could harm our business.

**We may be unable to adequately protect our intellectual property rights**

We pursue patents for some of our new products and unique technologies, but we rely primarily on trade secret protections through a combination of nondisclosure agreements and other contractual provisions, as well as our employees' commitment to confidentiality and loyalty, to protect our know-how and processes. We intend to continue protecting our proprietary technology, including through trademark and copyright registrations and patents. Despite this intention, we may not be successful in achieving adequate protection. Our failure to adequately protect our material know-how and processes could harm our business. There can be no assurance that the steps we take will be adequate to protect our proprietary rights, that our patent applications will lead to issued patents, that others will not develop or patent similar or superior products or technologies, or that our patents will not be challenged, invalidated, or circumvented by others. Furthermore, the laws of the countries in which our products are or may be developed, manufactured or sold may not protect our products and intellectual property rights to the same extent as laws in the United States.

The semiconductor industry is characterized by frequent claims of infringement and litigation regarding patent and other intellectual property rights. Due to the number of competitors, intellectual property infringement is an ongoing risk since other companies in our industry could have intellectual property rights that may not be identifiable when we initiate development efforts. Litigation may be necessary to enforce our intellectual property rights and we may have to defend ourselves against infringement claims. Any such litigation could be very costly and may divert our management's resources. If one of our products is found to infringe on a third party's rights, we may have liability for past infringement and may need to seek a license to use such intellectual property going forward. If a license is not available or if we are unable to obtain a license on terms acceptable to us, we would either have to change our product so that it does not infringe or stop making the product.

**We must commit resources to product production prior to receipt of purchase commitments and could lose some or all of the associated investment**

Sales are made primarily on a current delivery basis, pursuant to purchase orders that may be revised or cancelled by our customers without penalty, rather than pursuant to long-term contracts. Some contracts require that we maintain inventories of certain products at levels above the anticipated needs of our customers. As a result, we must commit resources to the production of products without binding purchase commitments from customers. Our inability to sell products after we devote significant resources to them could harm our business.

**Risks Relating to International Operations**

**We sell and trade with foreign customers, which subjects our business to increased risks**

Sales to foreign customers accounted for approximately 80% of net sales in the fiscal year ended January 29, 2012. Sales to our customers located in China (including Hong Kong) and South Korea constituted 38% and 8%, respectively, of net sales for fiscal year 2012. International sales are subject to certain risks, including unexpected changes in regulatory requirements, tariffs and other barriers, political and economic instability, difficulties in accounts receivable collection, difficulties in managing distributors and representatives, difficulties in staffing and managing foreign subsidiary and branch operations and potentially adverse tax consequences. These factors may harm our business. Our use of the Semtech name may be prohibited or restricted in some countries, which may negatively impact our sales efforts. In addition, substantially all of our foreign sales are denominated in U.S. dollars and currency exchange fluctuations in countries where we do business could harm us by resulting in pricing that is not competitive with prices denominated in local currencies.

**Our foreign currency exposures may change over time as the level of activity in foreign markets grows and could have an adverse impact upon financial results**

As a global enterprise, we face exposure to adverse movements in foreign currency exchange rates. Certain of our assets, including certain bank accounts, exist in non-U.S. dollar-denominated currencies, which are sensitive to foreign currency exchange rate fluctuations. The non-U.S. dollar-denominated currencies are principally the Swiss Franc, Euro, Mexican Peso and British Pound Sterling. We also have a significant number of employees that are paid in foreign currency, the largest groups being United Kingdom-based employees who are paid in British Pound Sterling, Swiss-based employees who are paid in Swiss Francs, and Mexican nationals who are paid in Mexican Pesos.

---

## **Table of Contents**

If the value of the U.S. dollar weakens relative to these specific currencies, as it has done in recent years, the cost of doing business in terms of U.S. dollars rises. With the growth of our international business, our foreign currency exposures may grow and under certain circumstances, could harm our business.

From time to time, we do a limited amount of hedging of our foreign exchange exposure. As of or during the year ended January 29, 2012, we had no foreign currency hedging contracts in place. As a means of managing our foreign exchange exposure, we routinely convert U.S. dollars into foreign currency in advance of the expected payment. Any future use of forward contracts to hedge foreign exchange exposure may be required to be marked-to-market each quarter and can create volatility in net income not directly tied to our operating results.

### **We may be subject to increased tax liabilities and an increased effective tax rate if we need to repatriate funds held by our foreign subsidiaries**

As of January 29, 2012, our foreign subsidiaries held approximately \$271.4 million of cash, cash equivalents, and short-term investments and \$306.6 million of unremitted earnings for which no Federal or State taxes have been provided. If we needed these funds for investment in our 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.

In the third quarter of fiscal year 2010, in connection with the 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 and our effective tax rate for fiscal year 2010 was 97% compared to 5.4% in fiscal year 2012 and 9% in fiscal year 2011. In connection with the acquisition of Gennum in March 2012, we reviewed this prior assertion and concluded that only \$50 million of foreign subsidiary earnings were no longer permanently reinvested offshore resulting in \$70 million of foreign subsidiary earnings deemed to be permanently reinvested. This change in assertion will result in recording a discrete adjustment to its tax provision in the first quarter of fiscal year 2013. The impact of this change in assertion is expected to result in the recognition of a \$23 million tax benefit in the first quarter of fiscal year 2013.

### **We are subject to export restrictions and laws affecting trade and investments**

As a global company headquartered in the United States, we are subject to U.S. laws and regulations that limit and restrict the export of some of our products. Compliance with these laws has not significantly limited our operations or our sales in the recent past, but could significantly limit them in the future. We maintain an export compliance program but there are risks that the compliance controls could be circumvented, exposing us to legal liabilities. We must also comply with export restrictions and laws imposed by other countries affecting trade and investments. Although these restrictions and laws have not significantly restricted our operations in the recent past, there is a risk that they could do so in the future.

### **Risks Relating to Sales, Marketing and Competition**

#### **We compete against larger, more established entities and our market share may be reduced if we are unable to respond to our competitors effectively**

The semiconductor industry is intensely competitive and is characterized by price erosion, rapid technological change, and design and other technological obsolescence. We compete with domestic and international semiconductor companies, many of which have substantially greater financial and other resources with which to pursue engineering, manufacturing, marketing and distribution of their products. Some of these competitors include: Texas Instruments Inc., Linear Technology Corporation, Maxim Integrated Products Inc., Intersil Inc., Micrel Inc., Advanced Analogic Technologies Inc., Microsemi and Monolithic Power Systems Inc., with respect to our Power Management and High Reliability products; and STMicroelectronics N.V., NXP Semiconductors N.V., Littlefuse, ON Semiconductor Corporation, Protek Devices and Infineon Technologies AG, with respect to our Protection products. Our primary competitors with respect to our Advanced Communication products are Broadcom Corporation, Inphi Corporation, Hittite Microwave Corporation, L3 Communications Holdings Inc., Gallium Arsenide Manufacturers and Internal Solutions. Our primary competitors with respect to our Wireless and Sensing products include Silicon Laboratories, Texas Instruments Inc. and Analog Devices Inc.

We expect continued competition from existing competitors as well as competition from new entrants in the semiconductor market. Our ability to compete successfully in the rapidly evolving area of integrated circuit technology depends on several factors, including:

## Edgar Filing: SEMTECH CORP - Form 10-K

success in designing and manufacturing new products that implement new technologies;

protection of our processes, trade secrets and know-how;

maintaining high product quality and reliability;

pricing policies of our competitors;

performance of competitors' products;

ability to deliver in large volume on a timely basis;

marketing, manufacturing and distribution capability; and

financial strength.

**Table of Contents**

To the extent that our products achieve market success, competitors typically seek to offer competitive products or lower prices; if they are successful, they could harm our business.

**We receive a significant portion of our revenues from a small number of customers and the loss of any one of these customers or failure to collect a receivable from them could adversely affect our business**

Our largest customers have varied from year to year. Historically, we have had significant customers that individually accounted for 10% or more of consolidated revenues in certain quarters or represented 10% or more of net accounts receivables at any given date. One of our authorized distributors regularly accounts for more than 10% of net sales on an annual basis. Depending on the authorized distributor and their strategic focus, they can support anywhere from a few end-customers to many end-customers.

**Concentration of Net Sales - Significant Customers**

(percentage of net sales)

|                                      | Fiscal Years |      |      |
|--------------------------------------|--------------|------|------|
|                                      | 2012         | 2011 | 2010 |
| Samsung Electronics (and affiliates) | 13%          | 12%  | 17%  |
| Frontek Technology Corp              | 10%          | 11%  | 13%  |

**Concentration of Accounts Receivable - Significant Customers**

(percentage of net accounts receivable)

|                                      | Fiscal Years |      |
|--------------------------------------|--------------|------|
|                                      | 2012         | 2011 |
| Samsung Electronics (and affiliates) | 14%          | 15%  |
| Frontek Technology Corp              | 10%          | 12%  |
| Dragon Technology                    | 11%          |      |
| Huawei Technologies Co,              | 11%          |      |

In addition to those customers representing greater than 10% of net sales listed above, we had several end-customers in fiscal year 2012 that, on an annual basis, accounted for more than 5% of net sales, but less than 10% of net sales.

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

We primarily conduct our sales on a purchase order basis, rather than pursuant to long-term contracts. The loss of any significant customer, any material reduction in orders by any of our significant customers, the cancellation of a significant customer order or the cancellation or delay of a customer's significant program or product could harm our business.

**Most of our authorized distributors, which together represent approximately half of our net sales, can terminate their contract with us with little or no notice. The termination of a distributor could negatively impact our business, including net sales and accounts receivable**

In fiscal year 2012, authorized distributors accounted for approximately 44% of our net sales. We generally do not have long-term contracts with our distributors and most can terminate their agreement with us with little or no notice. For fiscal year 2012, our two largest distributors were based in Asia.

The termination of any of our distributor relationships could impact our net sales and limit our access to certain end-customers. It could also result in the return of excess inventory of our product held by that distributor. Since many distributors simply resell finished products, they generally operate on very thin profit margins. If a distributor were to terminate an agreement with us or go out of business, our accounts receivable from the particular distributor would be subject to significant collection risk.

**Risks Relating to Governmental Regulations, including Taxes, Financial Reporting Rules and Regulations, and Environmental Regulations**

**We are subject to government regulations and other standards that impose operational and reporting requirements**

We, our suppliers, and our customers are subject to a variety of United States federal, foreign, state and local governmental laws, rules and regulations, including those related to the use, storage, handling, discharge or disposal of certain toxic, volatile or otherwise hazardous chemicals and the incorporation of such substances into products available for sale. If we or our suppliers were to incur substantial additional expenses to acquire equipment or otherwise comply with environmental regulations, product costs could significantly increase, thus harming our business.



---

## **Table of Contents**

We are also subject to laws, rules, and regulations related to export licensing and customs requirements, including the International Traffic in Arms Controls, the North American Free Trade Agreement and State Department and Commerce Department rules.

Additional laws, rules and regulations at the United States federal and relevant foreign levels governing data privacy protections for personal information, and corrupt practices/anti-bribery prohibitions, impact our business in terms of ongoing monitoring of compliance. Legislation and related regulations in the United Kingdom under that country's Bribery Act could have extra-territorial application of compliance standards that may be inconsistent with comparable United States law, requiring the Company to re-evaluate and amend its compliance programs, policies and initiatives.

The SEC and NASDAQ have revised, and continue to revise, their regulations and listing standards. These developments have increased, and may continue to increase, our legal compliance and financial reporting costs. These developments also may make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. This, in turn, could make it more difficult for us to attract and retain qualified members of our Board of Directors, or qualified executive officers.

Failure to comply with present or future laws, rules and regulations of any kind that govern our business could result in suspension of all or a portion of production, cessation of all or a portion of operations, or the imposition of significant regulatory, administrative, civil, or criminal penalties or sanctions, any of which could harm our business.

### **Our failure to comply with any applicable environmental regulations could result in a range of consequences, including fines, suspension of production, excess inventory, sales limitations, and criminal and civil liabilities.**

We are subject to various state, federal and international laws and regulations governing the environment, including restricting the presence of certain substances in electronic products and making producers of those products financially responsible for the collection, treatment, recycling and disposal of those products. Although our management systems are designed to maintain compliance, we cannot assure you that we have been or will be at all times in complete compliance with such laws and regulations. If we violate or fail to comply with any of them, a range of consequences could result, including fines, import/export restrictions, sales limitations, criminal and civil liabilities or other sanctions. We could also be held liable for any and all consequences arising out of exposure to hazardous materials used, stored, released, disposed of by us or located at, under or emanating from our facilities or other environmental or natural resource damage.

Environmental laws are complex, change frequently and have tended to become more stringent over time. For example, the European Union and China are two among a growing number of jurisdictions that have enacted in recent years restrictions on the use of lead, among other chemicals, in electronic products. These regulations affect semiconductor packaging. There is a risk that the cost, quality and manufacturing yields of lead-free products may be less favorable compared to lead-based products or that the transition to lead-free products may produce sudden changes in demand, which may result in excess inventory.

There is also a movement to improve the transparency and accountability concerning the supply of minerals coming from the conflict zones of the Democratic Republic of Congo. New U.S. legislation includes disclosure requirements regarding the use of conflict minerals mined from the Democratic Republic of Congo and adjoining countries and procedures regarding a manufacturer's efforts to prevent the sourcing of such conflict minerals. The implementation of these requirements could affect the sourcing and availability of minerals used in the manufacture of semiconductor devices. As a result, there may only be a limited pool of suppliers who provide conflict free metals, and we cannot assure you that we will be able to obtain products in sufficient quantities or at competitive prices. Also, since our supply chain is complex, we may face reputational challenges with our customers and other stockholders if we are unable to sufficiently verify the origins for all metals used in our products.

Future environmental legal requirements may become more stringent or costly and our compliance costs and potential liabilities arising from past and future releases of, or exposure to, hazardous substances may harm our business and our reputation.

### **Changes in tax laws may materially impact tax liabilities and our effective tax rate**

We do not provide U.S. federal or state taxes for our unremitted income of wholly owned foreign subsidiaries that is considered to be permanently reinvested offshore and is not otherwise subject to current domestic taxation. The current U.S. Administration and Congress have proposed changes to current U.S. tax law, including international tax reform that, if enacted, could materially impact our tax liabilities and effective tax rate.



---

**Table of Contents**

**We are subject to review by taxing authorities, including the Internal Revenue Service**

We are subject to review by domestic and foreign taxing authorities, including the Internal Revenue Service ( IRS ). Tax years prior to 2008 (fiscal year 2009) are generally not subject to examination by the IRS except for items with tax attributes that could impact open tax years. Changes to our tax filings could materially impact our tax liabilities and effective tax rate.

**We may be subject to taxation in other jurisdictions which could negatively affect our operations**

As a global organization, we may be subject to a variety of transfer pricing or permanent establishment challenges by taxing authorities in various jurisdictions. If certain of our non-U.S. activities were treated as carrying on business as a permanent establishment and therefore, subject to income tax in such jurisdiction, our results of operations could be materially adversely affected.

**Failure to maintain effective internal control over financial reporting or disclosure controls and procedures could have a material adverse effect on our business and stock price**

Section 404 of the Sarbanes-Oxley Act requires an annual management assessment of the effectiveness of internal controls over financial reporting and an annual report by our independent registered public accounting firm opining on our internal controls over financial reporting. Management is similarly required to review disclosure controls, which are controls established to ensure that information required to be disclosed in SEC reports is recorded, processed, summarized and reported in a timely manner.

If we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting. Effective internal controls are necessary for us to produce reliable financial reports and are important in the prevention of financial fraud. If we cannot produce reliable financial reports or prevent fraud, our business and operating results could be harmed, investors could lose confidence in our reported financial information, and there could be a material adverse effect on our stock price. If we fail to maintain adequate disclosure controls and procedures, the reports we file with the SEC, including the financial statements contained therein, could be inaccurate or misleading.

**Government investigations and inquiries from regulatory agencies could lead to enforcement actions, fines, restatement of our financial statements or other penalties and could result in litigation against us.**

In the past, we have been subject to government investigations and inquiries from regulatory agencies such as the SEC and we have had to restate our historical financial statements in connection with such inquiry related to our historical stock option practices. We may be subject to government investigations and receive additional inquiries from regulatory agencies in the future, which may lead to enforcement actions, fines or other penalties.

In addition, litigation has often been brought against a company in connection with the announcement of a government investigation or inquiry from a regulatory agency. Such lawsuits could result in the diversion of management's time and attention away from business operations, which could harm our business. In addition, the costs of defense and any damages resulting from litigation, a ruling against us, or a settlement of the litigation could adversely affect our cash flow and financial results.

If such government investigations or inquiries result in a restatement of our financial statements, this could delay the filing of our subsequent SEC reports which, in turn, might result in the delisting of our common stock from the NASDAQ Stock Market for failure to meet continued listing requirements.

**Risks Relating to our Business Strategies, Personnel and Other Operations**

**The loss of any of our key personnel or the failure to attract or retain specialized technical and management personnel could impair our ability to grow our business**

Our future success depends upon our ability to attract and retain highly qualified technical, marketing and managerial personnel. We are dependent on a relatively small group of key technical personnel with analog and mixed-signal expertise. Personnel with highly skilled managerial capabilities, and analog and mixed-signal design expertise, are scarce and competition for personnel with these skills is intense. There can be no assurance that we will be able to retain key employees or that we will be successful in attracting, integrating or retaining other highly qualified personnel in the future. If we are unable to retain the services of key employees or are unsuccessful in attracting new highly qualified employees, our business could be harmed.

## Edgar Filing: SEMTECH CORP - Form 10-K

If our stock price declines below the exercise price of stock options held by our employees, the retention incentive aspect of the stock options is lost and there is a greater likelihood we will be unable to retain key talent.

## **Table of Contents**

### **We face risks associated with companies we have acquired in the past and may acquire in the future**

We have expanded our operations through strategic acquisitions, such as the acquisition of Sierra Monolithics, Inc. ( SMI ) in December 2009 and Gennum Corporation in March 2012, and we may continue to expand and diversify our operations with additional acquisitions. Acquisitions have used and could use in the future a significant portion of our available liquid assets or we could incur debt or issue equity securities to fund acquisitions. Issuance of equity securities could be dilutive to existing shareholders. Debt financing could subject us to restrictive covenants that could have an adverse effect on our business. Although we undertake detailed reviews of proposed acquisition candidates and attempt to negotiate acquisition terms favorable to us, we may encounter difficulties or incur liabilities for which we have no recourse. We cannot provide any assurance that any acquisition will have a positive impact on our future performance.

If we are unsuccessful in integrating acquired companies into our operations or if integration is more difficult than anticipated, then we may not achieve anticipated cost savings or synergies and may experience disruptions that could harm our business. Some of the risks that may affect our ability to successfully integrate acquired companies include those associated with:

conforming the acquired company's standards, processes, procedures and controls with our operations;

coordinating new product and process development, especially with respect to highly complex technologies;

assuring acquired products meet our quality standards;

loss of key employees or customers of the acquired company;

hiring additional management and other critical personnel;

increasing the scope, geographic diversity and complexity of our operations;

consolidation of facilities and functions;

the geographic distance between the companies; and

disparate corporate cultures.

Acquisitions could have a negative impact on our future earnings by way of poor performance by the acquired company or, if we later conclude we are unable to use or sell an acquired product or technology, we could be required to write down the related intangible assets and goodwill.

### **Our ability to generate the significant amount of cash needed to service our debt obligations or to obtain additional financing depends on many factors beyond our control.**

We completed the acquisition of Gennum on March 20, 2012 and entered into senior secured first lien credit facilities in an aggregate principal amount of \$350 million as described further under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources. Prior to the completion of the acquisition of Gennum, we did not have any material outstanding indebtedness. As a result of the incurrence of such debt, we expect our consolidated interest expense will commence and our ability to make payments on amounts borrowed under our credit facilities, and to fund our operations will depend on our ability to generate substantial operating cash flow. Our cash flow generation will depend on our future performance, which will be subject to prevailing economic conditions and to

financial, business and other factors, many of which are beyond our control.

Our business may not generate sufficient cash flow from operations and, if we cannot service our debt, we will have to take actions such as reducing or delaying capital investments, selling assets, or seeking additional equity capital. We may not be able to, if required, effect these actions on commercially reasonable terms, or at all. Because of these and other factors beyond our control, we may be unable to pay the interest on or other amounts in respect of our indebtedness.

**Restrictive covenants in the credit agreement governing our senior secured first lien credit facilities may restrict our ability to pursue our business strategies.**

The credit agreement governing our senior secured first lien credit facilities contain a number of restrictive covenants that impose significant operating and financial restrictions on us and may limit our ability to engage in acts that may be in our long-term best interests. The credit agreement includes covenants restricting, among other things, our and our subsidiaries' ability to:

incur or guarantee additional debt or issue certain preferred stock;

pay dividends or make distributions on our capital stock or redeem, repurchase or retire our capital stock;

make certain investments and acquisitions;

create liens on our or our subsidiaries' assets;

enter into transactions with affiliates;

merge or consolidate with another person or sell or otherwise dispose of substantially all of our assets;

make certain payments in respect of other material indebtedness;

alter the business that we conduct; and

make certain capital expenditures.

Under the credit agreement, we are required to maintain a total leverage ratio and an interest expense coverage ratio. Our ability to meet such financial ratios can be affected by events beyond our control, and we cannot assure you that we will be able to meet such ratios. The credit agreement also contains various covenants and restrictions and a breach of any covenant or restriction could result in a default under our credit agreement. If any such default occurs, the lenders may elect (after the expiration of any applicable notice or grace periods) to declare all outstanding borrowings, together with accrued and unpaid interest and other amounts payable thereunder, to be immediately due and payable. Further, following an event of default under our credit facilities, the lenders will have the right to proceed against the collateral granted to them to secure that debt. If the debt under our credit facilities were to be accelerated, our assets may not be sufficient to repay in full that debt that may become due as a result of that acceleration.

**We rely on certain critical information systems for the operation of our business**

We maintain and rely upon certain critical information systems for the effective operation of our business. These information systems include telecommunications, the Internet, our corporate intranet, various computer hardware and software applications, network communications, and e-mail. These information systems may be owned by us or by our outsource providers or even third parties such as vendors and contractors and may be maintained by us or by such providers or third parties. These information systems are subject to attacks, failures, and access denials from a number of potential sources including viruses, destructive or inadequate code, power failures, and physical damage to computers, hard drives,

communication lines and networking equipment. To the extent that these information systems are under our control, we have implemented security procedures, such as virus protection software and emergency recovery processes, to address the outlined risks; however, security procedures for information systems cannot be guaranteed to be failsafe and our inability to use or access these information systems at critical points in time could unfavorably impact the timely and efficient operation of our business.

**The costs associated with our indemnification of certain customers, distributors, and other parties could be higher in future periods**

In the normal course of our business, we indemnify other parties, including customers, distributors, and lessors, with respect to certain matters. These obligations typically arise pursuant to contracts under which we agree to hold the other party harmless against losses arising from a breach of representations and covenants related to certain matters, such as acts or omissions of our employees, infringement of third-party intellectual property rights, and certain environmental matters. We have not incurred any significant expense as a result of agreements of this type in at least a decade, but there can be no assurances that we will not incur expense under these indemnification provisions in the future.

We have also entered into agreements with our current and former directors and certain of our current and former executives indemnifying them against certain liabilities incurred in connection with their duties. Our Certificate of Incorporation and Bylaws contain similar indemnification obligations with respect to our current and former directors and employees, as does the California Labor Code. We cannot estimate the amount of potential future payments, if any, that we might be required to make as a result of these agreements. Prior to fiscal year 2007, we had not incurred any significant expense as a result of agreements of this type for at least a decade.

---

**Table of Contents**

**Our share price could be subject to extreme price fluctuations, and stockholders could have difficulty trading shares**

Historically, the market for the stock of high technology companies has been volatile, and the market price of our common stock has been and may continue to be subject to significant fluctuations. Fluctuations could be in response to items such as operating results, announcements of technological innovations, or market conditions for technology stocks in general. Additionally, the stock market in recent years has experienced extreme price and volume fluctuations that often have been unrelated to the operating performance of individual companies. These market fluctuations, as well as general economic conditions, may adversely affect the price of our common stock.

In the past, securities class action litigation has often been instituted against a company following periods of volatility in the company's stock price. See Note 15 to the consolidated financial statements included in Item 8 of this report for information regarding a class action suit filed in fiscal year 2008 relating to our past stock option practices. Securities class action litigation could result in substantial costs and divert our management's attention and resources.

In addition, the future sale of a substantial number of shares of common stock by us or by our existing stockholders or option holders (including directors, officers, and employees, some of whom hold stock options that are approaching their expiration date) may have an adverse impact on the market price of the shares of common stock. There can be no assurance that the trading price of our common stock will remain at or near its current level.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

Our headquarters are located in Camarillo, California where we own an approximately 87,600 square foot facility that was completed in 2002. The parcel on which our headquarters is located can accommodate substantial expansion. The Camarillo facility houses inside sales, marketing and administrative offices as well as a very limited amount of test and probe activity.

We own a 30,000 square foot building in Reynosa, Mexico that supports some of the assembly and production needs of the Power Management and High-Reliability product line.

We lease an approximately 10,000 square foot building in San Diego, California that houses design, test and administrative functions and serves as a development center for our Wireless and Sensing product line. The lease on this facility runs through September 2014, with an option to extend for an additional five years.

Our Redondo Beach, California facilities consist of approximately 26,300 total square feet of leased space which house general offices for business functions relating to certain products of our Advanced Communications product line. The leases on these facilities expire at various times between 2013 and 2015. We also lease approximately 35,000 square feet in Irvine, California which facility houses design, test and administrative functions for our Advanced Communications product line. The leases on the Irvine facilities expire between 2014 and 2015.

We lease a facility in Wil, Switzerland which serves as corporate headquarters for our Semtech International AG subsidiary and houses finance, administrative and other general functions. The lease on this facility runs through June 2019. In addition, we lease office and warehouse space in Neuchatel, Switzerland, the headquarters for our Wireless and Sensing product line. The lease on this facility expires in March, 2016.

We also lease space to house certain of our other design, sales and marketing and operations in San Jose, California; Raleigh, North Carolina; China; France; Germany; Japan; South Korea; the Philippines; Taiwan; and the United Kingdom.

We believe that our existing leased and owned space is more than adequate for our current operations, and that suitable replacement and additional space will be available in the future on commercially reasonable terms.



**Table of Contents****Item 3. Legal Proceedings**

The descriptions of the legal proceedings in Note 12 to the financial statements included in this report are incorporated by reference to this Item 3.

**Item 4. Mine Safety Disclosures**

Not applicable.

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**  
**Market Information**

During fiscal years 2012 and 2011, our common stock traded on the NASDAQ Global Select Market under the symbol SMTC. The following table sets forth, for the periods indicated, the high and low sale prices of our common stock, as reported on the NASDAQ market, giving effect to all stock splits through the date hereof.

|                                             | High     | Low      |
|---------------------------------------------|----------|----------|
| <b>Fiscal year ending January 30, 2011:</b> |          |          |
| First Quarter                               | \$ 19.43 | \$ 14.70 |
| Second Quarter                              | \$ 18.54 | \$ 16.10 |
| Third Quarter                               | \$ 21.41 | \$ 16.24 |
| Fourth Quarter                              | \$ 24.43 | \$ 21.44 |
| <b>Fiscal year ending January 29, 2012:</b> |          |          |
| First Quarter                               | \$ 28.29 | \$ 21.30 |
| Second Quarter                              | \$ 29.47 | \$ 22.88 |
| Third Quarter                               | \$ 26.23 | \$ 19.16 |
| Fourth Quarter                              | \$ 29.40 | \$ 20.45 |

On March 22, 2012, the reported last sale price of our common stock on the NASDAQ Global Select Market was \$28.80 per share.

**Holdings**

As of March 22, 2012, we had 330 holders of record of our common stock.

**Dividends**

The payment of dividends on our common stock is within the discretion of our Board of Directors. Currently, we intend to retain earnings to finance the growth of our business. We have not paid cash dividends on our common stock during at least the five most recent fiscal years and our Board of Directors has not indicated intent to declare a cash dividend on the common stock in the foreseeable future. The credit agreement governing our senior secured first lien credit facilities entered into in connection with our acquisition of Gennum includes covenants limiting our ability to pay dividends or make distributions on our capital stock.

**Table of Contents****Purchases of Equity**

Information with respect to purchases by the Company of shares of common stock during the fourth quarter of fiscal year 2012 follows:

Issuer Purchases of Equity Securities

| 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) |
|----------------------------------------|--------------------------------------|------------------------------|------------------------------------------------------------------------|------------------------------------------------------------------------------------|
| November 2011<br>(10/31/11 - 11/27/11) | 479,284                              | \$ 22.54                     | 479,284                                                                | \$ 10.8 million                                                                    |
| December 2011<br>(11/28/11-12/25/11)   | 403,320                              | \$ 22.81                     | 403,320                                                                | \$ 50.0 million                                                                    |
| January 2012<br>(12/26/11-1/29/12)     |                                      | \$                           |                                                                        | \$ 50.0 million                                                                    |
| Total fourth quarter                   | 882,604                              |                              | 882,604                                                                |                                                                                    |

- 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 ( 2008 Program ). This stock repurchase program does not have an expiration date. On August 24, 2011, we announced a \$36 million expansion of the 2008 Program. On November 30, 2011, we announced an additional \$50 million expansion of our existing stock repurchase program.
- 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.

**Securities Authorized for Issuance Under Equity Compensation Plans**

See the information set forth in Part III, Item 12 of this Form 10-K.

**Sales of Unregistered Securities**

We did not make any unregistered sales of equity securities during fiscal year 2012.

**Performance Graph**

This chart and graph show the value of a \$100 cash investment on the last day of fiscal year 2007 in (i) the Company's common stock, (ii) the NASDAQ Composite Index, and (iii) the Philadelphia Semiconductor Index. Note that historic stock price performance is not necessarily indicative of future stock price performance.

**Table of Contents**

| Fiscal Year               | 2007   | 2008  | 2009  | 2010   | 2011   | 2012   |
|---------------------------|--------|-------|-------|--------|--------|--------|
| Semtech                   | \$ 100 | \$ 94 | \$ 87 | \$ 113 | \$ 164 | \$ 219 |
| NASDAQ Composite          | \$ 100 | \$ 96 | \$ 61 | \$ 88  | \$ 110 | \$ 116 |
| PHLX SEMICONDUCTOR SECTOR | \$ 100 | \$ 77 | \$ 45 | \$ 68  | \$ 95  | \$ 89  |

The information contained in this Item 5 under the heading Performance Graph (i) is being furnished and shall not be deemed filed for the purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities of that section, and (ii) shall not be incorporated by reference into any registration statement or other document pursuant to the Exchange Act, or the Securities Act, except as shall be expressly set forth by specific reference in such filing to this Item 5 Performance Graph information.

**Item 6. Selected Financial Data**

The consolidated statement of income data set forth below for fiscal years 2012, 2011 and 2010 and the consolidated balance sheet data as of the end of fiscal years 2012 and 2011 are derived from, and qualified by reference to, the audited consolidated financial statements included in Item 8 of this report. The consolidated statement of income data for fiscal years 2009 and 2008 and the consolidated balance sheet data as of the end of fiscal years 2010, 2009 and 2008 are derived from the audited financial statements previously filed with the SEC on Form 10-K.

This information should be read in conjunction with Management's Discussion and Analysis contained in Item 7 of this report, the audited financial statements and accompanying notes included in Item 8 of this report, and the corresponding items included in our Form 10-K for fiscal years 2011, 2010 and 2009.

The fiscal year ended January 31, 2010 consisted of fifty-three weeks with the extra week falling in the fourth quarter. All other fiscal years presented consisted of fifty-two weeks. Our past results are not necessarily indicative of our future performance.

**Income Statement Data**

(in thousands, except per share amounts)

|                                                                         | Fiscal Year Ended   |                     |                     |                     |                     |
|-------------------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|                                                                         | January 29,<br>2012 | January 30,<br>2011 | January 31,<br>2010 | January 25,<br>2009 | January 27,<br>2008 |
| Net Sales                                                               | \$ 480,601          | \$ 454,502          | \$ 286,560          | \$ 294,820          | \$ 284,790          |
| Cost of Sales                                                           | 194,956             | 186,196             | 130,514             | 135,233             | 128,513             |
| Gross Profit                                                            | 285,645             | 268,306             | 156,046             | 159,587             | 156,277             |
| Operating costs and expenses:                                           |                     |                     |                     |                     |                     |
| Selling, general and administrative                                     | 100,629             | 110,404             | 77,934              | 75,200              | 68,924              |
| Product development and engineering                                     | 80,577              | 69,624              | 44,847              | 41,405              | 43,064              |
| Intangible amortization                                                 | 10,853              | 9,520               | 2,348               | 1,091               | 1,102               |
| Total operating costs and expenses                                      | 192,059             | 189,548             | 125,129             | 117,696             | 113,090             |
| Operating income                                                        | 93,586              | 78,758              | 30,917              | 41,891              | 43,187              |
| Interest and other income, net                                          | 593                 | 574                 | 3,054               | 4,287               | 15,120              |
| Income before taxes                                                     | 94,179              | 79,332              | 33,971              | 46,178              | 58,307              |
| Provision for taxes                                                     | 5,092               | 6,760               | 33,014              | 8,657               | 10,524              |
| Net income                                                              | \$ 89,087           | \$ 72,572           | \$ 957              | \$ 37,521           | \$ 47,783           |
| Earnings per share:                                                     |                     |                     |                     |                     |                     |
| Basic                                                                   | \$ 1.37             | \$ 1.16             | \$ 0.02             | \$ 0.61             | \$ 0.72             |
| Diluted                                                                 | \$ 1.32             | \$ 1.12             | \$ 0.02             | \$ 0.61             | \$ 0.71             |
| Weighted average number of shares used in computing earnings per share: |                     |                     |                     |                     |                     |
| Basic                                                                   | 65,099              | 62,339              | 60,779              | 61,249              | 66,424              |

Edgar Filing: SEMTECH CORP - Form 10-K

|                                                           |        |        |        |        |        |
|-----------------------------------------------------------|--------|--------|--------|--------|--------|
| Diluted                                                   | 67,350 | 64,523 | 61,676 | 61,999 | 67,709 |
| Anti-dilutive shares not included in the EPS calculations | 625    | 1,700  | 8,900  | 10,600 | 10,300 |

**Table of Contents****Balance Sheet Data**

| (in thousands)                         | January 29<br>2012 | January 30<br>2011 | January 31<br>2010 | January 25<br>2009 | January 27<br>2008 |
|----------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Cash, cash equivalents and investments | \$ 327,665         | \$ 258,342         | \$ 162,223         | \$ 258,815         | \$ 213,397         |
| Working capital                        | 360,330            | 259,873            | 146,086            | 279,887            | 255,562            |
| Total assets                           | 726,321            | 659,943            | 514,294            | 420,795            | 395,412            |
| Other long-term liabilities            | 29,151             | 37,503             | 35,173             | 8,960              | 10,680             |
| Total stockholders' equity             | 630,188            | 528,615            | 405,741            | 378,020            | 348,710            |

Note 1: The Company acquired SMI on December 9, 2009 and Leadis Technology Inc. on February 6, 2009. Both of these acquisitions occurred during our fiscal year 2010 with SMI being the more significant of the two. As a result, fiscal year 2011 reflects a full year on these acquisitions in our consolidated statements of income. Refer to Note 7 to the audited consolidated financial statements included in Item 8 of this report.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with Item 6 Selected Consolidated Financial Data and our audited consolidated financial statements and related notes included elsewhere in this Form 10-K.*

*As discussed in Special Note Regarding Forward-Looking and Cautionary Statements earlier in this report, this Form 10-K contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward looking statements, including as a result of the risks described in the cautionary statements in Item 1A Risk Factors and elsewhere in this Form 10-K, in our other filings with the SEC, and in material incorporated herein and therein by reference. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

**Overview**

We are a leading supplier of analog and mixed-signal semiconductor products and were incorporated in Delaware in 1960. We design, produce and market a broad range of products that are sold principally into applications within the high-end consumer, industrial, computing and communications end-markets. The high-end consumer market includes handheld products, tablet computers, set-top boxes, digital televisions, digital video recorders and other consumer equipment. Applications for the industrial market include automated meter reading, military and aerospace, medical, security systems, automotive, industrial and home automation, and other industrial equipment. Computing product markets include desktops, notebooks, servers, graphic boards, monitors, printers, and other computer peripherals. Communications market applications include base stations, optical networks, switches and routers, wireless LAN, and other communication infrastructure equipment. Our end-customers are primarily original equipment manufacturers and their suppliers, including Alcatel-Lucent, Apple, Inc., Cisco Systems, Inc., Ericsson, Finisar Corporation, Fujitsu, Hamilton Sundstrand, Huawei Technologies Co., Ltd., JDS Uniphase, LG Electronics, Motorola, Nokia Siemens Networks, Oclaro, Opnext, Inc., Phonak International, Research In Motion Limited, Samsung Electronics Co., Ltd., and ZTE Corporation.

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. Sales made directly to customers during fiscal year 2012 were 56% of net sales. The remaining 44% of net sales were made through independent distributors.

Our business relies 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, the United States, Israel, Europe, and Canada. For the fiscal year ended January 29, 2012, approximately 59% of our silicon, in terms of cost of wafers purchased, was manufactured in China. Foreign sales for fiscal year 2012 constituted approximately 80% of our net sales. Approximately 75% of foreign sales in fiscal year 2012 were to customers located in the Asia-Pacific region. The remaining foreign sales were primarily to customers in Europe, Canada, and Mexico.



**Table of Contents****Recent Developments**

On March 20, 2012, we announced that we have successfully completed the acquisition of Gennum, a leading supplier of high speed analog and mixed-signal semiconductors for the optical communications and video broadcast markets. In accordance with the terms of the acquisition agreement, the Company acquired all outstanding common shares of Gennum for approximately \$510 million. The transaction was financed through cash on hand and \$350 million of five-year secured term loans.

On March 20, 2012, we entered into a Credit Agreement with the lenders referred to therein (the "Lenders") and Jefferies Finance LLC, as administrative agent (the "Credit Agreement"). Pursuant to the Credit Agreement, the Lenders provided us with senior secured first lien credit facilities in an aggregate principal amount of \$350 million (the "Facilities"), consisting of Term A loans in an aggregate principal amount of \$100 million (the "Term A Loans") and Term B loans in an aggregate principal amount of \$250 million (the "Term B Loans").

Gennum's data communications and video platforms broaden our existing portfolio of high-speed communications platforms. Combining Gennum's 1Gbps to 25 Gbps signal integrity solutions with our 40 Gbps to 100 Gbps SerDes solutions creates one of the industry's most complete and robust analog and mixed signal portfolios targeted at the communications and enterprise computing segments. This will enable us to help customers reduce bottlenecks in the access, metro and core networks, as demand for bandwidth continues to escalate. Moreover, Gennum's strong position in video broadcast and the emerging HD video surveillance market further diversifies our portfolio of high-performance analog semiconductors.

**Results of Operations*****Fiscal Year 2012 Compared With Fiscal Year 2011***

Presented below is our estimate of net sales by end-market.

| (fiscal years, in thousands) | January 29, 2012 |         | January 30, 2011 |         | Change |
|------------------------------|------------------|---------|------------------|---------|--------|
|                              | Net Sales        | % total | Net Sales        | % total |        |
| Computing                    | \$ 41,716        | 9%      | \$ 42,728        | 9%      | -2%    |
| Communications               | 186,479          | 39%     | 166,419          | 37%     | 12%    |
| High-End Consumer            | 168,520          | 35%     | 151,945          | 33%     | 11%    |
| Industrial/Other             | 83,886           | 17%     | 93,410           | 21%     | -10%   |
| Net sales                    | \$ 480,601       | 100%    | \$ 454,502       | 100%    | 6%     |

**Table of Contents**

**Net Sales.** Net sales for fiscal year 2012 were \$480.6 million, an increase of 6% from \$454.5 million for fiscal year 2011. Fiscal year 2012 revenues increased driven by strengthening demand in the communications and consumer end markets. Fiscal year 2012 was also impacted by softening global economic conditions that resulted in a reduction in orders of our component products during the fiscal year.

Higher revenue in the communications end market was attributed to the impact of strengthening demand for our 40G and 100G communications infrastructure products in our Advanced Communications product line. Higher revenues in the high-end consumer end market were driven by strengthening demand for Protection products in consumer applications including LCD TVs, smartphones and tablet computers. Computing revenues were roughly flat. Within the industrial category, lower revenue was attributed to softer demand from the military segment in our Power Management and High-Reliability and Advanced Communications product lines.

**Gross Profit.** Gross profit was \$285.6 million and \$268.3 million for fiscal years 2012 and 2011, respectively. Our gross margin was 59.4% for fiscal year 2012, up from 59.0% in fiscal year 2011. Gross profit margins for fiscal year 2012 were positively impacted by higher revenues, increased manufacturing volumes and the impact of reduced equity compensation expenses attributed to staffing reductions associated with a reduction in workforce. These factors offset the impact of a higher mix of consumer and computing revenues relative to communications and industrial revenues.

**Operating Costs and Expenses.**

| (fiscal years, in thousands)            | January 29, 2012 |         | January 30, 2011 |         | Change |
|-----------------------------------------|------------------|---------|------------------|---------|--------|
|                                         | Costs/Exp.       | % sales | Costs/Exp.       | % sales |        |
| Selling, general and administrative     | \$ 100,629       | 21%     | \$ 110,404       | 25%     | (9)%   |
| Product development and engineering     | 80,577           | 17%     | 69,624           | 15%     | 16%    |
| Intangible amortization and impairments | 10,853           | 2%      | 9,520            | 2%      | 14%    |
| Total operating costs and expenses      | \$ 192,059       | 40%     | \$ 189,548       | 42%     | 1%     |

**Selling, General & Administrative Expenses**

Selling, general and administrative expenses for fiscal year 2012 decreased by \$9.8 million or 9% driven by the reduction in class action lawsuit expenses as the Company settled the litigation in August 2011, and lower equity compensation expenses partially offset by the impact of transaction expenses, reorganization charges and the impact of higher staffing and information technology infrastructure upgrade spending. Approximately \$2.9 million of transaction expenses attributed to the acquisition of Gennum and the evaluation of other acquisition candidates were recorded in fiscal year 2012.

Selling, general and administrative expenses for fiscal years 2012 and 2011 include approximately \$0.2 million and \$13.6 million (net of insurance recoveries of \$10 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. Fiscal year 2012 includes \$2.0 million for expenses attributed to a reorganization plan initiated during the third quarter of fiscal year 2012 which resulted in consolidation of research and development activities and reduction in workforce.

Stock-based compensation expense was \$15.8 million and \$19.3 million in fiscal years 2012 and 2011, respectively. The year over year decrease in equity compensation was principally driven by staffing reductions associated with our reorganization actions.

**Product Development and Engineering Expenses**

Product development and engineering expenses for fiscal years 2012 and 2011 were \$80.6 million and \$69.6 million, respectively or an increase of 16%. The increase in fiscal year 2012 is principally driven by the impact of increased new product and process development expenditures primarily in the Advanced Communications and Protection product lines. In addition, fiscal year 2012 includes a \$0.9 million expense associated with the impairment of a new process development initiative.

**Intangible Amortization and Impairments**



## Edgar Filing: SEMTECH CORP - Form 10-K

Intangible Amortization, which reflects amortization costs associated with acquired intangibles, increased by \$1.3 million in fiscal year 2012 compared to fiscal year 2011, as a result of the impact of impairment charges attributed to assets acquired from Leadis Technology Inc. During the third quarter of fiscal year 2012, we abandoned certain development efforts related to acquired intangible assets and recorded an impairment charge of \$2.5 million.

**Table of Contents**

**Interest and Other Income, Net.** Interest and other income, net was \$593,000 for fiscal year 2012, up from \$574,000 in fiscal year 2011. For fiscal years 2012 and 2011, the primary source of income was interest from investments offset by loss from foreign currency transactions.

**Provision for Taxes.** The provision for income taxes was \$5.1 million for fiscal year 2012 compared to \$6.8 million for fiscal year 2011. The effective tax rates for fiscal year 2012 and fiscal year 2011 were 5.4% and 8.5%, respectively. The rate for fiscal year 2012 reflects the impact of favorable trends in our regional mix of income. We expect our regional income trends to remain favorable. However, certain items which occurred in fiscal year 2012 are not expected to recur in fiscal year 2013. One such item includes a one-time benefit of \$3.9 million related to a release of previously recorded reserves for uncertain tax positions, as a result of statutes of limitations for the taxing authority to challenge the positions expiring.

In fiscal year 2012, our tax provision was adversely effected by a net increase to our valuation allowance of \$2.1 million. This net increase was primarily the result of utilization concerns related to our California net operating losses due to a projected lower California apportionment in future years.

In fiscal year 2010, we concluded that \$120 million of foreign subsidiary earnings were no longer considered to be permanently reinvested offshore. In connection with the acquisition of Gennum in March 2012, we reviewed this prior assertion and concluded that only \$50 million of foreign subsidiary earnings were no longer permanently reinvested offshore resulting in \$70 million of foreign subsidiary earnings deemed to be permanently reinvested. This change in assertion will result in recording a discrete adjustment to its tax provision in the first quarter of fiscal year 2013. The impact of this change in assertion is expected to result in the recognition of a \$23 million tax benefit in the first quarter of fiscal year 2013.

**Fiscal Year 2011 Compared With Fiscal Year 2010**

Presented below is our estimate of sales by end-market.

| (fiscal years, in thousands) | January 30, 2011 |         | January 31, 2010 |         | Change |
|------------------------------|------------------|---------|------------------|---------|--------|
|                              | Net Sales        | % total | Net Sales        | % total |        |
| Computing                    | \$ 42,728        | 9%      | \$ 40,875        | 14%     | 5%     |
| Communications               | 166,419          | 37%     | 66,038           | 23%     | 152%   |
| High-End Consumer            | 151,945          | 33%     | 113,240          | 40%     | 34%    |
| Industrial/Other             | 93,410           | 21%     | 66,407           | 23%     | 41%    |
| Net sales                    | \$ 454,502       | 100%    | \$ 286,560       | 100%    | 59%    |

**Net Sales.** Net sales for fiscal year 2011 were \$454.5 million, an increase of 59% from \$286.6 million for fiscal year 2010. While fiscal year 2011 revenue increased significantly on strengthening demand across the majority of our product lines, revenues also benefited from the impact of the addition of the full-year of SMI acquisition related revenues; whereas fiscal year 2010 only reflected SMI acquisition related revenues for the period of December 10, 2009 through January 31, 2010. The acquisition of SMI provided us with products that shared similar business processes, markets and intellectual property. Post-acquisition, we quickly took actions to fully integrate SMI into our operations. Fiscal year 2010 was also impacted by deteriorating global economic conditions that resulted in a significant reduction in orders of our component products during the first half of the fiscal year. Demand and orders increased during the second half of fiscal year 2010 as business conditions began to improve. Revenues in the fourth quarter of fiscal year 2010 also benefited from an extra week in the fiscal quarter.

Higher revenue in the communications end market was driven by higher unit volumes of Advanced Communications products, including the benefits from the unit volumes attributable to the acquired SMI business, and Power Management products. Higher revenues in the high-end consumer end market were driven by strengthening demand for Protection products. The reduction in computing revenues was attributed to the overall softness in the macro-economy and the strategy to exit lower margin areas of the computing end market. Within the industrial category, lower revenue was attributed to the overall softness in the macro-economy and the impact of a slowdown in military funding which impacted the Power Management and High-Reliability product group.

**Gross Profit.** Gross profit was \$268.3 million and \$156 million for fiscal years 2011 and 2010, respectively. Our gross margin was 59.0% for fiscal year 2011, up from 54.5% in fiscal year 2010. Gross profit margins for fiscal year 2011 were positively impacted by product revenue mix attributed to the higher mix of communications and industrial revenues and a lower mix of high-end consumer and computing revenues relative to fiscal year 2010. The contribution of new Power Management product revenue from our Power Management and High-Reliability product

line also helped fiscal year 2011 gross margins.

**Table of Contents*****Operating Costs and Expenses.*****Operating Costs & Expenses**

| (fiscal years, in thousands)        | January 30, 2011 |         | January 31, 2010 |         | Change |
|-------------------------------------|------------------|---------|------------------|---------|--------|
|                                     | Costs/Exp.       | % sales | Costs/Exp.       | % sales |        |
| Selling, general and administrative | \$ 110,404       | 25%     | \$ 77,934        | 27%     | 42%    |
| Product development and engineering | 69,624           | 15%     | 44,847           | 16%     | 55%    |
| Intangible Amortization             | 9,520            | 2%      | 2,348            | 1%      | 305%   |
| Total operating costs and expenses  | \$ 189,548       | 42%     | \$ 125,129       | 44%     | 51%    |

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses for fiscal year 2011 increased by \$32.5 million or 42%. Stock-based compensation expense was \$19.3 million and \$13.6 million in fiscal years 2011 and 2010, respectively. The year over year increase in equity compensation was principally driven by the impact of inducement and replacement awards issued to employees that joined the Company as a result of the SMI acquisition. This was partially offset by a reduction in stock-based compensation in fiscal year 2009 which benefited from the reversal of \$1.7 million of expense attributable to performance grants that are not expected to vest. Selling, general and administrative expenses for fiscal year 2011 includes approximately \$4 million of transaction and integration expenses attributed to the acquisition of SMI. Selling, general administrative expenses were partially offset by an insurance recovery in the amount of approximately \$1.4 million related to the fire at our Reynosa, Mexico manufacturing facility in fiscal year 2009. These expenses were partially offset by reduced selling and marketing expenses.

Selling, general and administrative expenses for fiscal years 2011 and 2010 include approximately \$13.6 million (net of insurance recoveries of \$10 million) and \$3.3 million, respectively, for legal, accounting, tax and other professional services in connection with matters related to our historical stock option practices, including the government inquiries, the related litigation, and other associated matters. Included in the fiscal year 2010 expense is a \$10 million charge related to a settlement offer that was extended to the plaintiffs in the class action lawsuit. These expenses also include claims for advancement of legal expenses to current and former directors, officers and employees.

**Product Development and Engineering Expenses**

Product development and engineering expenses for fiscal years 2011 and 2010 were \$69.6 million and \$44.8 million, respectively or an increase of 55%. The increase in fiscal year 2011 is principally driven by the impact of the additional product development and engineering expenses resulting from the acquisition of SMI and a \$2.7 million increase in stock-based compensation expense (which includes the impact of inducement and replacement awards issued to employees that joined the company as a result of the SMI acquisition).

**Intangible Amortization**

Intangible Amortization, which reflects amortization costs associated with acquired intangibles, increased by \$7.2 million in fiscal year 2011 compared to fiscal year 2010 as a result of the amortization of intangibles associated with our acquisition of SMI in the fourth quarter of fiscal year 2010.

***Interest and Other Income, Net.*** Interest and other income, net was \$0.6 million for fiscal year 2011, down from \$3.1 million in fiscal year 2010. For fiscal years 2011 and 2010, the primary source of income was interest from investments and secondarily, gain (loss) from foreign currency transactions, gain/ (loss) on sale of assets, and insurance proceeds recorded as other income.

Interest income decreased in fiscal year 2011 as a result of the continued environment of low interest rates and the focus on protecting principal by limiting the investment of new and maturing funds to the higher quality yet lower yielding investments.

The year over year decrease in interest income was partially mitigated by net gains related to foreign currency transactions and sale of assets and the receipt of insurance property claims recorded as other income.

## Edgar Filing: SEMTECH CORP - Form 10-K

**Provision for Taxes.** The provision for income taxes was \$6.8 million for fiscal year 2011 compared to \$33 million for fiscal year 2010. The effective tax rates for fiscal year 2011 and fiscal year 2010 were 8.5% and 97.2%, respectively. The rate for fiscal year 2011 reflects the impact of favorable trends in our regional mix of income. In addition to favorable trends in regional revenue distribution, other key drivers in fiscal year 2011 were high levels of expense related to the class action lawsuit, including the additional \$10.0 million of expense that was recorded in the fourth quarter of fiscal year 2011 (to reflect the agreement in principle to settle the class action lawsuit).

**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 January 29, 2012, our total shareholders' equity was \$630.2 million. At that date we also had approximately \$310.1 million in cash and short-term investments, as well as \$17.5 million in long-term investments. We have no outstanding debt as of January 29, 2012.

On March 20, 2012, we entered into a Credit Agreement with the Lenders and Jefferies Finance LLC, as administrative agent. Pursuant to the Credit Agreement, the Lenders provided us with senior secured first lien credit facilities in an aggregate principal amount of \$350 million, consisting of Term A loans in an aggregate principal amount of \$100 million and Term B loans in an aggregate principal amount of \$250 million. The Facilities mature on March 20, 2017. A portion of the proceeds of the Facilities were used to finance the acquisition of Gennum.

Interest on the Term A Loan accrues, at our option, at a rate per annum equal to the Base Rate (as defined below) plus a margin ranging from 1.50% to 1.75% depending upon our consolidated leverage ratio or LIBOR for an interest period to be selected by us plus a margin ranging from 2.50% to 2.75% depending upon our consolidated leverage ratio. Interest on the Term B Loan accrues, at our option, at a rate per annum equal to the Base Rate (subject to a floor of 2.00%) plus a margin of 2.25% or LIBOR for an interest period to be selected by us (subject to a floor of 1.00%) plus a margin of 3.25%. The Base Rate is equal to a fluctuating rate equal to the highest of (a) the prime rate, (b) of 1% above the federal funds effective rate and (c) one-month LIBOR plus 1%.

Subject to certain customary exceptions, all obligations under the Facilities are unconditionally guaranteed by each of our existing and subsequently acquired or organized direct and indirect domestic subsidiaries (the Guarantors). The obligations and the Guarantors in respect of the Facilities are secured by a first priority security interest in substantially all of the assets of Semtech and the Guarantors, subject to certain customary exceptions.

Our primary sources and uses of cash during the comparative fiscal years are presented below:

| (in millions)                                                              | January 29,<br>2012 | Fiscal Years Ended<br>January 30,<br>2011 | January 31,<br>2010 |
|----------------------------------------------------------------------------|---------------------|-------------------------------------------|---------------------|
| <b>Sources of Cash</b>                                                     |                     |                                           |                     |
| Operating activities, including working capital changes                    | \$ 99.8             | \$ 93.8                                   | \$ 83.3             |
| Proceeds from exercise of compensatory stock plans, including tax benefits | 45.0                | 30.7                                      | 11.7                |
| Proceeds (purchases) from sale of investments, net                         | 38.4                | (57.8)                                    | 29.9                |
| <b>Total sources of cash</b>                                               | <b>\$ 183.2</b>     | <b>\$ 66.7</b>                            | <b>\$ 124.9</b>     |
| <b>Uses of Cash</b>                                                        |                     |                                           |                     |
| Capital expenditures, net of sale proceeds (excluding land sale)           | \$ (21.5)           | \$ (25.5)                                 | \$ (8.6)            |
| Repurchase of common stock                                                 | (50.7)              | (2.8)                                     | (2.9)               |
| Purchase of software licenses                                              | (3.0)               |                                           |                     |
| Acquisition, net of cash acquired                                          |                     |                                           | (178.1)             |
| Repayment of long-term debt                                                |                     |                                           | (2.4)               |
| <b>Total uses of cash</b>                                                  | <b>\$ (75.2)</b>    | <b>\$ (28.3)</b>                          | <b>\$ (192.0)</b>   |
| <b>Net increase (decrease) in cash and cash equivalents</b>                | <b>\$ 108.0</b>     | <b>\$ 38.4</b>                            | <b>\$ (67.1)</b>    |

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 will require continued, and perhaps additional, investment in design and application engineers aimed at developing new products. 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 our operations and our existing cash balances.

## Edgar Filing: SEMTECH CORP - Form 10-K

A meaningful portion of our capital resources, and the liquidity they represent, are held by our foreign subsidiaries. As of January 29, 2012, our foreign subsidiaries held approximately \$271.4 million of cash, cash equivalents, and short-term investments compared to 165.7 million at January 30, 2011. If we needed 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 constantly improve the cash flows from our existing business activities. Our cash, cash equivalents and investments noted above, give us the flexibility to leverage our free cash flow to return value to shareholders (in the form of stock repurchases) while also pursuing business improvement opportunities.

## **Table of Contents**

Additionally, we will continue to seek to maintain and improve our existing business performance with necessary capital expenditures and, potentially, acquisitions that may further improve our base business with prospects of a proper return. Acquisitions might be made for either cash or stock consideration, or a combination of both.

### **Operating Activities**

Net cash provided by operating activities is primarily due to net income adjusted by non-cash items plus fluctuations in operating assets and liabilities.

### **Investing Activities**

Cash used for investing activities is primarily attributable to capital expenditures, purchases of investments, offset by proceeds from the sales/maturities of investments. Our marketable securities investment portfolio is invested primarily in highly rated securities, generally with a minimum rating of A/A2 or equivalent.

Capital expenditures, net proceeds from disposals, were \$21.5 million for fiscal year 2012 compared to 25.5 million for fiscal year 2011.

### **Financing Activities**

Cash provided by financing activities is primarily attributable to the proceeds from stock option exercises offset by the repurchase of common stock under our stock repurchase program and the payment of statutory tax withholding obligations related to the vesting of restricted stock, and stock repurchases.

For fiscal year 2012, cash from the exercise of stock options were \$42.7 million compared with \$29.8 million in fiscal year 2011.

We do not directly control the timing of the exercise of stock options. Such exercises are decisions made by those grantees and are influenced most directly by the level of our 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.

We currently have in effect a stock repurchase program. This program represents one of our principal efforts to return value to our shareholders. In fiscal year 2012, we repurchased 2.3 million shares under this program for \$50 million. In fiscal year 2011, we repurchased 75,000 shares under this program for \$1.3 million. On August 24, 2011 we announced a \$36 million expansion of our existing stock repurchase program. Refer to Exhibit 99.1 of our current report on Form 8-K files with the SEC on August 24, 2011 for the complete announcement. On November 30, 2011 we announced an additional \$50 million expansion of our existing stock repurchase program. Refer to Exhibit 99.1 of our current report on Form 8-K filed with the SEC on November 30, 2011 for the complete announcement.

In addition to the stock repurchase program, shares valued at \$0.7 million and \$1.6 million were withheld in connection with the vesting of restricted stock to cover statutory tax withholding obligations in fiscal years 2012 and 2011, respectively.

### **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 current or future 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. We do not 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.

Noted below under Contractual Obligations are various commitments we have associated with our business, such as lease commitments and open purchase obligations, which are not recorded as liabilities on our balance sheet because we have not yet received the related goods or services as of January 29, 2012.





**Table of Contents****Contractual Obligations**

Presented below is a summary of our contractual obligations as of January 29, 2012.

| (in thousands)                            | Payments due by period (1) |                  |                 |                 | Total            |
|-------------------------------------------|----------------------------|------------------|-----------------|-----------------|------------------|
|                                           | Less than 1 year           | 1-3 years        | 4-5 years       | After 5 years   |                  |
| Operating leases                          | \$ 5,198                   | \$ 5,929         | \$ 1,368        | \$ 261          | \$ 12,756        |
| Open capital purchase commitments         | 1,288                      |                  |                 |                 | 1,288            |
| Other open purchase commitments           | 23,831                     |                  |                 |                 | 23,831           |
| Other vendor commitments                  |                            |                  |                 |                 |                  |
| Deferred compensation                     | 901                        | 983              | 594             | 8,645           | 11,123           |
| Other long-term liabilities               |                            | 6,770            |                 |                 | 6,770            |
| <b>Total contractual cash obligations</b> | <b>\$ 31,218</b>           | <b>\$ 13,682</b> | <b>\$ 1,962</b> | <b>\$ 8,906</b> | <b>\$ 55,768</b> |

(1) The table above excludes the \$350 million term loan entered into on March 20, 2012 to finance the Genum acquisition.

Capital purchase commitments, other open purchase commitments and other vendor commitments are for the purchase of plant, equipment, raw material, supplies and services. They are not recorded as liabilities on our balance sheet as of January 29, 2012, as we have not yet received the related goods or taken title to the property.

We maintain a deferred compensation plan for certain officers and key executives that allow participants to defer a portion of their compensation for future distribution at various times permitted by the plan. Our liability for deferred compensation under this plan was \$11.1 million as of January 29, 2012 and \$10.2 million as of January 30, 2011, and is included in accrued liabilities and other long-term liabilities on the balance sheet and in the table above. The plan provides for a discretionary Company match up to a defined portion of the employee's deferral, with any match subject to a vesting period.

We have purchased whole life insurance on the lives of some of our current and former deferred compensation plan participants. This Company-owned life insurance is held in a grantor trust and is intended to cover a majority of our costs of the deferred compensation plan. The cash surrender value of our Company-owned life insurance was \$10.2 million as of January 29, 2012 and \$6.1 million as of January 30, 2011, and is included in other assets.

We have \$13.8 million of accrued taxes for uncertain tax positions. We believe that it is reasonably possible that the amount of unrecognized tax benefits will decrease by approximately \$0.5 million within twelve months as a result of expiring statutes.

**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.

**Critical Accounting Policies and Estimates**

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles ( GAAP ). In connection with the preparation of our financial statements, we are required to make assumptions and estimates about future events, and apply judgments that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. On a regular basis, management reviews the accounting policies, assumptions, estimates and judgments to ensure that our financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

## Edgar Filing: SEMTECH CORP - Form 10-K

Our significant accounting policies are discussed in Note 2 to our consolidated financial statements, included in Item 8, of this report on Form 10-K. We believe that the following accounting estimates are the most critical to aid in fully understanding and evaluating our reported financial results, and they require our most difficult, subjective or complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain. We have reviewed these critical accounting estimates and related disclosures with the Audit Committee of our Board of Directors.

### Accounting for Temporary and Long-Term Investments

Our temporary and long-term investments consist of government, corporate obligations and bank time deposits. Temporary investments mature within twelve months of the balance sheet date. Long-term investments have maturities in excess of one year from the date of the balance sheet. We classify our investments as available for sale because we expect to possibly sell some securities prior to maturity. We include any unrealized gain or loss, net of tax, in the comprehensive income portion of our Consolidated Statements of Stockholders' Equity.

**Table of Contents**

After determining the fair value of our available-for-sale investments, unrealized gains or losses on these investments are recorded to other comprehensive income, until either the investment is sold or we determine that a decline in value is other-than-temporary. Determining whether a decline in fair value is other-than-temporary requires management judgment based on the specific facts and circumstances of each investment. For investments in debt instruments, these judgments primarily consider: the financial condition and liquidity of the issuer, the issuer's credit rating, and any specific events that may cause us to believe that the debt instrument will not mature and be paid in full; and our ability and intent to hold the investment to maturity. If management decides not to hold an investment until maturity, it may result in the recognition of other-than-temporary impairment.

**Allowance for Doubtful Accounts**

We evaluate the collectability of our accounts receivable based on a combination of factors. If we are aware of a customer's inability to meet its financial obligations to us, we record an allowance to reduce the net receivable to the amount we reasonably believe we will be able to collect from the customer. For all other customers, we recognize allowances for doubtful accounts based on the length of time the receivables are past due, the current business environment, the size and number of certain large accounts and our historical experience. If the financial condition of our customers were to deteriorate or if economic conditions worsen, additional allowances may be required in the future.

**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 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 material using current standard costs. The deferred gross margin does not include any adjustments for sales returns. 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 2012 or fiscal year 2011.

The following table summarizes the deferred net revenue balance:

| Deferred revenue<br>(in thousands)                 | January 29,<br>2012 | January 30,<br>2011 |
|----------------------------------------------------|---------------------|---------------------|
| Deferred revenue                                   | \$ 4,964            | \$ 6,369            |
| Deferred cost of revenue                           | 1,243               | 1,560               |
| Deferred revenue, net                              | \$ 3,721            | \$ 4,809            |
| Deferred product design and engineering recoveries | 132                 | 211                 |
| Total deferred revenue                             | \$ 3,853            | \$ 5,020            |

**Inventory Valuation**

Our inventories are stated at lower of cost or market and consist of materials, labor and overhead. We determine the cost of inventory by the first-in, first-out method. At each balance sheet date, we evaluate our ending inventories for excess quantities and obsolescence. This evaluation includes analyses of sales levels by product and projections of future demand. In order to state our inventory at lower of cost or market, we

## Edgar Filing: SEMTECH CORP - Form 10-K

maintain specific reserves against our inventory which serve to write-down our inventories to a new cost basis. If future demand or market conditions are less favorable than our projections, a write-down of inventory may be required, and would be reflected in cost of goods sold in the period the revision is made.

---

## **Table of Contents**

### **Contingencies and Litigation**

We record accruals for contingencies when it is probable that a liability has been incurred and the amount can be reasonably estimated. These accruals are adjusted periodically as assessments change or additional information becomes available. Individually significant contingent losses are accrued when probable and reasonably estimable.

Legal defense costs expected to be incurred in connection with a loss contingency are accrued when probable and reasonably estimable. The amount we accrue is based on reviews by outside counsel, in-house counsel and management and some of the significant factors considered in the review of these reserves are as follows: the actual costs incurred by the Company; the development of the Company's legal defense strategy and structure in light of the scope of its litigation; the number of cases being brought against the Company; the costs and outcomes of completed trials and the most current information regarding anticipated timing, progression, and related costs of pre-trial activities and trials in the associated litigation. The amount of accrued reserves would represent our best estimate of the minimum amount of defense costs to be incurred in connection with its outstanding litigation; however, events such as additional trials and other events that could arise in the course of its litigation could affect the ultimate amount of legal defense costs to be incurred by the Company. We will continue to monitor our legal defense costs and review the adequacy of the associated reserves and may determine to increase the reserves at any time in the future if, based upon the factors set forth, it believes it would be appropriate to do so.

At January 29, 2012, our accrued liabilities in connection with an environmental matter include approximately \$58,000 of fees payable in connection with pending testing and monitoring activities at the site. While it is reasonably possible that losses exceeding the amounts already accrued may be incurred, because of the uncertainties associated with environmental assessment and the remediation activities, we have concluded that we are unable to reasonably estimate a range of potential expenses, if any, of future site clean-up costs that may be directed by the regulatory agency following the current site assessments and surveys. However, any such potential expenses are not expected to be material to our financial statements, as a whole. See Note 12 Commitments and Contingencies.

### **Stock-Based Compensation**

We measure compensation cost for all share-based payments (including stock options) at fair value using a valuation model, which considers, among other things, estimates and assumptions on the rate of forfeiture, expected life of options and stock price volatility. If any of the assumptions used in the valuation model change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period and actual results may differ from estimates.

### **Impairment of Goodwill, Other Intangibles and Long-Lived Assets**

We test goodwill and other indefinite-lived intangible assets for impairment in the fourth quarter of each fiscal year or more frequently if we believe indicators of impairment exist. The value of our intangible assets, including goodwill, could be impacted by future adverse changes such as: (i) any future declines in our operating results, (ii) a decline in the valuation of technology company stocks, including the valuation of our common stock, (iii) a significant slowdown in the worldwide economy and the semiconductor industry or (iv) any failure to meet the performance projections included in our forecasts of future operating results. For our annual impairment review, we primarily use a multi-period excess earnings approach methodology of valuation that includes the discounted cash flow method as well as other generally accepted valuation methodologies to determine the fair value of the assets. Our assumptions incorporate judgments as to the price received to sell a reporting unit as a whole in an orderly transaction between market participants at the measurement date. Considering the integration of our operations, we have assumed that the highest and best use of a reporting unit follows an in-use valuation premise. Significant management judgment is required in the forecasts of future operating results that are used in the discounted cash flow method of valuation. The estimates we have used are consistent with the plans and estimates that we use to manage our business. It is possible, however, that the plans and estimates used may be incorrect. If our actual results, or the plans and estimates used in future impairment analysis, are lower than the original estimates used to assess the recoverability of these assets, we could incur impairment charges in a future period.

In fiscal years 2012 and 2011, we reorganized our reporting structure in a manner that changed the composition of our reporting units. As a result of the change in fiscal year 2011, the goodwill associated with Xemics SA and Sierra Monolithics Inc. acquisitions have been aggregated. As of January 30, 2011 all of the goodwill reported was associated with the Advanced Communications and Sensing reporting unit.

In fiscal year 2012, the components of the Advanced Communications and Sensing reporting unit were split into two reporting units consisting of the Advanced Communications and the Wireless and Sensing reporting units. As a result of the change, in fiscal year 2012, goodwill was reassigned to the reporting units affected using a relative fair value allocation approach. Subsequent to the reorganization in the fourth quarter of fiscal year 2012, the goodwill associated with the Advanced Communications and Sensing



---

**Table of Contents**

reporting unit was reassigned such that 10% of goodwill is allocated to the Wireless and Sensing reporting unit and 90% of the goodwill is allocated to the Advanced Communications reporting unit. The measurement date used to reassign goodwill was November 30, 2011. In connection with the reorganizations in fiscal year 2012 and 2011, the Company assessed whether an indicator of impairment existed prior to the reorganizations and concluded that no such indicators were present in fiscal year 2012 and 2011.

Goodwill was tested for impairment as of November 30, 2011, the date of the Company's annual impairment review. The Company concluded that the fair value of this reporting unit exceeded the carrying value and no impairment existed. Our analysis included sensitivity analysis of key assumptions such as a 10% increase in the weighted-average cost of capital, a 10% increase in the effective tax rate or a 5% decline in our compound annual growth rate noting the fair value of the goodwill associated with the Advanced communications and Sensing reporting unit exceeded the carrying value and no impairment existed.

We record impairment losses on long-lived assets used in operations when indicators of impairment, such as reductions in demand or significant economic slowdowns in the semiconductor industry, are present. Reviews are performed to determine whether the carrying value of an asset is impaired, based on comparisons to undiscounted expected future cash flows. If this comparison indicates that there is impairment, the impaired asset is written down to fair value, which is typically calculated using: (i) quoted market prices and/or (ii) discounted expected future cash flows utilizing a discount rate. Impairment is based on the excess of the carrying amount over the fair value of those assets.

**Accounting for Income Taxes**

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax liability together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet.

We must assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance. Generally, to the extent we change a valuation allowance; the change is recorded through the tax provision in the statement of operations. Management periodically evaluates our deferred tax assets to assess whether it is likely that the deferred tax assets will be realized. In determining whether a valuation allowance is required, we consider projected taxable income. The most significant assumptions used in preparing projections of taxable income include forecasting the levels of income by region and the amount of deductible stock based compensation.

We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant management estimates are required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax impact is uncertain. The calculation of tax liabilities involves dealing with uncertainties in the application of complex tax laws. We recognize liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as this requires us to determine the probability of various possible outcomes. We reevaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision in the period of change. Although we believe the estimates are reasonable, no assurance can be given that the final outcome of these matters will not be different than what is reflected in the historical income tax provisions and accruals. Should additional taxes be assessed as a result of an audit or litigation, a material effect on our income tax provision and net income in the period or periods for which that determination is made could result.

The income tax effects of share-based payments are recognized for financial reporting purposes only if such awards are expected to result in a tax deduction. We do not recognize a deferred tax asset for an excess tax benefit (that is, a tax benefit that exceeds the amount of compensation cost recognized for the award for financial reporting purposes) that has not been realized. In determining when an excess tax benefit is realized, we have elected to follow the ordering provision of the tax law.

In addition to the risks to the effective tax rate discussed above, the effective tax rate reflected in forward-looking statements is based on current enacted tax law. Significant changes in enacted tax law could materially affect these estimates.

In general, the amount of taxes we pay will differ from our reported tax provision as a result of differences between accounting for income under U.S. GAAP and accounting for taxable income. Typical book-tax differences include expense related to equity compensation, deemed dividends,



## Edgar Filing: SEMTECH CORP - Form 10-K

depreciation, litigation expense and amortization of intangible assets. As a result of these book-tax differences, our tax payments are expected to exceed our tax provision during the next three years.

For intra-entity differences between the tax basis of an asset in the buyer's tax jurisdiction and their cost as reported in the consolidated financial statements, we do not recognize a deferred tax asset. Income taxes paid on intra-entity profits on assets remaining within the group are accounted for as prepaid taxes.

## **Table of Contents**

In fiscal year 2010, we concluded that \$120 million of foreign subsidiary earnings were no longer considered to be permanently reinvested offshore. In connection with the acquisition of Gennum, we reviewed this prior assertion and concluded that only \$50 million of foreign subsidiary earnings were no longer permanently reinvested offshore. This change in assertion will result in recording a discrete adjustment to its tax provision in the first quarter of fiscal year 2013. The impact of this change in assertion is expected to result in the recognition of a \$23 million tax benefit in the first quarter of fiscal year 2013.

## **New Accounting Standards**

In September 2011, the Financial Accounting Standards Board ( FASB ) issued updated guidance that simplifies goodwill impairment testing by allowing a qualitative review to assess whether a quantitative impairment analysis is necessary as a first step to the testing. Under this guidance, a company will not be required to calculate the fair value of a reporting unit that contains recorded goodwill unless it concludes, based on the qualitative assessment, that it is more likely than not that the fair value of that reporting unit is less than its book value. If a decline in fair value is deemed more likely than not to have occurred, then the quantitative goodwill impairment test that is provided under U.S. GAAP must be completed; otherwise, goodwill is deemed not to be impaired and no further testing is required until the next annual test date (or sooner if conditions or events before that date raise concerns of potential impairment in the reporting unit). The amended goodwill impairment guidance does not affect the manner in which a company estimates fair value. The new standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its financial condition, results of operations, cash flows, or disclosures.

In June 2011, the FASB issued a final standard requiring presentation of net income and other comprehensive income in either a single continuous statement or in two, consecutive statements of net income and other comprehensive income. Under both alternatives, an entity is required to present each component of net income and other comprehensive income, their respective totals, and totals for comprehensive income. This standard eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders equity. The amendment is effective for interim and annual periods beginning after December 15, 2011. The Company does not expect the adoption of this guidance to have a material impact on its financial condition, results of operations, cash flows, or disclosures.

---

## **Table of Contents**

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

We are subject to a variety of market risks, such as the foreign exchange and interest rate risks that are detailed below. Many of the factors that can impact our market risk are external to the Company, and so we are unable to fully predict them.

#### **Market Conditions**

Current global economic conditions pose a risk to the overall economy as consumers and businesses may defer purchases in response to the uncertainty around tighter credit and negative financial news. These conditions have historically resulted in periods where demand for our products is reduced.

In addition to risks associated with global economic conditions, demand for our products could be different from our expectations due to customer acceptance of our products, changes in customer order patterns, including order cancellations, and changes in the level of inventory held by vendors.

#### **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.

#### **Foreign Currency Risk**

As a global enterprise, we face exposure to adverse movements in foreign currency exchange rates and we could experience foreign currency exchange gains or losses. Historically, we have not considered our foreign currency exposure to be material. Therefore, we have not utilized foreign currency hedging products to mitigate foreign currency risks. Our foreign currency exposures may increase over time as the level of activity in foreign markets grows. Changes in the rates could have an adverse impact upon our financial results.

A relatively small amount of our monetary assets and liabilities are denominated in foreign currencies, principally the Swiss Franc, Mexican Peso, British Pound Sterling and the Euro. Fluctuations in these currencies relative to the United States dollar will result in transaction gains or losses included in net earnings.

All of our foreign sales, which amounted to \$384.5 million in fiscal year 2012, are denominated in United States dollars. Currency exchange rate fluctuations in foreign countries where we do business could harm our business by resulting in pricing that is not competitive with prices denominated in local currencies.

For fiscal year 2012, we spent approximately \$3.2 million in British Pound Sterling, \$18.4 million in Swiss Francs, \$3.5 million in Euros and \$6.2 million in Mexican Pesos for operating expenses.

In general, we purchase foreign currencies on a spot basis as needed to fund local operations. As of January 29, 2012, we held cash funds of \$0.2 million denominated in British Pound Sterling, \$0.4 million denominated in Swiss Francs, \$0.2 million denominated in Euros and \$.5 million denominated in Mexican Pesos. We did not hold a significant amount of other foreign currencies. If rates of these foreign currencies were to strengthen or weaken relative to the U.S. dollar, we would realize gains or losses in converting these funds back into U.S. dollars.

#### **Interest Rate and Market Risk**

As of January 29, 2012, we had no long-term debt outstanding.

On March 20, 2012, we entered into a Credit Agreement with the Lenders and Jefferies Finance LLC, as administrative agent. Pursuant to the Credit Agreement, the Lenders provided us with senior secured first lien credit facilities in an aggregate principal amount of \$350 million, consisting of Term A loans in an aggregate principal amount of \$100 million and Term B loans in an aggregate principal amount of \$250 million. The Facilities mature on March 20, 2017. A portion of the proceeds of the Facilities were used to finance the acquisition of Gennum.

## Edgar Filing: SEMTECH CORP - Form 10-K

Interest on the Term A Loan accrues, at our option, at a rate per annum equal to the Base Rate (as defined below) plus a margin ranging from 1.50% to 1.75% depending upon our consolidated leverage ratio or LIBOR for an interest period to be selected by us plus a margin ranging from 2.50% to 2.75% depending upon our consolidated leverage ratio. Interest on the Term B Loan accrues, at our option, at a rate per annum equal to the Base Rate (subject to a floor of 2.00%) plus a margin of 2.25% or LIBOR for an interest period to be selected by us (subject to a floor of 1.00%) plus a margin of 3.25%. The Base Rate is equal to a fluctuating rate equal to the highest of (a) the prime rate, (b) ½ of 1% above the federal funds effective rate and (c) one-month LIBOR plus 1%.

Subject to certain customary exceptions, all obligations under the Facilities are unconditionally guaranteed by each of our existing and subsequently acquired or organized direct and indirect domestic subsidiaries (the Guarantors). The obligations and the Guarantors in respect of the Facilities are secured by a first priority security interest in substantially all of the assets of Semtech and the Guarantors, subject to certain customary exceptions.

Interest rates affect our return on excess cash and investments. As of January 29, 2012, we had \$227 million of cash and cash equivalents and \$100.6 million of temporary and long-term investments. A majority of our cash and cash equivalents and investments generate interest income based on prevailing interest rates. Investments and cash and cash equivalents generated interest income of \$1.2 million in fiscal year 2012. A significant change in interest rates would impact the amount of interest income generated from our cash and investments. It would also impact the market value of our investments.

Our investments are subject to market risks, primarily interest rate and credit risk. Our investments are managed by a limited number of outside professional managers following investment guidelines set by us. Such guidelines prescribe credit quality, permissible investments, diversification, and duration restrictions. These restrictions are intended to limit risk by restricting our investments to high quality debt instruments with relatively short-term durations. Our investment strategy limits investment of new funds and maturing securities to U.S. Treasury, Federal agency securities, high quality money market funds and time deposits with our principal commercial banks.

**Table of Contents**

**Item 8. Financial Statements and Supplementary Data**

The information required by Item 8 is presented in the following order:

|                                                                                                             |    |
|-------------------------------------------------------------------------------------------------------------|----|
| <u>Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting</u> | 38 |
| <u>Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements</u>     | 39 |
| <u>Consolidated Statements of Income</u>                                                                    | 40 |
| <u>Consolidated Balance Sheets</u>                                                                          | 41 |
| <u>Consolidated Statements of Stockholders' Equity</u>                                                      | 42 |
| <u>Consolidated Statements of Cash Flows</u>                                                                | 43 |
| <u>Notes to Consolidated Financial Statements</u>                                                           | 44 |
| <u>Schedule II - Valuation and Qualifying Accounts</u>                                                      | 73 |

**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The report called for by Item 308(a) of Regulation S-K is incorporated herein by reference to the *Report of Management on Internal Control Over Financial Reporting* that is included in Part II, Item 9A of this report.

---

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of Semtech Corporation

We have audited Semtech Corporation and subsidiaries' internal control over financial reporting as of January 29, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Semtech Corporation and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control Over Financial Reporting set forth in Item 9A of this Form 10-K. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Semtech Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of January 29, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Semtech Corporation and subsidiaries as of January 29, 2012 and January 30, 2011, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended January 29, 2012 and the financial statement schedule listed in the Index at Item 15(a) (2) of Semtech Corporation and subsidiaries and our report dated March 29, 2012, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Westlake Village, California

March 29, 2012

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of Semtech Corporation

We have audited the accompanying consolidated balance sheets of Semtech Corporation and subsidiaries as of January 29, 2012 and January 30, 2011, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended January 29, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15(a) (2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Semtech Corporation and subsidiaries at January 29, 2012 and January 30, 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 29, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Semtech Corporation and subsidiaries' internal control over financial reporting as of January 29, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 29, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Westlake Village, California

March 29, 2012

**Table of Contents****SEMTECH CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

(In thousands, except earnings per share)

|                                                                                    | Fiscal Year Ended   |                     |                     |
|------------------------------------------------------------------------------------|---------------------|---------------------|---------------------|
|                                                                                    | January 29,<br>2012 | January 30,<br>2011 | January 31,<br>2010 |
| <b>Net Sales</b>                                                                   | <b>\$ 480,601</b>   | <b>\$ 454,502</b>   | <b>\$ 286,560</b>   |
| Cost of Sales                                                                      | 194,956             | 186,196             | 130,514             |
| <b>Gross Profit</b>                                                                | <b>285,645</b>      | <b>268,306</b>      | <b>156,046</b>      |
| <b>Operating costs and expenses:</b>                                               |                     |                     |                     |
| Selling, general and administrative                                                | 100,629             | 110,404             | 77,934              |
| Product development & engineering                                                  | 80,577              | 69,624              | 44,847              |
| Intangible amortization and impairments                                            | 10,853              | 9,520               | 2,348               |
| Total operating costs and expenses                                                 | 192,059             | 189,548             | 125,129             |
| <b>Operating income</b>                                                            | <b>93,586</b>       | <b>78,758</b>       | <b>30,917</b>       |
| Interest and other income, net                                                     | 593                 | 574                 | 3,054               |
| Income before taxes                                                                | 94,179              | 79,332              | 33,971              |
| Provision for taxes                                                                | 5,092               | 6,760               | 33,014              |
| <b>NET INCOME</b>                                                                  | <b>\$ 89,087</b>    | <b>\$ 72,572</b>    | <b>\$ 957</b>       |
| <b>Earnings per share:</b>                                                         |                     |                     |                     |
| Basic                                                                              | \$ 1.37             | \$ 1.16             | \$ 0.02             |
| Diluted                                                                            | \$ 1.32             | \$ 1.12             | \$ 0.02             |
| <b>Weighted average number of shares used<br/>in computing earnings per share:</b> |                     |                     |                     |
| Basic                                                                              | 65,099              | 62,339              | 60,779              |
| Diluted                                                                            | 67,350              | 64,523              | 61,676              |

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



**Table of Contents****SEMTECH CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

AS OF JANUARY 29, 2012 AND JANUARY 30, 2011

(In thousands, except share data)

|                                                                                                                                                                                                      | January 29,<br>2012 | January 30,<br>2011 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| <b>Current Assets</b>                                                                                                                                                                                |                     |                     |
| Cash and cash equivalents                                                                                                                                                                            | \$ 227,022          | \$ 119,019          |
| Temporary investments                                                                                                                                                                                | 83,121              | 112,237             |
| Accounts receivable, less allowances of \$3,594 at January 29, 2012 and \$4,597 at January 30, 2011                                                                                                  | 49,644              | 50,610              |
| Inventories                                                                                                                                                                                          | 46,995              | 47,719              |
| Deferred tax assets                                                                                                                                                                                  | 5,339               | 13,369              |
| Other current assets                                                                                                                                                                                 | 15,191              | 10,744              |
| <b>Total current assets</b>                                                                                                                                                                          | <b>427,312</b>      | <b>353,698</b>      |
| <b>Non-current assets:</b>                                                                                                                                                                           |                     |                     |
| Property, plant and equipment, net of accumulated depreciation of \$85,393 at January 29, 2012 and \$77,243 at January 30, 2011                                                                      | 69,713              | 56,778              |
| Investments, maturities in excess of 1 year                                                                                                                                                          | 17,522              | 27,086              |
| Goodwill                                                                                                                                                                                             | 129,651             | 129,651             |
| Other intangibles, net                                                                                                                                                                               | 66,720              | 74,823              |
| Other assets                                                                                                                                                                                         | 15,403              | 17,907              |
| <b>TOTAL ASSETS</b>                                                                                                                                                                                  | <b>\$ 726,321</b>   | <b>\$ 659,943</b>   |
| <b>Liabilities and Stockholders' Equity</b>                                                                                                                                                          |                     |                     |
| <b>Current Liabilities:</b>                                                                                                                                                                          |                     |                     |
| Accounts payable                                                                                                                                                                                     | \$ 26,699           | \$ 29,629           |
| Accrued liabilities                                                                                                                                                                                  | 32,389              | 55,842              |
| Deferred revenue                                                                                                                                                                                     | 3,853               | 5,020               |
| Deferred tax liabilities                                                                                                                                                                             | 4,041               | 3,334               |
| <b>Total current liabilities</b>                                                                                                                                                                     | <b>66,982</b>       | <b>93,825</b>       |
| <b>Non-current liabilities</b>                                                                                                                                                                       |                     |                     |
| Deferred tax liabilities                                                                                                                                                                             | 1,000               | 11,120              |
| Other long-term liabilities                                                                                                                                                                          | 28,151              | 26,383              |
| <b>Commitments and contingencies</b>                                                                                                                                                                 |                     |                     |
| <b>Stockholders' equity</b>                                                                                                                                                                          |                     |                     |
| Common stock, \$0.01 par value, 250,000,000 shares authorized, 78,136,144 issued and 64,964,780 outstanding on January 29, 2012 and 78,136,144 issued and 63,927,740 outstanding on January 30, 2011 | 785                 | 785                 |
| Treasury stock, at cost, 13,171,364 shares as of January 29, 2012 and 14,208,404 shares as of January 30, 2011                                                                                       | (225,822)           | (232,267)           |
| Additional paid-in capital                                                                                                                                                                           | 358,327             | 352,078             |
| Retained earnings                                                                                                                                                                                    | 496,363             | 407,276             |
| Accumulated other comprehensive income                                                                                                                                                               | 535                 | 743                 |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                                                    | <b>\$ 726,321</b>   | <b>\$ 659,943</b>   |

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



**Table of Contents****SEMTECH CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

(In thousands, except share amounts)

|                                                                         | Common Stock        |               | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Treasury<br>Stock, at Cost | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Stockholders<br>Equity |
|-------------------------------------------------------------------------|---------------------|---------------|----------------------------------|----------------------|----------------------------|-----------------------------------------------------------|------------------------|
|                                                                         | Number of<br>Shares | Amount        |                                  |                      |                            |                                                           |                        |
| <b>Balance at January 25, 2009</b>                                      | <b>60,287,427</b>   | <b>\$ 784</b> | <b>\$ 338,603</b>                | <b>\$ 333,747</b>    | <b>\$ (295,844)</b>        | <b>\$ 730</b>                                             | <b>\$ 378,020</b>      |
| Comprehensive income:                                                   |                     |               |                                  |                      |                            |                                                           |                        |
| Net income                                                              |                     |               |                                  | 957                  |                            |                                                           | 957                    |
| Change in net unrealized holding gain on available-for-sale investments |                     |               |                                  |                      |                            | 83                                                        | 83                     |
| Translation adjustment                                                  |                     |               |                                  |                      |                            | 5                                                         | 5                      |
| Comprehensive income                                                    |                     |               |                                  |                      |                            |                                                           | 1,045                  |
| Acquisition consideration, exchanged options                            |                     |               | 458                              |                      |                            |                                                           | 458                    |
| Stock-based compensation                                                |                     |               | 18,977                           |                      |                            |                                                           | 18,977                 |
| Repurchase of outstanding common stock                                  | (206,350)           |               |                                  |                      | (2,931)                    |                                                           | (2,931)                |
| Treasury stock reissued                                                 | 1,154,938           |               | (8,181)                          |                      | 19,469                     |                                                           | 11,288                 |
| Shares issued under equity award plans                                  | 25,000              |               |                                  |                      |                            |                                                           |                        |
| Tax benefit from stock based compensation                               |                     |               | (1,116)                          |                      |                            |                                                           | (1,116)                |
| <b>Balance at January 31, 2010</b>                                      | <b>61,261,015</b>   | <b>\$ 784</b> | <b>\$ 348,741</b>                | <b>\$ 334,704</b>    | <b>\$ (279,306)</b>        | <b>\$ 818</b>                                             | <b>\$ 405,741</b>      |
| Comprehensive income:                                                   |                     |               |                                  |                      |                            |                                                           |                        |
| Net income                                                              |                     |               |                                  | 72,572               |                            |                                                           | 72,572                 |
| Change in net unrealized holding gain on available-for-sale investments |                     |               |                                  |                      |                            | (76)                                                      | (76)                   |
| Translation adjustment                                                  |                     |               |                                  |                      |                            | 1                                                         | 1                      |
| Comprehensive income                                                    |                     |               |                                  |                      |                            |                                                           | 72,497                 |
| Stock-based compensation                                                |                     |               | 24,204                           |                      |                            |                                                           | 24,204                 |
| Repurchase of outstanding common stock                                  | (164,636)           |               |                                  |                      | (2,819)                    |                                                           | (2,819)                |
| Treasury stock reissued                                                 | 2,825,111           |               | (19,169)                         |                      | 49,858                     |                                                           | 30,689                 |
| Shares issued under equity award plans                                  | 6,250               | 1             |                                  |                      |                            |                                                           | 1                      |
| Tax benefit from stock based compensation                               |                     |               | (1,698)                          |                      |                            |                                                           | (1,698)                |
| <b>Balance at January 30, 2011</b>                                      | <b>63,927,740</b>   | <b>\$ 785</b> | <b>\$ 352,078</b>                | <b>\$ 407,276</b>    | <b>\$ (232,267)</b>        | <b>\$ 743</b>                                             | <b>\$ 528,615</b>      |
| Comprehensive income:                                                   |                     |               |                                  |                      |                            |                                                           |                        |
| Net income                                                              |                     |               |                                  | 89,087               |                            |                                                           | 89,087                 |
| Change in net unrealized holding gain on available-for-sale investments |                     |               |                                  |                      |                            | (204)                                                     | (204)                  |
| Translation adjustment                                                  |                     |               |                                  |                      |                            | (4)                                                       | (4)                    |
| Comprehensive income                                                    |                     |               |                                  |                      |                            |                                                           | 88,879                 |
| Stock-based compensation                                                |                     |               | 19,068                           |                      |                            |                                                           | 19,068                 |
| Repurchase of outstanding common stock                                  | (2,279,526)         |               |                                  |                      | (50,665)                   |                                                           | (50,665)               |
| Treasury stock reissued                                                 | 3,316,566           |               | (15,264)                         |                      | 57,110                     |                                                           | 41,846                 |
| Shares issued under equity award plans                                  |                     |               |                                  |                      |                            |                                                           |                        |
| Tax benefit from stock based compensation                               |                     |               | 2,445                            |                      |                            |                                                           | 2,445                  |

Edgar Filing: SEMTECH CORP - Form 10-K

|                                    |                   |               |                   |                   |                     |               |                   |
|------------------------------------|-------------------|---------------|-------------------|-------------------|---------------------|---------------|-------------------|
| <b>Balance at January 29, 2012</b> | <b>64,964,780</b> | <b>\$ 785</b> | <b>\$ 358,327</b> | <b>\$ 496,363</b> | <b>\$ (225,822)</b> | <b>\$ 535</b> | <b>\$ 630,188</b> |
|------------------------------------|-------------------|---------------|-------------------|-------------------|---------------------|---------------|-------------------|

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

**Table of Contents****SEMTECH CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

|                                                                                | Twelve Months Ended |                     |                     |
|--------------------------------------------------------------------------------|---------------------|---------------------|---------------------|
|                                                                                | January 29,<br>2012 | January 30,<br>2011 | January 31,<br>2010 |
| <b>Cash flows from operating activities:</b>                                   |                     |                     |                     |
| Net income                                                                     | \$ 89,087           | \$ 72,572           | \$ 957              |
| <i>Adjustments to reconcile net income to net cash provided by operations:</i> |                     |                     |                     |
| Depreciation and amortization                                                  | 18,543              | 16,448              | 8,357               |
| Deferred income taxes                                                          | (2,023)             | 3,184               | 17,427              |
| Impairment of acquired intangible assets                                       | 2,470               |                     |                     |
| Stock-based compensation                                                       | 24,020              | 29,010              | 19,935              |
| Excess tax benefits on stock based compensation                                | (2,279)             | (891)               | (493)               |
| Loss (Gain) on disposition of property, plant and equipment                    | 1,022               | 69                  | (139)               |
| <i>Changes in assets and liabilities:</i>                                      |                     |                     |                     |
| Accounts receivable, net                                                       | 966                 | (19,447)            | 2,665               |
| Inventories                                                                    | 676                 | (14,016)            | 4,269               |
| Prepaid expenses and other assets                                              | (7,068)             | (540)               | (364)               |
| Accounts payable                                                               | (3,354)             | 5,986               | 10,686              |
| Accrued liabilities                                                            | (26,017)            | 13,434              | 10,194              |
| Deferred revenue                                                               | (1,167)             | 1,744               | (180)               |
| Income taxes payable and prepaid taxes                                         | 4,962               | (16,702)            | 8,850               |
| Other liabilities                                                              | (6)                 | 2,950               | 1,160               |
| <b>Net cash provided by operations</b>                                         | <b>99,832</b>       | <b>93,801</b>       | <b>83,324</b>       |
| <b>Cash flows from investing activities:</b>                                   |                     |                     |                     |
| Purchase of available-for-sale investments                                     | (93,330)            | (168,802)           | (245,187)           |
| Proceeds from sales and maturities of available-for-sale investments           | 131,748             | 110,987             | 275,056             |
| Proceeds from sale of property, plant and equipment                            | 46                  | 76                  | 108                 |
| Purchases of property, plant and equipment                                     | (21,564)            | (25,537)            | (8,682)             |
| Purchase of intangible assets                                                  | (3,000)             |                     |                     |
| Acquisitions, net of cash acquired                                             |                     |                     | (178,061)           |
| <b>Net cash provided by (used in) investing activities</b>                     | <b>13,900</b>       | <b>(83,276)</b>     | <b>(156,766)</b>    |
| <b>Cash flows from financing activities:</b>                                   |                     |                     |                     |
| Excess tax benefit received on stock options                                   | 2,279               | 891                 | 493                 |
| Exercise of stock options                                                      | 42,661              | 29,823              | 11,288              |
| Repurchase of outstanding common stock                                         | (50,665)            | (2,819)             | (2,931)             |
| Repayment of debt                                                              |                     |                     | (2,450)             |
| <b>Net cash (used in) provided by financing activities</b>                     | <b>(5,725)</b>      | <b>27,895</b>       | <b>6,400</b>        |
| Effect of exchange rate (decrease) increase on cash and cash equivalents       | (4)                 | 1                   | (26)                |
| <b>Net increase (decrease) in cash and cash equivalents</b>                    | <b>108,003</b>      | <b>38,421</b>       | <b>(67,068)</b>     |
| <b>Cash and cash equivalents at beginning of period</b>                        | <b>119,019</b>      | <b>80,598</b>       | <b>147,666</b>      |
| <b>Cash and cash equivalents at end of period</b>                              | <b>\$ 227,022</b>   | <b>\$ 119,019</b>   | <b>\$ 80,598</b>    |

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



**Table of Contents**

**SEMTECH CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Organization and Basis of Presentation**

Semtech Corporation (together with its subsidiaries, the Company) is a global supplier of analog and mixed-signal semiconductor products. The end-customers for the Company's products are primarily original equipment manufacturers (OEMs) that produce and sell electronics.

The Company designs, develops and markets a wide range of products for commercial applications, the majority of which are sold into the computing, communications, high-end consumer and industrial end-markets.

*High-End Consumer:* handheld products, set-top boxes, digital televisions, tablet computers, digital video recorders and other consumer equipment.

*Industrial:* automated meter reading, military and aerospace, medical, security systems, automotive, industrial and home automation, and other industrial equipment.

*Computing:* desktops, notebooks, servers, graphic boards, monitors, printers and other computer peripherals.

*Communications:* base stations, optical networks, switches and routers, wireless LAN and other communication infrastructure equipment.

Historically, the Company's results have reflected some seasonality, with demand levels generally being higher in the computer and high-end consumer products groups during the third and fourth quarters of the Company's fiscal year in comparison to the first and second quarters.

**Fiscal Year**

The Company reports results on the basis of 52 and 53 week periods. The Company's fiscal year ends on the last Sunday of January. The fiscal years ended January 29, 2012 and January 30, 2011 both consisted of 52 weeks. The fiscal year ended January 31, 2010 consisted of 53 weeks with the extra week occurring in the fourth quarter of the year.

**Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of Semtech Corporation and its wholly owned subsidiaries. All intercompany transactions and accounts have been eliminated.

**Segment Information**

The Company operates and accounts for its results in one reportable segment. The Company designs, develops, manufactures and markets high performance analog and mixed signal integrated circuits. The Chief Executive Officer has been identified as the Chief Operating Decision Maker as defined by guidance regarding segment disclosures.

**Use of Estimates**

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

**Note 2. Significant Accounting Policies**

**Cash, Cash Equivalents and Investments**

## Edgar Filing: SEMTECH CORP - Form 10-K

The Company considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents. The Company maintains cash balances and investments in highly qualified financial institutions. At various times such amounts are in excess of insured limits. Investments consist of government and corporate obligations and bank time deposits. The Company's investment policy restricts investments to high credit quality investments with limits on the length to maturity and the amount invested with any one issuer. These investments, especially corporate obligations, are subject to default risk. The Company designates its investments as available for sale ( AFS ). Investments designated as AFS are reported at fair value. The Company records the unrealized gains and losses, net of tax, in stockholders' equity as a component of comprehensive income. Realized gains or losses are recorded in Interest and other income, net in the Consolidated Statements of Income.



**Table of Contents****Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable are recorded at net realizable value or the amount that the Company expects to collect on gross customer trade receivables. The Company evaluates the collectability of its accounts receivable based on a combination of factors. If the Company becomes aware of a customer's inability to meet its financial obligations after a sale has occurred, it records an allowance to reduce the net receivable to the amount it reasonably believes it will be able to collect from the customer. For all other customers, the Company recognizes allowances for doubtful accounts based on the length of time the receivables are past due, the current business environment and historical experience. If the financial condition of the Company's customers were to deteriorate or if economic conditions worsen, additional allowances may be required in the future. All of the Company's accounts receivables are trade-related receivables. See Note 14 for a discussion of concentration risks.

**Inventories**

Inventories are stated at lower of cost or market and consist of materials, labor and overhead. The Company determines the cost of inventory by the first-in, first-out method. The Company evaluates inventories for excess quantities and obsolescence. This evaluation includes analyses of sales levels by product and projections of future demand. In order to state the inventory at lower of cost or market, the Company maintains reserves against its inventory. If future demand or market conditions are less favorable than the Company's projections, a write-down of inventory may be required, and would be reflected in cost of goods sold in the period the revision is made.

**Property, Plant and Equipment**

Property, plant and equipment are stated at cost. Depreciation is computed over the estimated useful lives of the related asset type or term of the operating lease using the straight-line method for financial statement purposes. Maintenance and repairs are charged to expense as incurred and the costs of additions and betterments that increase the useful lives of the assets are capitalized.

The estimated service lives for property and equipment is as follows:

|                                      | Estimated<br>Useful Lives |
|--------------------------------------|---------------------------|
| Buildings and leasehold improvements | 7 to 39 years             |
| Machinery and equipment              | 5 to 8 years              |
| Transportation vehicles              | 5 years                   |
| Furniture and fixtures               | 7 years                   |
| Computers and computer software      | 3 years                   |

**Impairment of Goodwill, Other Intangible and Long-Lived Assets**

Goodwill is the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations accounted for under the purchase method. Goodwill is not amortized, but is tested for impairment annually in the fourth quarter, or when indicators of potential impairment exist. These indicators would include a significant change in operating performance, the business climate, legal factors, competition, or a planned sale or disposition of a significant portion of the business among other factors.

Goodwill is tested under the two-step approach for impairment at the reporting unit level. A reporting unit is an operating segment or a business unit one level below that operating segment for which discrete financial information is prepared and regularly reviewed by management. The Company has determined the reporting units to be at the operating segment level, which is the level at which management regularly reviews operating results and makes resource allocation decisions.

Step one is the identification of potential impairment. This involves comparing the fair value of each reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds the carrying amount, the goodwill of the reporting unit is considered not impaired and the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the impairment test is performed to measure the amount of impairment loss, if any.

Step two is the measurement of the amount of impairment loss. This involves comparison of the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds



---

## **Table of Contents**

the implied fair value of that goodwill, an impairment loss would be recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of the goodwill. Once a goodwill impairment loss is recognized, the adjusted carrying amount becomes the accounting basis.

The Company's estimate of fair value was primarily determined using the income approach methodology of valuation that includes the discounted cash flow method as well as other generally accepted valuation methodologies to determine the fair value of the assets. Our assumptions incorporate judgments as to the price received to sell a reporting unit as a whole in an orderly transaction between market participants at the measurement date. Considering the integration of our operations, we have assumed that the highest and best use of a reporting unit follows an in-use valuation premise. Factors requiring significant judgment include assumptions related to future growth rates, discount factors, market multiples and tax rates. Changes in economic and operating conditions that occur after the annual impairment analysis or an interim impairment analysis, and that impact these assumptions, may result in a future goodwill impairment charge.

We review indefinite-lived intangible assets for impairment annually or whenever events or changes in circumstances indicate the carrying value may not be recoverable. Recoverability of indefinite-lived intangible assets is measured by comparing the carrying amount of the asset to the future discounted cash flows the asset is expected to generate.

We record impairment losses on long-lived and finite-lived intangible assets used in operations when indicators of impairment are present. Reviews are performed to determine whether the carrying value of an asset is impaired, based on comparisons to undiscounted expected future cash flows. If this comparison indicates that there is impairment, the impaired asset is written down to fair value, which is typically calculated using: (i) quoted market prices and/or (ii) discounted expected future cash flows utilizing a discount rate. Impairment is based on the excess of the carrying amount over the fair value of those assets.

In fiscal years 2012, 2011 and 2010, the Company's impairment reviews indicated that no goodwill impairment existed as of the testing date. See Note 8 for more information.

### **Fair Value Measurements**

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 the following three levels of inputs in determining the fair value of the Company's assets and liabilities, focusing on the most observable inputs when available:

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

*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.

### **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. Recovery of costs associated with product design and engineering services are recognized during the period in which services are performed when a substantive milestone is achieved. The product design and engineering recovery, when recognized, will be reported as a reduction to product development and engineering expense. Historically, these recoveries have not exceeded the cost of the related development efforts.

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

## Edgar Filing: SEMTECH CORP - Form 10-K

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.

**Table of Contents**

The estimated deferred gross margins on these sales, where there are no outstanding receivables, are recorded on the Consolidated Balance Sheet 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. There were no significant impairments of deferred cost of sales in fiscal year 2012 or fiscal year 2011.

The following table summarizes the deferred revenue balance:

| (in thousands)                                     | January 29,<br>2012 | January 30,<br>2011 |
|----------------------------------------------------|---------------------|---------------------|
| Deferred revenues                                  | \$ 4,964            | \$ 6,369            |
| Deferred cost of revenues                          | 1,243               | 1,560               |
| <br>                                               |                     |                     |
| Deferred revenue, net                              | \$ 3,721            | \$ 4,809            |
| Deferred product design and engineering recoveries | 132                 | 211                 |
| <br>                                               |                     |                     |
| Total deferred revenue                             | \$ 3,853            | \$ 5,020            |

**Cost of Sales**

Cost of sales includes materials, depreciation on fixed assets used in the manufacturing process, shipping costs, direct labor and overhead.

**Sales and Marketing**

The Company expenses sales and marketing costs, which include advertising costs, as they are incurred. Advertising costs were \$285,000, \$232,000 and \$249,000 for fiscal years 2012, 2011 and 2010, respectively.

**Product Development and Engineering**

Product development and engineering costs are charged to expense as incurred. Recoveries from nonrecurring engineering services are recorded as an offset to product development expense incurred in support of this effort since these activities do not represent an earnings process core to the Company's business and serve as a mechanism to partially recover development expenditures.

The Company received approximately \$5.7 million, \$11.7 million and \$2.7 million in fiscal years 2012, 2011 and 2010, respectively for nonrecurring engineering services.

**Income Taxes**

The Company accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts and their respective tax bases. The Consolidated Balance Sheets include current and long term prepaid taxes under Other current assets and Other assets and current and long term liabilities for uncertain tax positions under Accrued taxes.

As part of the process of preparing the Company's consolidated financial statements, the Company estimates income taxes in each of the jurisdictions in which it operates. This process involves estimating actual current tax liability together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities. The Company must assess the likelihood that its deferred tax assets will be recovered from future taxable income and, to the extent the Company believes that recovery is not likely, it must establish a valuation allowance. To the extent the Company changes its valuation allowance in a period; the change is generally recorded through the tax provision on the Consolidated Statements of Income. See Note 11 for further discussion of income taxes.

## Edgar Filing: SEMTECH CORP - Form 10-K

The income tax effects of share-based payments are recognized for financial reporting purposes only if such awards are expected to result in a tax deduction. The Company does not recognize a deferred tax asset for an excess tax benefit (that is, a tax benefit that exceeds the tax benefit for the amount of compensation cost recognized for the award for financial reporting purposes) that has not been realized. In determining when an excess tax benefit is realized, the Company has elected to follow the ordering provision of the tax law.

For intra-entity differences between the tax basis of an asset in the buyer's tax jurisdiction and their cost as reported in the consolidated financial statements, we do not recognize a deferred tax asset. Income taxes paid on intra-entity profits on assets remaining within the group are accounted for as prepaid taxes. Prepaid taxes are reported in "Other current assets" and "Other assets" in our Consolidated Balance Sheets.

**Table of Contents****Comprehensive Income**

Comprehensive income is the change in stockholders' equity that is not the result of investments by or distributions to stockholders. The components of comprehensive income, net of tax, were as follows:

| (in thousands)                                                                 | Fiscal year ended   |                     |                     |
|--------------------------------------------------------------------------------|---------------------|---------------------|---------------------|
|                                                                                | January 29,<br>2012 | January 30,<br>2011 | January 31,<br>2010 |
| Net income                                                                     | \$ 89,087           | \$ 72,572           | \$ 957              |
| Change in net unrealized holding (loss) gain on available-for-sale investments | (204)               | (76)                | 83                  |
| Gain for translation adjustment                                                | (4)                 | 1                   | 5                   |
| Total comprehensive income                                                     | \$ 88,879           | \$ 72,497           | \$ 1,045            |
| Gain realized upon reclassification from Comprehensive income                  | \$ 5                | \$                  | \$ 217              |

**Translation**

The assets and liabilities of the Company's foreign subsidiaries that operate in a local currency environment, where that local currency is the functional currency, are translated to the U.S. dollar using exchange rates in effect at the balance sheet date. Income statement items are translated at average exchange rates prevailing during the period. The translation gains or losses are included as a component of accumulated other comprehensive income (loss) in the accompanying consolidated financial statements.

Transaction gains and losses resulting from the re-measurement or settlement of assets and liabilities denominated in foreign currencies are included in the determination of net income and have not been significant.

**Stock-Based Compensation**

The Company has various equity award plans (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 available forms of stock compensation. As of January 29, 2012, the Company has granted stock option awards (Options), restricted stock awards (RSA), and restricted stock unit awards (RSU) under the Plans and has also issued some stock-based compensation outside of any plan, including options and restricted stock awards issued as inducements to join the Company.

**Earnings per Share**

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

| (in thousands, except per share amounts)             | Fiscal Year Ended   |                     |                     |
|------------------------------------------------------|---------------------|---------------------|---------------------|
|                                                      | January 29,<br>2012 | January 30,<br>2011 | January 31,<br>2010 |
| Net income                                           | \$ 89,087           | \$ 72,572           | \$ 957              |
| Weighted average common shares outstanding - basic   | 65,099              | 62,339              | 60,779              |
| Dilutive effect of employee equity incentive plans   | 2,251               | 2,184               | 897                 |
| Weighted average common shares outstanding - diluted | 67,350              | 64,523              | 61,676              |
| Basic earnings per common share                      | \$ 1.37             | \$ 1.16             | \$ 0.02             |

## Edgar Filing: SEMTECH CORP - Form 10-K

|                                                             |         |         |         |
|-------------------------------------------------------------|---------|---------|---------|
| Diluted earnings per common share                           | \$ 1.32 | \$ 1.12 | \$ 0.02 |
| Anti-dilutive shares not included in the above calculations | 625     | 1,700   | 8,900   |

A basic earnings per common share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stocks outstanding during the reporting period. Diluted earnings 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.

### Contingencies

The Company accrues an undiscounted liability for contingencies where the incurrence of a loss is probable and the amount can be reasonably estimated, and we disclose the amount accrued and the amount of a reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for our financial statements not to be misleading. The Company does not record liabilities when the likelihood that the liability has been incurred is probable but the amount cannot be reasonably estimated, or when the liability is believed to be only reasonably possible or remote.

Because litigation outcomes are inherently unpredictable, the Company's evaluation of legal proceedings often involves a series of complex assessments by management about future events and can rely heavily on estimates and assumptions. If the assessments indicate that loss contingencies that could be material to any one of our financial statements are not probable, but are reasonably possible, or are probable, but cannot be estimated, then we disclose the nature of the loss contingencies, together with an estimate of the range of possible loss or a statement that such loss is not reasonably estimable.



**Table of Contents**Subsequent Events

The Company evaluates all events through the issuance date of the consolidated financial statements to determine whether any subsequent events have occurred that require recognition or disclosure.

**Note 3. Investments**

Certain investments that have original maturities of three months or less 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, and bank time deposits with original maturity dates in excess of three months. Temporary investments have original maturities in excess of three months, but mature within twelve months of the balance sheet date. Long-term investments have original maturities in excess of twelve months. 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 Statements of Income.

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.

As of January 29, 2012, all of the Company's long-term investments mature on various dates through fiscal year 2015.

The following table summarizes the Company's investments:

| (in thousands)     | January 29, 2012 |               |                 | January 30, 2011 |               |                 |
|--------------------|------------------|---------------|-----------------|------------------|---------------|-----------------|
|                    | Market Value     | Adjusted Cost | Unrealized Gain | Market Value     | Adjusted Cost | Unrealized Gain |
| Agency securities  | \$ 26,132        | \$ 26,110     | \$ 22           | \$ 54,747        | \$ 54,658     | \$ 89           |
| Corporate issues   | 4,511            | 4,484         | 27              | 16,576           | 16,354        | 222             |
| Bank time deposits | 70,000           | 70,000        |                 | 68,000           | 68,000        |                 |
| Total Investments  | \$ 100,643       | \$ 100,594    | \$ 49           | \$ 139,323       | \$ 139,012    | \$ 311          |

Agency securities are specific securities that are issued by United States government agencies such as Ginnie Mae, Fannie Mae, Freddie Mac or the Federal Home Loan Banks. Due to the expectation of federal backing, these securities usually hold the highest credit rating possible.

The following table summarizes the maturities of the Company's investments at the end of fiscal years 2012 and 2011:

| (in thousands)         | January 29, 2012 |               | January 30, 2011 |               |
|------------------------|------------------|---------------|------------------|---------------|
|                        | Market Value     | Adjusted Cost | Market Value     | Adjusted Cost |
| Within 1 year          | \$ 83,121        | \$ 83,085     | \$ 112,237       | \$ 112,077    |
| 1 year through 5 years | 17,522           | 17,509        | 27,086           | 26,935        |
| Total Investments      | \$ 100,643       | \$ 100,594    | \$ 139,323       | \$ 139,012    |

Unrealized gains (losses) 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 Balance Sheets. The following table summarizes unrealized gains (losses) in addition to the tax associated with these comprehensive income items:

Edgar Filing: SEMTECH CORP - Form 10-K

| (in thousands)                                | January 29,<br>2012 | Fiscal year ended<br>January 30,<br>2011 | January 31,<br>2010 |
|-----------------------------------------------|---------------------|------------------------------------------|---------------------|
| Unrealized (loss) gain, net of tax            | \$ (204)            | \$ (76)                                  | \$ 83               |
| (Decrease) increase to deferred tax liability | (58)                | (41)                                     | 26                  |

**Table of Contents**

The following table summarizes interest income generated from investments and cash and cash equivalents:

| (in thousands)  | January 29,<br>2012 | Fiscal year ended<br>January 30,<br>2011 | January 31,<br>2010 |
|-----------------|---------------------|------------------------------------------|---------------------|
| Interest income | \$ 1,213            | \$ 1,051                                 | 2,035               |

**Note 4. Fair Value Measurements**

All items recorded or measured at fair value on a recurring basis in the accompanying consolidated financial statements were based on the use of Level 2 inputs and consisted of the following:

| (in thousands)     | Fair Value as of January 29, 2012 |            | Fair Value as of January 30, 2011 |            |
|--------------------|-----------------------------------|------------|-----------------------------------|------------|
|                    | Total                             | (Level 1)  | Total                             | (Level 1)  |
| Agency securities  | \$ 26,132                         | \$ 26,132  | \$ 54,747                         | 54,747     |
| Corporate issues   | 4,511                             | 4,511      | 16,576                            | 16,576     |
| Bank time deposits | 70,000                            | 70,000     | 68,000                            | \$ 68,000  |
|                    | \$ 100,643                        | \$ 100,643 | \$ 139,323                        | \$ 139,323 |

Available-for-sale securities included in Level 2 are valued utilizing inputs obtained from an independent service (the Service), which uses quoted market prices for identical or comparable instruments rather than direct observations of quoted prices in active markets. The Service gathers observable inputs for all of our fixed income securities from a variety of industry data providers, for example, large custodial institutions and other third-party sources. Once the observable inputs are gathered by the Service, all data points are considered and an average price is determined. The Service's providers utilize a variety of inputs to determine their quoted prices. Substantially all of our available-for-sale investments are valued utilizing inputs obtained from the Service and accordingly are categorized as Level 2. The Company reviews and evaluates the values provided by the Service and agrees with the valuation methods and assumptions used in determining the fair value of investments. The Company believes this method provides a reasonable estimate for fair value.

The Company's fixed income available-for-sale security portfolio generally consists of high quality, investment grade securities from diverse issuers with a minimum credit rating of A/A2. The Company previously classified these investments as Level 1 because it did not make adjustments to the prices obtained from the Service. Since the Company values these securities based on pricing from the Service, whose sources may use quoted prices in active markets for identical assets (Level 1 inputs) or inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs) in determining fair value, the Company began classifying all of its fixed income available-for-sale securities as Level 2 in the second quarter of fiscal year 2012. The Company also reflected the reclassification of the January 30, 2011 balances as being measured based on Level 2 inputs rather than Level 1 as reflected on the Company's Form 10-K filing for the year ended January 30, 2011. Using Level 2 inputs did not change the recorded fair values reflected in securities measured on January 30, 2011 and thus had no effect on the Company's previously reported financial position, results from operations, or cash flows.

**Note 5. Inventories**

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

| (in thousands)   | January 29,<br>2012 | January 30,<br>2011 |
|------------------|---------------------|---------------------|
| Raw materials    | \$ 4,871            | \$ 5,070            |
| Work in progress | 30,884              | 27,763              |
| Finished goods   | 11,240              | 14,886              |

Edgar Filing: SEMTECH CORP - Form 10-K

|             |           |           |
|-------------|-----------|-----------|
| Inventories | \$ 46,995 | \$ 47,719 |
|-------------|-----------|-----------|

**Table of Contents****Note 6. Property, Plant and Equipment**

The following is a summary of property and equipment, at cost less accumulated depreciation:

| (in thousands)                                 | January 29,<br>2012 | January 30,<br>2011 |
|------------------------------------------------|---------------------|---------------------|
| Property                                       | \$ 5,991            | \$ 5,991            |
| Buildings                                      | 18,580              | 18,485              |
| Leasehold improvements                         | 5,768               | 2,718               |
| Machinery and equipment                        | 98,895              | 82,152              |
| Furniture and office equipment                 | 23,428              | 20,081              |
| Construction in progress                       | 2,444               | 4,594               |
| Property, plant and equipment, gross           | 155,106             | 134,021             |
| Less accumulated depreciation and amortization | (85,393)            | (77,243)            |
| Property, plant and equipment, net             | \$ 69,713           | \$ 56,778           |

The amount of equipment and machinery that are consigned to a foundry in China is \$9.4 million and \$7.2 million as of January 29, 2012 and January 30, 2011, respectively.

The following table summarizes depreciation and amortization expense for property, plant and equipment:

| (in thousands)                        | January 29,<br>2012 | Fiscal Year Ended<br>January 30,<br>2011 | January 31,<br>2010 |
|---------------------------------------|---------------------|------------------------------------------|---------------------|
| Depreciation and amortization expense | \$ 9,900            | \$ 6,900                                 | 6,000               |

**Note 7. Acquisitions****Sierra Monolithics, Inc.**

On December 9, 2009, the Company acquired all outstanding equity interests of Sierra Monolithics, Inc. ( SMI ), a supplier of analog and mixed-signal integrated circuit solutions for optical communications, wireless and microwave/millimeter wave applications. Under the terms of the acquisition, the Company paid an aggregate of \$180 million in cash in exchange for all the outstanding shares of SMI common and preferred stock, as well as all vested stock options.

The Company recognized approximately \$4 million of acquisition related costs that were expensed in the third and fourth quarters of fiscal year 2010. These costs are included in the Consolidated Statements of Income for the period ended January 31, 2010 under Selling, general and administrative.

For fiscal year 2010, net revenues attributable to SMI since the acquisition date were \$6.1 million and net loss was \$2.1 million.

*Pro Forma Financial Information*

The results of operations of SMI have been included in the Company's Consolidated Statements of Income since the acquisition date of December 9, 2009. The following table reflects the unaudited pro forma consolidated results of operations as if the acquisition had taken place at the beginning of the period, after giving effect to certain adjustments including the following for the fiscal year ended January 31, 2010:

## Edgar Filing: SEMTECH CORP - Form 10-K

increase in cost of goods sold associated with the fair value adjustment related to the acquired inventory;

increase in amortization expense as a result of acquired intangible assets;

decrease in interest income as a result of cash paid for the acquisition;

increase in equity compensation expense associated with the SMI unvested stock options assumed in the acquisition and the restricted stock units granted to SMI employees in connection with the acquisition; and

the related tax effects

**Table of Contents**

## Pro-forma Unaudited Consolidated Results of Operations

(in thousands)

|                   |                                    |
|-------------------|------------------------------------|
|                   | January 31,<br>2010<br>(unaudited) |
| Revenue           | \$ 325,933                         |
| Net income (loss) | (9,196)                            |

The pro forma information presented does not purport to be indicative of the results that would have been achieved had the acquisition been consummated at the beginning of the period presented nor of the results which may occur in the future.

**Leadis Technology Inc.**

On February 6, 2009, the Company acquired certain assets, comprising a business line, from Leadis Technology Inc. The acquired assets were in the development stage. The acquisition date fair value of the consideration transferred was \$2.3 million. No additional consideration is due under the acquisition agreement.

The Company recognized approximately \$75,000 of acquisition related costs that were expensed in the first quarter of fiscal year 2010. These costs are included in the Consolidated Statements of Income for the period ended January 31, 2010 under Selling, general and administrative.

**Note 8. 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 fair value of goodwill is tested for impairment on a non-recurring basis in the accompanying consolidated financial statements using Level 3 inputs.

In fiscal years 2012 and 2011, the Company reorganized its reporting structure in a manner that changed the composition of its product lines within its reporting units. As a result of the change in fiscal year 2011, the goodwill associated with Xemics SA and Sierra Monolithics Inc. acquisitions have been aggregated. As of January 30, 2011 all of the goodwill reported by the Company was associated with the Advanced Communications and Sensing reporting unit. In connection with the reorganizations in fiscal year 2012 and 2011, the Company assessed whether an indicator of impairment existed prior to the reorganizations and concluded that no such indicators were present in fiscal year 2012 and 2011.

In fiscal year 2012, the components of the Advanced Communications and Sensing reporting unit were split into two reporting units consisting of the Advanced Communications and the Wireless and Sensing reporting units. As a result of the change, in fiscal year 2012, goodwill was reassigned to the reporting units affected using a relative fair value allocation approach. Subsequent to the reorganization in the third quarter of fiscal year 2012, the goodwill associated with the Advanced Communications and Sensing reporting unit was reassigned (as of November 2011) such that 10% of goodwill is allocated to the Wireless and Sensing reporting unit and 90% of the goodwill is allocated to the Advanced Communications reporting unit. In connection with the reorganizations in fiscal years 2012 and 2011, the Company assessed whether an indicator of impairment existed prior to the reorganizations and concluded that no such indicators were present in fiscal year 2012 and 2011.

Goodwill was tested for impairment as of November 30, 2011, the date of the Company's annual impairment review. The Company concluded that the fair value of the goodwill associated with the Advanced Communications and Sensing reporting unit exceeded the carrying value and no impairment existed.

**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 of the date of acquisition as an indefinite-lived intangible asset until the completion or abandonment of the associated research and 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.

## Edgar Filing: SEMTECH CORP - Form 10-K

The following table sets forth the Company's finite-lived intangible assets resulting from business acquisitions, which continue to be amortized:

| (in thousands)                              | Estimated Useful Life | January 29, 2012      |                          |                     | January 30, 2011      |                          |                     |
|---------------------------------------------|-----------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
|                                             |                       | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Core technologies                           | 2-10 years            | \$ 65,900             | \$ (21,031)              | \$ 44,869           | \$ 65,900             | \$ (14,006)              | \$ 51,894           |
| Customer relationships                      | 8-10 years            | 12,130                | (2,929)                  | 9,201               | 12,130                | (1,571)                  | 10,559              |
| Technology licenses (1)                     | 5 years               | 3,000                 | (250)                    | 2,750               |                       |                          |                     |
| <b>Total finite-lived intangible assets</b> |                       | <b>\$ 81,030</b>      | <b>\$ (24,210)</b>       | <b>\$ 56,820</b>    | <b>\$ 78,030</b>      | <b>\$ (15,577)</b>       | <b>\$ 62,453</b>    |

(1) Technology licenses relate to licensing agreements entered into by the Company. Amortization expense related to technology licenses is reported as *Product development & engineering* in the Consolidated Statements of Income.



**Table of Contents**

Core technologies include \$59.9 million of finite-lived intangible assets from the December 9, 2009 acquisition of 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.

Amortization expense related to finite-lived intangible assets is reported as **Intangible amortization and impairments** in the Consolidated Statements of Income.

For the fiscal years 2012, 2011 and 2010, amortization expense related to finite-lived intangible assets was \$8.4 million, \$9.5 million and \$2.4 million, respectively.

The following table sets forth the Company's indefinite-lived intangible assets resulting from business acquisitions:

| (in thousands)                           | January 29, 2012      |                             |                     | January 30, 2011      |                             |                     |
|------------------------------------------|-----------------------|-----------------------------|---------------------|-----------------------|-----------------------------|---------------------|
|                                          | Gross Carrying Amount | Accumulated Impairment Loss | Net Carrying Amount | Gross Carrying Amount | Accumulated Impairment Loss | Net Carrying Amount |
| In-process research and development      | \$ 12,370             | \$ (2,470)                  | \$ 9,900            | \$ 12,370             | \$                          | \$ 12,370           |
| Total indefinite-lived intangible assets | \$ 12,370             | \$ (2,470)                  | \$ 9,900            | \$ 12,370             | \$                          | \$ 12,370           |

We review indefinite-lived intangible assets for impairment annually or whenever events or changes in circumstances indicate the carrying value may not be recoverable. Recoverability of indefinite-lived intangible assets is measured by comparing the carrying amount of the asset to the future discounted cash flows the asset is expected to generate. Acquired in-process research and development was tested for impairment as of November 30, 2011, the date of the Company's annual impairment review. The Company concluded that the fair value of the remaining acquired in-process research and developments exceeded the carrying value and no impairment existed.

During the third quarter of fiscal year 2012, the Company abandoned certain development efforts related to acquired intangible assets. As a result of these actions, the Company concluded that a portion of the net carrying amount of in-process research and development was not recoverable and therefore it recorded an impairment charge against the net carrying value in the three month period ended October 30, 2011, as summarized below:

| In-process research and development impairment                        | Net Carrying Amount | Impairment        |
|-----------------------------------------------------------------------|---------------------|-------------------|
| High-speed switching technology for power management applications (1) | \$ 2,070            | \$ (2,070)        |
| Integrated driver for telecommunications applications (2)             | 400                 | (400)             |
| <b>Total</b>                                                          | <b>\$ 2,470</b>     | <b>\$ (2,470)</b> |

(1) related to the February 2009 Leadis Technology Inc. acquisition.

(2) related to the December 2009 Sierra Monolithics, Inc. acquisition.

These impairment charges are included in **Intangible amortization and impairments** on the Consolidated Statements of Income.

Assuming no subsequent impairment of the underlying assets, the annual amount of future amortization expense for all intangible assets will be as follows:

Edgar Filing: SEMTECH CORP - Form 10-K

(in thousands)

| To be recognized in:                       | Technology<br>license | Sierra<br>Monolithics | Total            |
|--------------------------------------------|-----------------------|-----------------------|------------------|
| Fiscal year 2013                           | \$ 600                | \$ 8,770              | \$ 9,370         |
| Fiscal year 2014                           | 600                   | 9,183                 | 9,783            |
| Fiscal year 2015                           | 600                   | 9,200                 | 9,800            |
| Fiscal year 2016                           | 600                   | 9,200                 | 9,800            |
| Fiscal year 2017                           | 350                   | 9,200                 | 9,550            |
| Thereafter                                 |                       | 18,417                | 18,417           |
| <b>Total expected amortization expense</b> | <b>\$ 2,750</b>       | <b>\$ 63,970</b>      | <b>\$ 66,720</b> |

**Table of Contents****Note 9. Accrued Liabilities**

The following is a summary of accrued liabilities for fiscal years 2012 and 2011:

| (in thousands)                             | January 29,<br>2012 | January 30,<br>2011 |
|--------------------------------------------|---------------------|---------------------|
| Compensation                               | \$ 15,231           | \$ 19,416           |
| Shareholder litigation                     |                     | 20,100              |
| Warranty allowance                         | 307                 | 607                 |
| Equity awards accounted for as a liability | 3,988               | 1,281               |
| Income Taxes Payable                       | 4,260               | 2,928               |
| Accrued Taxes                              | 437                 | 4,191               |
| Other                                      | 8,166               | 7,319               |
|                                            | \$ 32,389           | \$ 55,842           |

**Note 10. Stock Based Compensation**

*Financial Statement Effects and Presentation.* The following table shows total pre-tax, stock-based compensation expense included in the Consolidated Statements of Income for fiscal years 2012, 2011 and 2010.

| (in thousands)                                                    | Fiscal Year Ended   |                     |                     |
|-------------------------------------------------------------------|---------------------|---------------------|---------------------|
|                                                                   | January 29,<br>2012 | January 30,<br>2011 | January 31,<br>2010 |
| Cost of sales                                                     | \$ 983              | \$ 1,802            | \$ 1,168            |
| Selling, general and administrative                               | 15,839              | 19,310              | 13,566              |
| Product development and engineering                               | 7,198               | 7,898               | 5,201               |
| Stock-based compensation, pre-tax                                 | \$ 24,020           | \$ 29,010           | \$ 19,935           |
| Net change in stock-based compensation capitalized into inventory | \$ (83)             | \$ (116)            | \$ 58               |

The below table summarizes the net impact of stock-based compensation, after tax, on net income for fiscal years 2012, 2011 and 2010.

| (in thousands)           | Fiscal Year Ended   |                     |                     |
|--------------------------|---------------------|---------------------|---------------------|
|                          | January 29,<br>2012 | January 30,<br>2011 | January 31,<br>2010 |
| Stock-based compensation | \$ 24,020           | \$ 29,010           | \$ 19,935           |
| Associated tax effect    | (5,693)             | (9,170)             | (4,978)             |
| Net effect on net income | \$ 18,327           | \$ 19,840           | \$ 14,957           |

The tax benefit realized from option exercise activity for fiscal years 2012, 2011 and 2010 was \$12.9 million, \$7.1 million and \$1.6 million, respectively.

**Table of Contents**

**Share-based Payment Arrangements.** The Company has various equity award 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 available forms of stock compensation. As of January 29, 2012, the Company has granted Options and restricted stock under the plans and has also issued some 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 compensation cost is measured at fair value at the end of each reporting date until the date of settlement, and is recognized as an expense over the employee or director's requisite service period. Expected volatilities are based on historical volatility using daily and monthly stock price observations.

The following table summarizes the assumptions used in the Black-Scholes model to determine the fair value of options granted in fiscal years 2012, 2011 and 2010:

|                                           |                     |                     |                     |
|-------------------------------------------|---------------------|---------------------|---------------------|
|                                           | January 29,<br>2012 | January 30,<br>2011 | January 31,<br>2010 |
| Expected lives, in years                  | 4.4 - 4.7           | 4.3 - 5.1           | 5.0                 |
| Estimated volatility                      | 40% - 41%           | 39% - 40%           | 40% - 41%           |
| Dividend yield                            |                     |                     |                     |
| Risk-free interest rate                   | .71% - 1.8%         | 1.2% - 2.3%         | 1.9% - 2.7%         |
| Weighted average fair value on grant date | \$8.43              | \$6.56              | \$8.72              |

The estimated fair value of restricted stock awards 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 2012 and prior years are classified as liabilities rather than equity. For awards classified as liabilities, the value of these awards was re-measured on January 29, 2012.

**Stock Option Awards.** The Company has historically granted stock option awards to both employees and non-employee directors. The grant date for these awards is equal to the measurement date. These awards were valued as of the measurement date and are amortized over the requisite vesting period (typically 3-4 years). A summary of the activity for stock option awards for fiscal years 2012, 2011 and 2010 is presented below:

| (in thousands, except for per share amounts) | Number of<br>Shares | Weighted<br>Average<br>Exercise Price<br>(per share) | Aggregate<br>Intrinsic<br>Value (1) | Aggregate<br>Unrecognized<br>Compensation | Number<br>of<br>Shares<br>Exercisable | Weighted<br>Average<br>Contractual<br>Term |
|----------------------------------------------|---------------------|------------------------------------------------------|-------------------------------------|-------------------------------------------|---------------------------------------|--------------------------------------------|
| Balance at January 25, 2009                  | 9,394               |                                                      | \$ 342                              | \$ 16,275                                 | 6,070                                 |                                            |
| Options granted (2)                          | 1,334               | \$ 10.05                                             |                                     |                                           |                                       |                                            |
| Options exercised                            | (830)               |                                                      | 2,324                               |                                           |                                       |                                            |
| Options cancelled/forfeited                  | (747)               |                                                      |                                     |                                           |                                       |                                            |
| Balance at January 31, 2010                  | 9,151               |                                                      | 8,998                               | 9,436                                     | 6,302                                 |                                            |
| Options granted                              | 403                 | 17.61                                                |                                     |                                           |                                       |                                            |
| Options exercised                            | (2,329)             | 14.22                                                | 11,495                              |                                           |                                       |                                            |
| Options cancelled/forfeited                  | (603)               | 21.35                                                |                                     |                                           |                                       |                                            |
| Balance at January 30, 2011                  | 6,622               | 16.84                                                | 35,492                              | 7,067                                     | 5,160                                 |                                            |
| Options granted                              | 343                 | 24.05                                                |                                     |                                           |                                       |                                            |
| Options exercised                            | (2,781)             | 16.64                                                | 22,537                              |                                           |                                       |                                            |
| Options cancelled/forfeited                  | (494)               | 22.30                                                |                                     |                                           |                                       |                                            |
| Balance at January 29, 2012                  | 3,690               | 16.94                                                | 44,435                              | \$ 4,699                                  | 2,767                                 |                                            |
| Exercisable at January 29, 2012              | 2,767               | 16.42                                                | 34,738                              |                                           |                                       | 2.41                                       |

## Edgar Filing: SEMTECH CORP - Form 10-K

|                                         |     |    |       |    |       |      |
|-----------------------------------------|-----|----|-------|----|-------|------|
| Expected to vest after January 29, 2012 | 786 | \$ | 18.30 | \$ | 8,379 | 4.58 |
|-----------------------------------------|-----|----|-------|----|-------|------|

- (1) Represents the difference between the exercise price and the value of the Company's stock at the time of exercise, for exercised grants. For outstanding awards, represents the difference between the exercise price and the value of the Company's stock at fiscal year end.
- (2) Includes the replacement awards issued to employees of SMI who held unvested SMI options on December 9, 2009.

**Table of Contents**

The following table summarizes information about stock options outstanding at January 29, 2012.

| Stock Options<br>(in thousands, except per share amount) | Shares       | Weighted<br>Average<br>Exercise Price | Weighted-<br>Average<br>Remaining<br>Contractual Life<br>(years) |
|----------------------------------------------------------|--------------|---------------------------------------|------------------------------------------------------------------|
| <b>Price Range Analysis - Outstanding</b>                |              |                                       |                                                                  |
| \$1.15 - \$4.53                                          | 13           | \$ 2.80                               | 5.33                                                             |
| \$7.23 - \$10.94                                         | 72           | 8.82                                  | 4.85                                                             |
| \$11.23 - \$16.85                                        | 2,173        | 15.07                                 | 2.78                                                             |
| \$16.90 - \$26.70                                        | 1,307        | 19.50                                 | 3.24                                                             |
| \$27.14 - \$29.78                                        | 125          | 28.65                                 | 2.11                                                             |
| <b>Total outstanding</b>                                 | <b>3,690</b> | <b>\$ 16.94</b>                       | <b>2.97</b>                                                      |
| <b>Price Range Analysis - Exercisable</b>                |              |                                       |                                                                  |
| \$1.15 - \$4.53                                          | 10           | \$ 2.42                               | 5.27                                                             |
| \$7.23 - \$10.94                                         | 40           | 9.07                                  | 4.30                                                             |
| \$11.23 - \$16.85                                        | 1,742        | 15.05                                 | 2.49                                                             |
| \$16.90 - \$26.70                                        | 891          | 18.42                                 | 2.33                                                             |
| \$27.14 - \$29.78                                        | 84           | 29.07                                 | 0.36                                                             |
| <b>Total exercisable</b>                                 | <b>2,767</b> | <b>\$ 16.42</b>                       | <b>2.41</b>                                                      |

The following table summarizes information regarding unvested stock option awards at January 29, 2012:

| (in thousands, except for per share amounts) | Number of<br>Shares | Weighted<br>Average<br>Exercise Price<br>(per share) | Weighted<br>Average<br>Grant Date<br>Fair<br>Value<br>(per<br>share) | Weighted<br>Average Remaining<br>Expense<br>Period<br>(in years) | Total Fair Value |
|----------------------------------------------|---------------------|------------------------------------------------------|----------------------------------------------------------------------|------------------------------------------------------------------|------------------|
| Balance at January 30, 2011                  | 1,462               | \$ 15.00                                             | \$ 6.23                                                              | 1.9                                                              | \$ 9,103         |
| Options granted                              | 343                 | 24.05                                                | 8.43                                                                 |                                                                  | 2,893            |
| Options vested                               | (650)               | 14.30                                                | 6.33                                                                 |                                                                  | 4,115            |
| Options forfeited                            | (231)               | 16.59                                                | 6.39                                                                 |                                                                  | 1,479            |
| <b>Balance at January 29, 2012</b>           | <b>924</b>          | <b>\$ 18.47</b>                                      | <b>\$ 6.99</b>                                                       | <b>1.8</b>                                                       | <b>\$ 6,452</b>  |

**Restricted Stocks.** The Company has not granted any restricted stock to employees since fiscal year 2009. The grant date for these awards is equal to the measurement date. These awards are valued as of the measurement date and recognized as compensation expense over the requisite vesting period (typically 3-4 years). A summary of the activity for restricted stock awards for fiscal years 2012, 2011 and 2010 is presented below:

| (in thousands, except for per share amounts) | Number of<br>Shares | Weighted Average<br>Grant Date<br>Fair Value | Aggregate<br>Intrinsic<br>Value (1) | Aggregate<br>Unrecognized<br>Compensation | Weighted Average<br>Period Over<br>Which<br>Expected |
|----------------------------------------------|---------------------|----------------------------------------------|-------------------------------------|-------------------------------------------|------------------------------------------------------|
|----------------------------------------------|---------------------|----------------------------------------------|-------------------------------------|-------------------------------------------|------------------------------------------------------|

Edgar Filing: SEMTECH CORP - Form 10-K

|                             |       | (per share) |          |          | to be<br>Recognized<br>(in years) |
|-----------------------------|-------|-------------|----------|----------|-----------------------------------|
| Balance at January 25, 2009 | 763   | \$ 15.36    |          | \$ 7,524 | 2.2                               |
| Restricted stocks granted   |       |             |          |          |                                   |
| Restricted stocks vested    | (305) |             | \$ 4,619 |          |                                   |
| Restricted stocks cancelled | (40)  |             |          |          |                                   |
| Balance at January 31, 2010 | 418   | 15.15       |          | 3,193    | 1.2                               |
| Restricted stocks granted   |       |             |          |          |                                   |
| Restricted stocks vested    | (270) | 17.33       | 4,678    |          |                                   |
| Restricted stocks cancelled | (13)  | 17.44       |          |          |                                   |
| Balance at January 30, 2011 | 135   | 14.44       |          | 984      | 0.8                               |
| Restricted stocks granted   |       |             |          |          |                                   |
| Restricted stocks vested    | (91)  | 14.29       | \$ 2,201 |          |                                   |
| Restricted stocks cancelled | (12)  | 15.25       |          |          |                                   |
| Balance at January 29, 2012 | 32    | \$ 14.57    |          | \$ 81    | 0.1                               |

(1) Represents the value of Semtech stock on the date that the restricted stock vested.

**Table of Contents**

**Performance Units.** The Company grants performance vested RSUs to select employees. These awards have a performance condition in addition to a service condition. The performance condition generally relates to the Company's revenue and operating income measured against internal goals. Under the terms of these awards, assuming the highest level of performance with no cancellations due to forfeitures, the maximum number of shares that can be earned in the aggregate is 719,400. In this scenario, the maximum number of shares that could be issued thereunder would be 359,700 and the Company would have a liability accrued in the Consolidated Balance Sheet equal to the value of 359,700 shares on the settlement date, which would be settled in cash. At January 29, 2012, 85% of the units from the fiscal year 2009 grant vested and 200% of the units from the fiscal year 2010 grant are expected to vest. At January 29, 2012, the performance metrics associated with the awards issued in fiscal years 2011 and 2012 are expected to be met at a level which would result in a grant at 200% and 100% of target respectively. The following table summarizes performance unit award activity during fiscal years 2012, 2011 and 2010:

|                                             | Total<br>Units | Subject to<br>Share Settlement<br>Units | Subject to<br>Cash Settlement<br>Units | Recorded<br>Liability | Weighted Average<br>Grant Date<br>Fair Value<br>(per share) | Aggregate<br>Unrecognized<br>Compensation | Weighted Average<br>Period Over<br>Which<br>Expected<br>to be<br>Recognized<br>(in years) |
|---------------------------------------------|----------------|-----------------------------------------|----------------------------------------|-----------------------|-------------------------------------------------------------|-------------------------------------------|-------------------------------------------------------------------------------------------|
| (in thousands, except for per share amount) |                |                                         |                                        |                       |                                                             |                                           |                                                                                           |
| Balance at January 25, 2009                 | 307            | 154                                     | 153                                    | \$                    | \$ 14.64                                                    | \$                                        | 1.7                                                                                       |
| Performance units granted                   | 318            | 227                                     | 91                                     |                       | 13.92                                                       |                                           |                                                                                           |
| Performance units vested                    |                |                                         |                                        |                       |                                                             |                                           |                                                                                           |
| Performance units cancelled/forfeited       | (32)           | (18)                                    | (14)                                   |                       | 11.23                                                       |                                           |                                                                                           |
| Change in liability                         |                |                                         |                                        | 259                   |                                                             |                                           |                                                                                           |
| Balance at January 31, 2010                 | 593            | 363                                     | 230                                    | 259                   | 14.29                                                       | 580                                       | 1.3                                                                                       |
| Performance units granted                   | 143            | 72                                      | 71                                     |                       | 16.68                                                       |                                           |                                                                                           |
| Performance units vested                    |                |                                         |                                        |                       |                                                             |                                           |                                                                                           |
| Performance units cancelled/forfeited       | (180)          | (109)                                   | (71)                                   |                       | 16.28                                                       |                                           |                                                                                           |
| Change in liability                         |                |                                         |                                        | 3,666                 |                                                             |                                           |                                                                                           |
| Balance at January 30, 2011                 | 556            | 326                                     | 230                                    | 3,925                 | 14.26                                                       | 7,971                                     | 1.0                                                                                       |
| Performance units granted                   | 117            | 59                                      | 58                                     |                       | 23.33                                                       |                                           |                                                                                           |
| Performance units vested                    | (218)          | (157)                                   | (61)                                   |                       | 14.74                                                       |                                           |                                                                                           |
| Performance units cancelled/forfeited       | (95)           | (48)                                    | (47)                                   |                       | 15.26                                                       |                                           |                                                                                           |
| Change in liability                         |                |                                         |                                        | 2,109                 |                                                             |                                           |                                                                                           |
| Balance at January 29, 2012                 | 360            | 180                                     | 180                                    | \$ 6,034              | \$ 16.65                                                    | \$ 4,829                                  | 1.0                                                                                       |

**Stock Units, Employees.** The Company issues stock unit awards to employees which are expected to be settled with stock. The grant date for these awards is equal to the measurement date. These awards are valued as of the measurement date and amortized over the requisite vesting period (typically 4 years). The following table summarizes stock unit award activity for fiscal years 2012 and 2011:

|                                             | Number of<br>Units | Weighted Average<br>Grant Date<br>Fair Value<br>(per unit) | Aggregate<br>Intrinsic<br>Value (1) | Aggregate<br>Unrecognized<br>Compensation | Period Over<br>Which Expected<br>to be Recognized<br>(in years) |
|---------------------------------------------|--------------------|------------------------------------------------------------|-------------------------------------|-------------------------------------------|-----------------------------------------------------------------|
| (in thousands, except for per share amount) |                    |                                                            |                                     |                                           |                                                                 |
| Balance at January 25, 2009                 | 316                | \$ 14.97                                                   |                                     | \$ 3,345                                  | 3.6                                                             |
| Stock units granted                         | 1,205              | 15.84                                                      |                                     |                                           |                                                                 |
| Stock units vested                          | (66)               |                                                            | \$ 1,137                            |                                           |                                                                 |
| Stock units forfeited                       | (45)               |                                                            |                                     |                                           |                                                                 |
| Balance at January 31, 2010                 | 1,410              | 15.72                                                      |                                     | 17,713                                    | 3.4                                                             |
| Stock units granted                         | 1,181              | 17.62                                                      |                                     |                                           |                                                                 |



Edgar Filing: SEMTECH CORP - Form 10-K

|                             |       |          |           |     |
|-----------------------------|-------|----------|-----------|-----|
| Stock units vested          | (404) | 19.20    | 7,749     |     |
| Stock units forfeited       | (129) | 19.50    |           |     |
| Balance at January 30, 2011 | 2,058 | 16.70    | 29,763    | 2.7 |
| Stock units granted         | 810   | 22.74    |           |     |
| Stock units vested          | (627) | 16.61    | \$ 14,333 |     |
| Stock units forfeited       | (259) | 17.75    |           |     |
| Balance at January 29, 2012 | 1,982 | \$ 19.06 | \$ 31,472 | 2.4 |

(1) Reflects the value of Semtech stock on the date that the stock unit vested.

**Table of Contents**

**Stock Units, Non-Employee Directors.** The Company grants stock unit awards to non-employee directors. These RSUs are accounted for as liabilities and accrued in the Consolidated Balance Sheets because they are cash settled. The value of these awards is re-measured at each reporting period until settlement, which typically occurs upon the director's separation from service. Vested awards and the pro-rata vested portion of unvested awards are recognized as a liability. These awards vest after one year of service. The following table summarizes stock unit award activity for fiscal years 2012, 2011 and 2010:

| (in thousands, except per share amount) | Number of<br>Units | Recorded<br>Liability | Weighted Average<br>Grant Date<br>Fair Value<br>(per unit) | Aggregate<br>Unrecognized<br>Compensation | Period Over<br>Which Expected<br>to be Recognized<br>(in years) |
|-----------------------------------------|--------------------|-----------------------|------------------------------------------------------------|-------------------------------------------|-----------------------------------------------------------------|
| Balance at January 25, 2009             | 41                 | \$ 633                | \$ 13.81                                                   | \$ 239                                    | 0.4                                                             |
| Stock units granted                     | 35                 |                       | 16.18                                                      |                                           |                                                                 |
| Stock units vested                      | (41)               |                       |                                                            |                                           |                                                                 |
| Stock units forfeited                   |                    |                       |                                                            |                                           |                                                                 |
| Change in Liability                     |                    | 756                   |                                                            |                                           |                                                                 |
| Balance at January 31, 2010             | 35                 | 1,389                 | 16.18                                                      | 232                                       | 0.4                                                             |
| Stock units granted                     | 30                 |                       | 16.43                                                      |                                           |                                                                 |
| Stock units vested                      | (35)               |                       | 16.18                                                      |                                           |                                                                 |
| Stock units forfeited                   |                    |                       |                                                            |                                           |                                                                 |
| Change in Liability                     |                    | 1,024                 |                                                            |                                           |                                                                 |
| Balance at January 30, 2011             | 30                 | 2,414                 | 16.43                                                      | 269                                       | 0.4                                                             |
| Stock units granted                     | 18                 |                       | 27.60                                                      |                                           |                                                                 |
| Stock units vested                      | (30)               |                       | 16.43                                                      |                                           |                                                                 |
| Stock units forfeited                   |                    |                       |                                                            |                                           |                                                                 |
| Change in Liability                     |                    | 1,459                 |                                                            |                                           |                                                                 |
| Balance at January 29, 2012             | 18                 | \$ 3,873              | \$ 27.60                                                   | \$ 216                                    | 0.4                                                             |

As of January 29, 2012, the number of vested but unsettled stock units for Non-Employee Directors is 29,820, 30,282, 35,476, 27,825 in fiscal year 2012, 2011, 2010, and 2009, respectively.

**Note 11. Income Taxes**

The provision for taxes consists of the following:

| (in thousands)                   | January 29,<br>2012 | Fiscal Year Ended<br>January 30,<br>2011 | January 31,<br>2010 |
|----------------------------------|---------------------|------------------------------------------|---------------------|
| Current tax provision /(benefit) |                     |                                          |                     |
| Federal                          | \$ 2,336            | \$ 3,178                                 | \$ 17,790           |
| State                            | 569                 | 444                                      | 725                 |
| Foreign                          | 4,615               | 2,822                                    | 5,867               |
| Subtotal                         | 7,520               | 6,444                                    | 24,382              |
| Deferred tax provision/(benefit) |                     |                                          |                     |
| Federal                          | (4,417)             | (1,631)                                  | 7,027               |
| State                            | 1,232               | (5)                                      | (2,058)             |
| Foreign                          | 757                 | 1,952                                    | 3,663               |

Edgar Filing: SEMTECH CORP - Form 10-K

|                     |          |          |           |
|---------------------|----------|----------|-----------|
| Subtotal            | (2,428)  | 316      | 8,632     |
| Provision for taxes | \$ 5,092 | \$ 6,760 | \$ 33,014 |

**Table of Contents**

The provision for taxes reconciles to the amount computed by applying the statutory federal rate to income before taxes as follows:

| (in thousands)                                 | January 29,<br>2012 | Fiscal Year Ended<br>January 30,<br>2011 | January 31,<br>2010 |
|------------------------------------------------|---------------------|------------------------------------------|---------------------|
| Federal income tax at statutory rate           | \$ 32,963           | \$ 27,766                                | \$ 11,890           |
| State income taxes, net of federal benefit     | (263)               | 581                                      | (554)               |
| Foreign taxes at rates less than federal rates | (16,269)            | (16,367)                                 | (1,381)             |
| Tax credits generated                          | (2,222)             | (1,234)                                  | (4,245)             |
| Changes in valuation reserves                  | 1,814               | (879)                                    | (7,564)             |
| Changes in uncertain tax positions             | (3,235)             | 2,755                                    |                     |
| Deemed dividends                               | 1,250               | 1,056                                    | 532                 |
| Equity compensation                            | (1,312)             | 1,639                                    | 958                 |
| Permanent differences                          | 1,592               | 1,652                                    | (607)               |
| Sales exclusion - foreign jurisdiction         | (11,017)            | (9,429)                                  | (5,575)             |
| Foreign exchange loss - foreign jurisdiction   |                     |                                          | (1,285)             |
| Dividend and U.S. tax on foreign earnings      |                     |                                          | 40,205              |
| Non-deductible acquisition costs               |                     |                                          | 853                 |
| Other                                          | 1,791               | (780)                                    | (213)               |
| <b>Provision for taxes</b>                     | <b>\$ 5,092</b>     | <b>\$ 6,760</b>                          | <b>\$ 33,014</b>    |

During fiscal year 2012, the Company released \$3.9 million of previously recorded reserves for uncertain tax positions as a result of statutes of limitations for the taxing authority to challenge the position expiring.

The deferred tax assets and deferred tax liabilities are classified in the Consolidated Balance Sheets as follows:

| (in thousands)                               | January 29, 2012 | January 30, 2011  |
|----------------------------------------------|------------------|-------------------|
| <b>Deferred tax assets</b>                   |                  |                   |
| Current                                      | \$ 5,339         | \$ 13,369         |
| Non-current                                  |                  |                   |
| Subtotal                                     | 5,339            | 13,369            |
| <b>Deferred tax liabilities</b>              |                  |                   |
| Current                                      | (4,041)          | (3,334)           |
| Non-current                                  | (1,000)          | (11,120)          |
| Subtotal                                     | (5,041)          | (14,454)          |
| <b>Net deferred tax (liabilities) assets</b> | <b>\$ 298</b>    | <b>\$ (1,085)</b> |

**Table of Contents**

ASC 740 requires that for a particular tax-paying component of an enterprise, and within a particular tax jurisdiction, (a) all current deferred tax liabilities and assets shall be offset and presented as a single amount and (b) all noncurrent deferred tax liabilities and assets shall be offset and presented as a single amount. Deferred tax liabilities and assets attributable to different tax-paying components of the enterprise or to different tax jurisdictions should not be offset. The components of the net deferred income tax assets at January 29, 2012 and January 30, 2011 are as follows:

| (in thousands)                              | January 29,<br>2012 | January 30,<br>2011 |
|---------------------------------------------|---------------------|---------------------|
| <b>Current deferred tax asset:</b>          |                     |                     |
| Deferred revenue                            | \$ 2,346            | \$ 2,866            |
| Inventory reserve                           | 347                 | 928                 |
| Payroll and related                         | 1,926               | 3,587               |
| Bad debt reserve                            | 359                 | 611                 |
| Accrued service fees                        | 405                 | 7,746               |
| Other deferred assets                       | 509                 | 662                 |
| Valuation reserve                           | (552)               |                     |
| <b>Total current deferred tax asset</b>     | <b>5,340</b>        | <b>16,400</b>       |
| <b>Non-current deferred tax asset</b>       |                     |                     |
| Research and development charges            | 3,707               | 5,360               |
| Research credit carryforward                | 11,967              | 8,353               |
| Acquired NOL carryforward                   | 16,489              | 3,043               |
| Payroll and related                         | 4,497               | 4,117               |
| Stock-based compensation                    | 10,248              | 12,049              |
| Other deferred assets                       | 772                 | 2,291               |
| Valuation reserve                           | (5,065)             | (5,053)             |
| <b>Total non-current deferred tax asset</b> | <b>42,615</b>       | <b>30,160</b>       |
| <b>Current deferred tax liability:</b>      |                     |                     |
| Inventory reserve - Foreign                 | (2,115)             | (2,023)             |
| Bad debt reserve - Foreign                  | (671)               | (639)               |
| Depreciation - Foreign                      | (1,074)             | (528)               |
| Other current deferred tax liability        | (181)               | (144)               |
| <b>Non-current deferred tax liability:</b>  |                     |                     |
| Domestic tax on foreign earnings            | (23,443)            | (23,443)            |
| Purchase accounting deferred tax liability  | (14,159)            | (17,166)            |
| Depreciation and Amortization               | (5,760)             | (2,638)             |
| Other non-current deferred tax liability    | (254)               | (1,064)             |
| <b>Total deferred tax liability</b>         | <b>(47,657)</b>     | <b>(47,645)</b>     |
| <b>Net deferred tax (liability) asset</b>   | <b>\$ 298</b>       | <b>\$ (1,085)</b>   |

The change in the net deferred tax asset differs from the deferred tax provision as a result of deferred tax assets that do not typically impact the provision. This includes the benefit related to tax deductions from the exercise of non-qualified stock options in excess of compensation cost recognized for financial reporting purposes (recorded as an increase to additional paid-in capital when realized).

As of January 29, 2012, the Company had federal and state net operating loss carryforwards of \$36.9 million and \$47.8 million which, subject to certain limitations, are available to offset future taxable income through fiscal year 2032. A portion of these losses were generated by SMI prior to the Company's purchase of SMI and therefore are subject to change of control provisions which limit the amount of acquired tax attributes that can be utilized in a given tax year. The Company does not expect these changes in control limitations to significantly impact its ability to utilize these attributes.

## Edgar Filing: SEMTECH CORP - Form 10-K

As of January 29, 2012, the Company had gross federal and state research credits available of approximately \$4.5 million and \$11.5 million, respectively, which are available to offset taxable income. These credits will expire between fiscal years 2021 through 2032. As of January 29, 2012, the Company had federal Alternative Minimum Tax credits available of approximately \$1.3 million.

**Table of Contents**

The Company has established valuation allowances against certain U.S. state and foreign deferred tax assets to reflect its concerns regarding the ability of the Company to generate sufficient taxable income to utilize these attributes. The following table summarizes the changes in these allowances during fiscal years 2012, 2011 and 2010:

| (in thousands)    | Fiscal Year Ended |                  |                  |
|-------------------|-------------------|------------------|------------------|
|                   | January 29, 2012  | January 30, 2011 | January 31, 2010 |
| Beginning balance | \$ 5,053          | \$ 6,502         | \$ 12,054        |
| Additions         | 564               | 2,767            | 1,917            |
| Releases          |                   | (4,216)          | (7,469)          |
| Ending Balance    | \$ 5,617          | \$ 5,053         | \$ 6,502         |

Realization of the net deferred tax assets is dependent on generating sufficient taxable income during the periods in which temporary differences will reverse. Although realization is not assured, management believes it is more likely than not that the net deferred tax assets will be realized. The amount of the net deferred tax assets considered realizable, however, could be adjusted in the near term if estimates of future taxable income during the reversal periods are revised.

As of January 29, 2012, the Company had approximately \$376.6 million of unremitted earnings related to the Company's wholly owned foreign subsidiaries. The amount of unremitted foreign earnings where no U.S. federal or state taxes have been provided is summarized below:

| (in thousands)                                                                   | January 29, 2012 |
|----------------------------------------------------------------------------------|------------------|
| Total unremitted foreign earnings                                                | 376,600          |
| Foreign earnings, U.S. federal and state tax provided                            | (120,000)        |
| Distribution of foreign earnings, previously provided U.S. federal and state tax | 50,000           |
| Unremitted foreign income, with no U.S. federal or state taxes provided          | 306,600          |

The Company's policy is to leave the foreign earnings permanently reinvested offshore. The amount of earnings designated as indefinitely reinvested offshore is based upon the actual deployment of such earnings in the Company's offshore assets and expectations of the future cash needs of the Company's U.S. and foreign entities.

Income taxes paid in fiscal years 2012, 2011 and 2010 were \$4.1 million, \$20.6 million and \$6.5 million, respectively.

**Uncertain Tax Positions**

The Company uses a two-step approach to recognize and measure uncertain tax positions (UTP). The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits (before federal impact of state items) is as follows:

| (in thousands)                                               | Fiscal Year Ended |                  |                  |
|--------------------------------------------------------------|-------------------|------------------|------------------|
|                                                              | January 29, 2012  | January 30, 2011 | January 31, 2010 |
| Beginning balance                                            | \$ 17,011         | \$ 13,795        | \$ 12,460        |
| Additions based on tax positions related to the current year | 835               | 449              | 723              |
| Additions for tax positions of prior years                   |                   | 3,592            | 163              |
| Reductions for tax positions of prior years                  | (4,087)           |                  | (1,073)          |

## Edgar Filing: SEMTECH CORP - Form 10-K

|                                                 |                  |                  |                  |
|-------------------------------------------------|------------------|------------------|------------------|
| Reductions for settlements with tax authorities |                  | (825)            | (727)            |
| Acquisition related additions                   |                  |                  | 2,249            |
| <b>Ending Balance</b>                           | <b>\$ 13,759</b> | <b>\$ 17,011</b> | <b>\$ 13,795</b> |

Reductions recorded in the current year related primarily to a release of previously recorded reserves for uncertain tax positions as a result of statutes of limitations for the taxing authority to challenge the position expiring.

Included in the balance of unrecognized tax benefits at January 29, 2012 and January 30, 2011, are \$11.6 million and \$14.7 million, respectively, of net tax benefits (after federal impact of state items) that, if recognized, would impact the effective tax rate. The UTP liability as of January 29, 2012 and January 30, 2011 was \$11.6 million and \$14.7 million, respectively. This liability is reflected on the balance sheet as Accrued Taxes. The Company's policy is to include net interest and penalties related to unrecognized tax benefits within the provision for taxes on the Consolidated Statements of Income. During fiscal years 2012 and 2011, a net increase of \$50,000 and \$100,000 of interest and penalties was recognized in the Consolidated Statement of Income, respectively. The Company had approximately \$243,000 and \$193,000 of net interest and penalties accrued at January 29, 2012 and January 30, 2011, respectively.



**Table of Contents**

As of January 29, 2012, the Company believes that it is reasonably possible that the amount of unrecognized tax benefits will decrease by approximately \$473,000 within twelve months as a result of expiring statutes. If recognized, this decrease will impact the effective tax rate.

Tax years prior to 2008 (the Company's fiscal year 2009) are generally not subject to examination by the Internal Revenue Service ( IRS ) except for items involving tax attributes that have been carried forward to tax years whose statute of limitations remains open. For state returns, the Company is generally not subject to income tax examinations for years prior to 2007 (the Company's fiscal year 2008). The Company has a primary significant tax presence in Switzerland for which 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.

**Note 12. Commitments and Contingencies****Leases**

The Company leases facilities and certain equipment under operating lease arrangements expiring in various years through fiscal year 2020. The aggregate minimum annual lease payments under leases in effect on January 29, 2012 are as follows:

**Minimum Annual Lease Payments**

(in thousands)

|                                     |            |
|-------------------------------------|------------|
| <b>Fiscal Year Ending:</b>          |            |
| 2013                                | \$ 5,198   |
| 2014                                | 3,933      |
| 2015                                | 1,996      |
| 2016                                | 1,138      |
| 2017                                | 230        |
| Thereafter                          | 261        |
| <br>Total minimum lease commitments | <br>12,756 |

Rent expense was \$4.4 million, \$4.4 million and \$3.3 million for fiscal years 2012, 2011 and 2010, respectively. The Company received \$0, \$158,000 and \$375,000 of sub-lease income in fiscal years 2012, 2011 and 2010, respectively.

**Vendor Commitments**

The Company has entered into multiple technology development agreements with one of its key wafer suppliers. Under the terms of these agreements, the Company is required to pay \$1.2 million, \$1.2 million, and \$0.3 million for fiscal years 2013, 2014, and 2015 respectively.

**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. In accordance with accounting standards regarding loss contingencies, the Company accrues an undiscounted liability for those contingencies where the incurrence of a loss is probable and the amount can be reasonably estimated, and we disclose the amount accrued and the amount of a reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for our financial statements not to be misleading. The Company does not record liabilities when the likelihood that the liability has been incurred is probable but the amount cannot be reasonably estimated, or when the liability is believed to be only reasonably possible or remote.

Because litigation outcomes are inherently unpredictable, the Company's evaluation of legal proceedings often involves a series of complex assessments by management about future events and can rely heavily on estimates and assumptions. If the assessments indicate that loss

## Edgar Filing: SEMTECH CORP - Form 10-K

contingencies that could be material to any one of our financial statements are not probable, but are reasonably possible, or are probable, but cannot be estimated, then we disclose the nature of the loss contingencies, together with an estimate of the range of possible loss or a statement that such loss is not reasonably estimable. While the consequences of certain unresolved proceedings are not presently determinable, and an estimate of the probable and reasonably possible loss or range of loss in excess of amounts accrued for such proceedings cannot be reasonably made, an adverse outcome from such proceedings could have a material adverse effect on our earnings in any given reporting period. However, in the opinion of our management, after consulting with legal counsel, and taking into account insurance coverage, the ultimate liability related to current outstanding claims and lawsuits is not expected to have a material adverse effect on our financial statements.

## Table of Contents

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.

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.

Some of the Company's more significant pending legal matters are discussed below:

***Class Action Lawsuit.*** In Re: Semtech Corporation Securities Litigation, United States District Court, Central District of California, Case No. 2:07-CV-07114-CAS, two separate purported class action lawsuits were filed against the Company and certain current and former officers in August and October 2007, on behalf of persons who purchased or acquired Company securities from dates in 2002 to July 2006. The cases alleged violations of Federal securities laws in connection with the Company's past stock option practices. In February 2008, the Mississippi Public Employees' Retirement System (MPERS) filed a motion in the United States 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 August 2010, the Court issued its class certification order, certifying the plaintiff class as persons who acquired common stock of the Company between August 27, 2002 and July 19, 2006 (inclusive).

At a mediation meeting held on December 5, 2010, an agreement in principle to settle the class action litigation was reached. The Company agreed to pay \$20 million to settle all claims in the litigation. As a result of this agreement, the Company recorded an additional charge of \$10 million in fiscal year 2011 to increase its total accrued liability for this matter to \$20 million. Payment in full of the \$20 million settlement amount was made on April 14, 2011 into the applicable escrow account associated with the proposed settlement after preliminary Court approval of same was issued on April 11, 2011.

Final approval of the proposed settlement was issued by the Court on June 27, 2011, per the Court's Final Judgment and Order of Dismissal (the Final Judgment). No class member opted out of or otherwise presented any objection to the proposed settlement prior to entry of the Final Judgment. The Final Judgment fully resolves 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 admitted any wrongdoing in connection with the entry of the Final Judgment. All claims asserted against the Company and the named defendants in connection with the subject litigation have been released and dismissed with prejudice as part of the Final Judgment. All related civil legal proceedings, including separate appellate proceedings (that had been stayed pending settlement discussions) involving certain matters relating to prospective evidentiary matters impacting trial proceedings, have also now been dismissed with prejudice.

***Environmental Matters.*** In 2001, the Company was notified by the California Department of Toxic Substances Control (State) that it may have liability associated with the clean-up of the one-third acre Davis Chemical Company site in Los Angeles, California. The Company has been included in the clean-up program because it was one of the companies that used the Davis Chemical Company site for waste recycling and/or disposal between 1949 and 1990. The Company joined with other potentially responsible parties and entered into a Consent Order with the State that required the group to perform a soils investigation at the site and submit a remediation plan. The State has approved the remediation plan, which completes the group's obligations under the Consent Order. Although the Consent Order does not require the group to remediate the site and the State has indicated it intends to look to other parties for remediation, the State has not yet issued no further action letters to the group members. To date, the Company's share of the group's expenses has not been material and has been expensed as incurred.

The Company has used an environmental firm, specializing in hydrogeology, to perform monitoring of the groundwater at the Company's former facility in Newbury Park, California that was leased for approximately forty years. The Company vacated the building in May 2002. Certain contaminants have been found in the local groundwater and site soils. Groundwater monitoring results to date over a number of years indicate that groundwater contaminants are, in full or in material part, from adjacent facilities. Responsibility for soil contamination remains under investigation. The location of key soil contamination is concentrated in an area of an underground storage tank that the Company believes to have been installed and used in the early 1960s by a former tenant at the site who preceded the Company's tenancy. There are no claims pending with respect to environmental matters at the Newbury Park site. However, the applicable regulatory agency having authority over the site issued joint instructions in November 2008, ordering the Company and the current owner of the site to perform additional assessments and surveys, and to create ongoing groundwater monitoring plans before any final regulatory action for no further action may be approved. In September 2009, the regulatory agency issued supplemental instructions to the Company and the current site owner regarding previously ordered site assessments, surveys and groundwater monitoring. The costs to perform all site work directed by the regulatory agency to date are not anticipated to be material. The Company and the site owner have agreed on an equitable cost sharing arrangement for current site work.



**Table of Contents**

The Company has accrued liabilities where it is probable that a loss will be incurred and the cost or amount of loss can be reasonably estimated. At January 29, 2012, accrued liabilities include approximately \$58,000 of fees payable in connection with pending testing and monitoring activities at this site. While it is reasonably possible that losses exceeding the amounts already accrued may be incurred, because of the uncertainties associated with environmental assessment and the remediation activities, the Company has concluded that it is unable to reasonably estimate a range of potential expenses, if any, of future site clean-up costs that may be directed by the regulatory agency following the current site assessments and surveys, however, any such potential expenses are not expected to be material to the Company's financial statements, as a whole.

**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.

In fiscal year 2010, the Company assumed certain warranty obligations in connection with the acquisition of SMI. As a result of lower than anticipated field failures and a revised estimate of anticipated warranty claims, the Company reduced its warranty accrual by \$1.0 million with a corresponding offset to cost of sales during the fourth quarter of fiscal year 2011.

The table below summarizes changes in product warranties in accrued liabilities for fiscal years 2012 and 2011.

|                                                         |          |
|---------------------------------------------------------|----------|
| (in thousands)                                          |          |
| Balance at January 31, 2010                             | \$ 2,250 |
| Current accruals                                        | 165      |
| Accrual reversals                                       | (1,276)  |
| Settlements made (in cash or in kind) during the period | (532)    |
| Balance at January 30, 2011                             | 607      |
| Current accruals                                        | 206      |
| Accrual reversals                                       | (506)    |
| Settlements made (in cash or in kind) during the period |          |
| Balance at January 29, 2012                             | \$ 307   |

The product warranty accrual reflects the Company's best estimate of probable liability under its product warranties. The Company accrues for known warranty issues if a loss is probable and can be reasonably estimated, and accrues for estimated incurred but unidentified issues based on historical experience.

**Retirement Plans**

The Company contributed \$1.2 million, \$1.0 million and \$0.0, respectively, in fiscal years 2012, 2011 and 2010 to the 401(k) retirement plan maintained for its employees. No Company contributions were made to this plan in fiscal year 2010.

The Company contributes to the CSEM Pension fund, a Swiss multiemployer plan, that provides pension benefits (the Plan). The Plan is a foundation into which several employers are affiliated. Benefits payable from the pension plan include retirement pension, death, and disability benefits. The risk of participating in this multiemployer plan is different from a single-employer plan due to the comingling of assets and related investment returns and risks and aggregation of actuarial experience and related gains or losses for allocation amongst participating employers; contributions pursuant to prescribed formulae consistent for all participating employers; and, in the event of a participating employer's withdrawal from the Plan, retirees receiving benefits from the Plan remain within the Plan and will continue to receive future benefit payments funded by the remaining participating employers thereafter.

The Plan is administered on behalf of a labor union, which is similar to common practices found in the United States involving collective bargaining agreements and labor unions. EIN/Pension plan number, Pension protection act zone status, FIP/RP status and Form 5500 are not applicable as the Plan is a Swiss plan governed by pension laws in Switzerland. The Company contributed \$0.8 million, \$0.8 million and \$0.7 million, respectively, in fiscal years 2012, 2011 and 2010 to the Plan. Contributions for Plan year 2010 and 2009 exceed five percent of total

contributions. At the date the Company's financial statements were issued, the Plan's audited financial statements were not available for the Plan year ending in 2011.

**Deferred Compensation**

The Company maintains a deferred compensation plan (the Plan) for certain officers and key executives that allow participants to defer a portion of their compensation for future distribution at various times permitted by the plan. This plan provides for a

**Table of Contents**

discretionary Company match up to a defined portion of the employee's deferral, with any match subject to a vesting period. The following table shows the compensation expense and forfeitures under this plan for fiscal years 2012, 2011 and 2010:

| (in thousands)                                  | January 29, 2012 | January 30, 2011 | January 29, 2010 |
|-------------------------------------------------|------------------|------------------|------------------|
| Forfeitures                                     | \$ (194)         | \$ (66)          | \$ (127)         |
| Compensation expense                            | 885              | 2,166            | 1,527            |
| <b>Compensation expense, net of forfeitures</b> | <b>\$ 691</b>    | <b>\$ 2,100</b>  | <b>\$ 1,400</b>  |

The Company's liability for deferred compensation under this plan is presented below:

| (in thousands)                                 | January 29, 2012 | January 30, 2011 |
|------------------------------------------------|------------------|------------------|
| Accrued liabilities                            | \$ 901           | \$ 339           |
| Other long-term liabilities                    | 10,222           | 9,838            |
| <b>Total deferred compensation liabilities</b> | <b>\$ 11,123</b> | <b>\$ 10,177</b> |

The Company has purchased whole life insurance on the lives of certain current and former deferred compensation plan participants. This Company-owned life insurance is held in a grantor trust and is intended to cover a majority of the Company's costs of the deferred compensation plan. The cash surrender value of the Company-owned life insurance was \$10.2 million as of January 29, 2012 and \$6.1 million as of January 30, 2011, and is included in other assets.

**Indemnification**

The Company has entered into agreements with its current executive officers and directors indemnifying them against certain liabilities incurred in connection with the performance of their duties. The Company's Certificate of Incorporation and Bylaws contain comparable indemnification obligations with respect to the Company's current directors and employees.

**Note 13. Interest and Other Income, net**

Interest and other income, net, consist of the following:

| (in thousands)                                                 | Fiscal Year Ended   |                     |                     |
|----------------------------------------------------------------|---------------------|---------------------|---------------------|
|                                                                | January 29,<br>2012 | January 30,<br>2011 | January 31,<br>2010 |
| Interest income                                                | \$ 1,213            | \$ 1,051            | \$ 2,035            |
| Interest expense                                               |                     |                     | (139)               |
| Gain on sale of fixed assets and available-for-sale securities | 40                  | 65                  | 139                 |
| Foreign currency transaction (loss) gain                       | (504)               | (428)               | 403                 |
| Miscellaneous (expense) income                                 | (156)               | (114)               | 616                 |
| <b>Interest and other income, net</b>                          | <b>\$ 593</b>       | <b>\$ 574</b>       | <b>\$ 3,054</b>     |

**Note 14. Geographic Information and Concentrations of Risk**

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

## Edgar Filing: SEMTECH CORP - Form 10-K

In fiscal year 2012, the Company reorganized its product lines. The components of the Advanced Communications and Sensing reporting unit were split into two reporting units consisting of the Advanced Communications and the Wireless and Sensing reporting units. The Company continues to report under one reportable segment. The table below provides net sales activity by product line on a comparative basis for all periods.

| (in thousands)                        | Fiscal Year Ended   |             |                     |             |                     |             |
|---------------------------------------|---------------------|-------------|---------------------|-------------|---------------------|-------------|
|                                       | January 29,<br>2012 |             | January 30,<br>2011 |             | January 31,<br>2010 |             |
| Advanced Communications               | \$ 139,695          | 29%         | \$ 112,019          | 25%         | \$ 18,642           | 7%          |
| Wireless and Sensing                  | 57,124              | 12%         | 59,107              | 13%         | 38,821              | 14%         |
| Power Management and High Reliability | 74,056              | 15%         | 87,693              | 19%         | 82,787              | 29%         |
| Protection                            | 209,726             | 44%         | 195,683             | 43%         | 146,310             | 51%         |
| <b>Total Net Sales</b>                | <b>\$ 480,601</b>   | <b>100%</b> | <b>\$ 454,502</b>   | <b>100%</b> | <b>\$ 286,560</b>   | <b>100%</b> |



**Table of Contents**

Net sales activity by geographic region is as follows:

| (in thousands)  | Fiscal Year Ended   |      |                     |      |                     |      |
|-----------------|---------------------|------|---------------------|------|---------------------|------|
|                 | January 29,<br>2012 |      | January 30,<br>2011 |      | January 31,<br>2010 |      |
| North America   | \$ 114,552          | 24%  | \$ 112,404          | 25%  | \$ 72,818           | 25%  |
| Asia-Pacific    | 298,477             | 62%  | 272,079             | 60%  | 165,880             | 58%  |
| Europe          | 67,572              | 14%  | 70,019              | 15%  | 47,862              | 17%  |
| Total Net Sales | \$ 480,601          | 100% | \$ 454,502          | 100% | \$ 286,560          | 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:

| (percentage of total sales) | Fiscal Year Ended   |                     |                     |
|-----------------------------|---------------------|---------------------|---------------------|
|                             | January 29,<br>2012 | January 30,<br>2011 | January 31,<br>2010 |
| United States               | 20%                 | 23%                 | 19%                 |
| China (including Hong Kong) | 38%                 | 34%                 | 26%                 |
| South Korea                 | 8%                  | 10%                 | 18%                 |
| Total Net Sales             | 66%                 | 67%                 | 63%                 |

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

| (in thousands) | Fiscal Year Ended   |                     |                     |
|----------------|---------------------|---------------------|---------------------|
|                | January 29,<br>2012 | January 30,<br>2011 | January 31,<br>2010 |
| Domestic       | \$ (3,070)          | \$ (12,540)         | \$ (9,157)          |
| Foreign        | 97,249              | 91,872              | 43,128              |
| Total          | \$ 94,179           | \$ 79,332           | \$ 33,971           |

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

**Long-lived Assets**

Long-lived assets which consist of property, plant and equipment, net of accumulated depreciation are summarized as follows:

| (in thousands)                    | January 29,<br>2012 | January 30,<br>2011 |
|-----------------------------------|---------------------|---------------------|
| Located within the United States  | \$ 47,612           | \$ 37,357           |
| Located outside the United States | 22,101              | 19,421              |
|                                   | \$ 69,713           | \$ 56,778           |

## Edgar Filing: SEMTECH CORP - Form 10-K

Some of these assets are at locations owned or operated by the Company's suppliers. The Company has consigned certain equipment to a foundry based in China to support its specialized processes run at the foundry. The Company has also installed its own equipment at some of its packaging and testing subcontractors in order to ensure a certain level of capacity, assuming the subcontractor has ample employees to operate the equipment.

The amount of equipment and machinery consigned to a foundry in China was \$9.4 million and \$7.2 million as of January 29, 2012 and January 30, 2011, respectively.

**Table of Contents****Significant Customers**

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.

Each of the following significant customers accounted for at least 10% of our net sales for the periods indicated:

(percentage of net sales)

|                                      | Fiscal Year Ended   |                     |                     |
|--------------------------------------|---------------------|---------------------|---------------------|
|                                      | January 29,<br>2012 | January 30,<br>2011 | January 31,<br>2010 |
| Samsung Electronics (and affiliates) | 13%                 | 12%                 | 17%                 |
| Frontek Technology Corp              | 10%                 | 11%                 | 13%                 |

The following table shows the list of customers that have an outstanding receivable balance that represents at least 10% of our total net receivables for the periods indicated:

(percentage of net accounts receivable)

|                                      | Fiscal Year Ended   |                     |
|--------------------------------------|---------------------|---------------------|
|                                      | January 29,<br>2012 | January 30,<br>2011 |
| Samsung Electronics (and affiliates) | 14%                 | 15%                 |
| Frontek Technology Corp              | 10%                 | 12%                 |
| Dragon Technology                    | 11%                 |                     |
| Huawei Technologies Co,              | 11%                 |                     |

**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 such as the recent earthquake and Tsunami in Japan and floods in Thailand 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, Japan, 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 15. Matters Related to Historical Stock Option Practices**

Since May 2006, the Company has incurred substantial expenses for legal, accounting, tax and other professional services in connection with matters associated with or stemming from its historical stock option practices. These expenses include claims for advancement of legal expenses to current and former directors, officers and executives under pre-existing indemnification agreements and to other current and former employees under the California Labor Code and a resolution of the Board of Directors authorizing such advances. See Note 12 for additional information regarding indemnification.

Since May 2006, and through this fiscal year until the final resolution and dismissal of applicable litigation and related appeals, finalized in August 2011, the Company has incurred substantial expenses for legal, accounting, tax and other professional services in connection with matters associated with or stemming from its historical stock option practices.

In fiscal years 2012, 2011 and 2010, respectively, approximately \$0.2 million, \$13.6 million and \$3.3 million (net of insurance recovery of \$8.7 million) of legal expenses and liability accruals were recorded in relation to these matters.



**Table of Contents****Note 16. Reorganization Costs**

During the third quarter of fiscal year 2012, the Company initiated a reorganization plan which resulted in a consolidation of research and development activities and a reduction of its workforce. The following table summarizes the reorganization charges incurred and liability balance included in Accrued liabilities on the Consolidated Balance Sheet as of January 29, 2012. Charges below were included in Selling, general and administrative on the Consolidated Statement of Operations.

| (in thousands)              | Balance at<br>January 30,<br>2011 | Reorganization<br>charges | Cash Payments /<br>Other | Balance at<br>January 29, 2012 |
|-----------------------------|-----------------------------------|---------------------------|--------------------------|--------------------------------|
| Severance and related costs | \$                                | 1,981                     | 1,965                    | \$ 16                          |

**Note 17. Business Interruption Insurance Recoveries**

On July 31, 2008, a fire occurred at the Company's Reynosa, Mexico manufacturing facility. The Company received proceeds under the relevant insurance policies that it maintains for both property damage and business interruption. In fiscal year 2010, the Company received a business interruption recovery of \$1.4 million that was recorded to Selling, general and administrative. No further insurance proceeds are expected with regards to this incident.

**Note 18. Stock Repurchase Program and Shares Withheld from Vested Restricted Shares**

On March 4, 2008, 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. On August 24, 2011, the Company announced a \$36 million expansion of the 2008 Program. On November 30, 2011, the Company announced an additional \$50 million expansion of the 2008 Program.

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

The following table summarizes the stock repurchase activities and shares withheld from vested restricted shares during the fiscal years 2012, 2011 and 2010:

| (in thousands, except number of shares)       | Fiscal Year Ended<br>January 29, 2012 |           | Fiscal Year Ended<br>January 30, 2011 |          | Fiscal Year Ended<br>January 31, 2010 |          |
|-----------------------------------------------|---------------------------------------|-----------|---------------------------------------|----------|---------------------------------------|----------|
|                                               | Shares                                | Value     | Shares                                | Value    | Shares                                | Value    |
| Shares repurchased under the 2008 program     | 2,252,099                             | \$ 50,000 | 74,702                                | \$ 1,258 | 104,528                               | \$ 1,390 |
| Shares withheld from vested restricted shares | 27,427                                | 665       | 89,934                                | 1,561    | 101,822                               | 1,541    |
| Total treasury shares activities              | 2,279,526                             | \$ 50,665 | 164,636                               | \$ 2,819 | 206,350                               | \$ 2,931 |

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 19. Recent Accounting Pronouncements**

In September 2011, the Financial Accounting Standards Board ( FASB ) issued updated guidance that simplifies goodwill impairment testing by allowing a qualitative review to assess whether a quantitative impairment analysis is necessary as a first step to the testing. Under this guidance, a company will not be required to calculate the fair value of a reporting unit that contains recorded goodwill unless it concludes, based on the qualitative assessment, that it is more likely than not that the fair value of that reporting unit is less than its book value. If a decline in fair value is deemed more likely than not to have occurred, then the quantitative goodwill impairment test that is provided under U.S. GAAP must be completed; otherwise, goodwill is deemed not to be impaired and no further testing is required until the next annual test date (or sooner if conditions or events before that date raise concerns of potential impairment in the reporting unit). The amended goodwill impairment guidance

## Edgar Filing: SEMTECH CORP - Form 10-K

does not affect the manner in which a company estimates fair value. The new standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its financial condition, results of operations, cash flows, or disclosures.

In June 2011, the FASB issued a final standard requiring presentation of net income and other comprehensive income in either a single continuous statement or in two, consecutive statements of net income and other comprehensive income. Under both alternatives, an entity is required to present each component of net income and other comprehensive income, their respective totals, and totals for comprehensive income. This standard eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders equity. The amendment is effective for interim and annual periods beginning after December 15, 2011. The Company does not expect the adoption of this guidance to have a material impact on its financial condition, results of operations, cash flows, or disclosures.

**Table of Contents****Note 20. Selected Quarterly Financial Data (Unaudited)**

The following tables set forth the Company's unaudited Consolidated Statements of Income data for each of the eight quarterly periods ended January 29, 2012, as well as that data expressed as a percentage of the Company's net sales for the quarters presented. The sum of quarterly per share amounts may differ from year to date amounts due to rounding.

## Selected Quarterly Financial Data (Unaudited)

(in thousands, except per share amounts)

|                                         | Fiscal Year 2012<br>Quarters Ended |                  |                     |                     | Fiscal Year 2011<br>Quarters Ended |                   |                     |                     |
|-----------------------------------------|------------------------------------|------------------|---------------------|---------------------|------------------------------------|-------------------|---------------------|---------------------|
|                                         | May 1,<br>2011                     | July 31,<br>2011 | October 30,<br>2011 | January 29,<br>2012 | May 2,<br>2010                     | August 1,<br>2010 | October 31,<br>2010 | January 30,<br>2011 |
| Net Sales                               | \$ 122,371                         | \$ 130,254       | \$ 123,944          | \$ 104,032          | \$ 101,880                         | \$ 113,227        | \$ 123,125          | \$ 116,270          |
| Cost of Sales                           | 48,517                             | 51,534           | 50,537              | 44,368              | 44,833                             | 45,795            | 49,304              | 46,264              |
| Gross Profit                            | 73,854                             | 78,720           | 73,407              | 59,664              | 57,047                             | 67,432            | 73,821              | 70,006              |
| Operating costs and expenses:           |                                    |                  |                     |                     |                                    |                   |                     |                     |
| Selling, general & administrative       | 26,705                             | 22,481           | 25,110              | 26,333              | 26,351                             | 24,915            | 35,501              | 23,637              |
| Product development & engineering       | 18,525                             | 22,228           | 20,489              | 19,335              | 15,303                             | 17,404            | 18,400              | 18,517              |
| Intangible amortization and impairments | 2,102                              | 2,103            | 4,573               | 2,075               | 2,405                              | 2,405             | 2,406               | 2,304               |
| Total operating costs and expenses      | 47,332                             | 46,812           | 50,172              | 47,743              | 44,059                             | 44,724            | 56,307              | 44,458              |
| Operating income                        | 26,522                             | 31,908           | 23,235              | 11,921              | 12,988                             | 22,708            | 17,514              | 25,548              |
| Interest and other income, net          | (440)                              | (117)            | 729                 | 421                 | 197                                | 308               | 3                   | 66                  |
| Income before taxes                     | 26,082                             | 31,791           | 23,964              | 12,342              | 13,185                             | 23,016            | 17,517              | 25,614              |
| Income tax expense (benefit)            | 3,500                              | 4,653            | (3,015)             | (46)                | 2,383                              | 3,354             | 1,412               | (389)               |
| Net income                              | \$ 22,582                          | \$ 27,138        | \$ 26,979           | \$ 12,388           | \$ 10,802                          | \$ 19,662         | \$ 16,105           | \$ 26,003           |
| Earnings per share:                     |                                    |                  |                     |                     |                                    |                   |                     |                     |
| Basic                                   | \$ 0.35                            | \$ 0.41          | \$ 0.41             | \$ 0.19             | \$ 0.18                            | \$ 0.32           | \$ 0.26             | \$ 0.41             |
| Diluted                                 | \$ 0.34                            | \$ 0.40          | \$ 0.40             | \$ 0.19             | \$ 0.17                            | \$ 0.31           | \$ 0.25             | \$ 0.39             |
| Weighted average number of shares:      |                                    |                  |                     |                     |                                    |                   |                     |                     |
| Basic                                   | 64,552                             | 65,547           | 65,440              | 64,856              | 61,420                             | 61,933            | 62,493              | 63,506              |
| Diluted                                 | 67,123                             | 68,186           | 67,314              | 66,776              | 63,181                             | 63,552            | 64,555              | 66,213              |

|               | Fiscal Year 2012<br>Quarters Ended |                  |                        |                        | Fiscal Year 2011<br>Quarters Ended |                   |                        |                        |
|---------------|------------------------------------|------------------|------------------------|------------------------|------------------------------------|-------------------|------------------------|------------------------|
|               | May 1,<br>2011                     | July 31,<br>2011 | October<br>30,<br>2011 | January<br>29,<br>2012 | May 2,<br>2010                     | August 1,<br>2010 | October<br>31,<br>2010 | January<br>30,<br>2011 |
| Net Sales     | 100%                               | 100%             | 100%                   | 100%                   | 100%                               | 100%              | 100%                   | 100%                   |
| Cost of Sales | 40%                                | 40%              | 41%                    | 43%                    | 44%                                | 40%               | 40%                    | 40%                    |
| Gross Profit  | 60%                                | 60%              | 59%                    | 57%                    | 56%                                | 60%               | 60%                    | 60%                    |

Edgar Filing: SEMTECH CORP - Form 10-K

Operating costs and expenses:

|                                         |     |     |     |     |     |     |     |     |
|-----------------------------------------|-----|-----|-----|-----|-----|-----|-----|-----|
| Selling, general & administrative       | 22% | 17% | 20% | 25% | 26% | 22% | 29% | 20% |
| Product development & engineering       | 15% | 17% | 17% | 19% | 15% | 15% | 15% | 16% |
| Intangible amortization and impairments | 2%  | 2%  | 4%  | 2%  | 2%  | 2%  | 2%  | 2%  |
| Total operating costs and expenses      | 39% | 36% | 41% | 46% | 43% | 39% | 46% | 38% |
| Operating income                        | 22% | 24% | 19% | 11% | 13% | 20% | 14% | 22% |
| Interest and other income, net          | 0%  | 0%  | 1%  | 0%  | 0%  | 0%  | 0%  | 0%  |
| Income before taxes                     | 22% | 24% | 20% | 11% | 13% | 20% | 14% | 22% |
| Income tax expense (benefit)            | 3%  | 4%  | -2% | 0%  | 2%  | 3%  | 1%  | 0%  |
| Net income                              | 19% | 20% | 22% | 11% | 11% | 17% | 13% | 22% |



**Table of Contents****Note 21. Subsequent Events (Unaudited)**

On March 20, 2012, the Company announced that it had completed the acquisition of Gennum Corporation ( Gennum ) (TSX: GND), a leading supplier of high speed analog and mixed-signal semiconductors for the optical communications and video broadcast markets. In accordance with the terms of the acquisition agreement, the Company acquired all outstanding common shares of Gennum for approximately \$510 million. The transaction was financed through cash on hand and a \$350 million of five-year secured term loan.

The Company's initial accounting for the acquisition is incomplete at the date of the issuance of the financial statements due to the close proximity of the consummation date and the issuance date. As a result, the disclosure requirements pertaining to revenue and earnings since the acquisition date, combined revenue and earnings as though the business combination occurred at the beginning of fiscal years 2012 and 2011, and the nature and amount of any material, nonrecurring pro forma adjustments directly attributable to the acquisition have not been provided as it is not practical to do so.

On March 20, 2012, the Company entered into a Credit Agreement with the Lenders and Jefferies Finance LLC, as administrative agent. Pursuant to the Credit Agreement, the Lenders provided the Company with senior secured first lien credit facilities in an aggregate principal amount of \$350 million, consisting of Term A loans in an aggregate principal amount of \$100 million and Term B loans in an aggregate principal amount of \$250 million. The Facilities mature on March 20, 2017.

Interest on the Term A Loan accrues, at the Company's option, at a rate per annum equal to the Base Rate (as defined below) plus a margin ranging from 1.50% to 1.75% depending upon the Company's consolidated leverage ratio or LIBOR for an interest period to be selected by the Company plus a margin ranging from 2.50% to 2.75% depending upon the Company's consolidated leverage ratio. Interest on the Term B Loan accrues, at the Company's option, at a rate per annum equal to the Base Rate (subject to a floor of 2.00%) plus a margin of 2.25% or LIBOR for an interest period to be selected by the Company (subject to a floor of 1.00%) plus a margin of 3.25%. The Base Rate is equal to a fluctuating rate equal to the highest of (a) the prime rate, (b) 1/2 of 1% above the federal funds effective rate and (c) one-month LIBOR plus 1%.

Subject to certain customary exceptions, all obligations under the Facilities are unconditionally guaranteed by each of our existing and subsequently acquired or organized direct and indirect domestic subsidiaries (the Guarantors). The obligations and the Guarantors in respect of the Facilities are secured by a first priority security interest in substantially all of the assets of Semtech and the Guarantors, subject to certain customary exceptions.

On March 7, 2012, the Company announced that it had completed the acquisition of Cycleo SAS and all of its assets, related companies and operations. Under the terms of the agreement, Semtech paid the stockholders of Cycleo \$5 million in cash at closing. The stockholders will be able to earn up to an additional \$16 million in cash based on the achievement of revenue and operating profit goals over the next four years. The transaction was funded from Semtech's existing international cash reserves. Semtech estimates the transaction will have no material impact to earnings in its current fiscal year.

At January 29, 2012, the Company concluded that \$120 million of foreign subsidiary earnings were no longer considered to be permanently reinvested offshore. In connection with the acquisition of Gennum Corporation, the Company has reviewed this prior assertion and concluded that only \$50 million of foreign subsidiary earnings were no longer permanently reinvested offshore resulting in \$70 million of foreign subsidiary earnings deemed to be permanently reinvested. This change in assertion will result in the Company recording a discrete adjustment to its tax provision in the first quarter of fiscal year 2013. The impact of this change in assertion is expected to result in the recognition of a \$23 million tax benefit in the first quarter of fiscal year 2013.

**Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

Not applicable.

**Item 9A. Controls and Procedures****Disclosure Controls and Procedures**

The Company carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as

## Edgar Filing: SEMTECH CORP - Form 10-K

of January 29, 2012. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures were effective as of such date.

### **Changes in Internal Control Over Financial Reporting**

There has been no change in the Company's internal control over financial reporting during the quarter ended January 29, 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents**

**Report of Management on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control - Integrated Framework, our management has concluded that as of January 29, 2012 the Company's internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Ernst & Young LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this report, has issued an attestation report on our internal control over financial reporting as of January 29, 2012. Ernst & Young LLP's attestation report is included in Item 8 of this report.

**Item 9B. Other Information**

We believe that all information that was required to be disclosed in a report on Form 8-K during the fourth quarter of fiscal year 2012 was reported on a Form 8-K during that period.

---

**Table of Contents**

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

We have adopted a written Code of Conduct that applies to everyone in the Company, including our Chief Executive Officer, Chief Financial Officer and Controller. Our Code of Conduct serves as our written code of ethics for those officers, and for persons performing similar functions. Our current Code of Conduct is incorporated in this Annual Report on Form 10-K for fiscal year 2012 as Exhibit 14. The Code of Conduct is also available at the Corporate Governance section of the Investors page on our website at [www.semtech.com](http://www.semtech.com). Alternatively, you can request a copy of the Code of Conduct free of charge by sending a written request to the Company's Secretary at 200 Flynn Road, Camarillo, CA 93012. If we make any substantive amendments to the Code of Conduct or grant any waiver, including an implicit waiver, from the Code of Conduct to our Chief Executive Officer, Chief Financial Officer or Controller, we will within four business days of the event disclose the nature of the amendment or waiver on our website or in a report on Form 8-K.

The information relating to our directors, our nominees for directors, and our executive officers pursuant to Items 401; and Item 407(c)(3), (d)(4) and (d)(5) of Regulation S-K required by this item will be contained under the caption "Proposal 1: Election of Directors" in our Definitive Proxy Statement relating to our annual meeting of stockholders to be held on June 21, 2012, to be filed with the SEC pursuant to Regulation 14A of the Exchange Act and is hereby specifically incorporated by reference thereto.

The information required pursuant to Item 405 of Regulation S-K will be contained under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in our Definitive Proxy Statement relating to our annual meeting of stockholders, to be held on June 21, 2012, to be filed with the SEC pursuant to Regulation 14A of the Exchange Act and is hereby specifically incorporated by reference thereto.

**Item 11. Executive Compensation**

The information required under this item will appear under the captions "Director Compensation," "Compensation Discussion and Analysis," "Executive Compensation" and related discussion and disclosure thereto, in the Definitive Proxy Statement relating to our annual meeting of stockholders to be held on June 21, 2012, to be filed by us with the SEC pursuant to Regulation 14A of the Exchange Act, and is hereby specifically incorporated herein by reference thereto.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required under this item will appear under the captions "Beneficial Ownership of Securities," "Securities Authorized for Issuance under Equity Compensation Plans" and related discussion and disclosure thereto, in the Definitive Proxy Statement relating to our annual meeting of stockholders to be held on June 21, 2012, to be filed by us with the SEC pursuant to Regulation 14A of the Exchange Act, and is hereby specifically incorporated herein by reference thereto.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required under this item will appear under the captions "Election of Directors (Proposal Number 1)" "Corporate Governance, Transactions with Related Parties" and related discussion and disclosure thereto, in the Definitive Proxy Statement relating to our annual meeting of stockholders to be held on June 21, 2012, to be filed by us with the SEC pursuant to Regulation 14A of the Exchange Act, and is hereby specifically incorporated herein by reference thereto.

**Item 14. Principal Accounting Fees and Services**

The information required under this item will appear under the captions "Independent Accountant Fees," and "Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services" and related discussion and disclosure thereto, in the Definitive Proxy Statement relating to our annual meeting of stockholders to be held on June 21, 2012, to be filed by us with the SEC pursuant to Regulation 14A of the Exchange Act, and is hereby specifically incorporated herein by reference thereto.



**Table of Contents****PART IV****Item 15. Exhibits, Financial Statement Schedules**

- (a)(1) The financial statements, schedules, and reports included in this Form 10-K are listed in the index under Item 8 in this report.
- (a)(2) Schedules other than those listed in Item 8 are omitted since they are not applicable, not required, or the information required to be set forth herein is included in the consolidated financial statements or notes thereto.

**SCHEDULE II****SEMTECH CORPORATION AND SUBSIDIARIES****SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS****THREE YEARS ENDED JANUARY 29, 2012**

|                                    | Balance at<br>Beginning of Year | Charged (Reversal) to<br>Costs and Expenses | Deductions   | Balance at End of<br>Year |
|------------------------------------|---------------------------------|---------------------------------------------|--------------|---------------------------|
| <u>Year ended January 31, 2010</u> |                                 |                                             |              |                           |
| Allowance for doubtful accounts    | \$ 843,000                      | \$ 459,000                                  | \$           | \$ 1,302,000              |
| <u>Year ended January 30, 2011</u> |                                 |                                             |              |                           |
| Allowance for doubtful accounts    | \$ 1,302,000                    | \$ 53,924                                   | \$ (247,703) | \$ 1,108,221              |
| <u>Year ended January 29, 2012</u> |                                 |                                             |              |                           |
| Allowance for doubtful accounts    | \$ 1,108,221                    | \$ 332,154                                  | \$ (887,500) | \$ 552,875                |

- (a)(3) Exhibits. These exhibits are available without charge upon written request directed to the Company's Secretary at 200 Flynn Road, Camarillo, CA 93012. Documents that are not physically filed with this report are incorporated herein by reference to the location indicated. Exhibits 10.1 through 10.44 constitute management contracts or compensatory plans or arrangements.

| Exhibit No. | Description                                                                                                                                                                                   | Location                                                                                                   |
|-------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|
| 2.1         | Agreement and Plan of Merger, dated November 18, 2009, by and among Semtech Corporation, Sierra Monolithics, Inc., SMI Merger Corp. and Shareholder Representative Services                   | Exhibit 2.1 to the Company's Current Report on Form 8-K filed December 15, 2009                            |
| 2.2         | First Amendment to Agreement and Plan of Merger, dated December 9, 2009, by and among Semtech Corporation, Sierra Monolithics, Inc., SMI Merger Corp. and Shareholder Representative Services | Exhibit 10.1 to the Company's Current Report on Form 8-K filed December 15, 2009                           |
| 2.3         | Arrangement Agreement, dated as of January 23, 2012, among Semtech Corporation, Semtech Canada Inc. and Gennum Corporation                                                                    | Exhibit 2.1 to the Company's Amendment No. 1 to the Current Report on Form 8-K/A/ filed January 26, 2012   |
| 3.1         | Restated Certificate of Incorporation of Semtech Corporation                                                                                                                                  | Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended October 26, 2003 |



**Table of Contents**

| Exhibit No. | Description                                                                                                                                                             | Location                                                                                                      |
|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
| 3.2         | Bylaws of Semtech Corporation                                                                                                                                           | Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended January 27, 2008            |
| 10.1*       | The Company's Long-Term Stock Incentive Plan, as amended and restated                                                                                                   | Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2007           |
| 10.2*       | The Company's Non-Director and Non-Executive Officer Long-Term Stock Incentive Plan, as amended and restated                                                            | Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q/A for the quarterly period ended October 29, 2006 |
| 10.3*       | Form of Long Term Stock Incentive Plan Award Agreement for Options Awarded to Non-Employee Directors on December 5, 2002                                                | Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended October 27, 2002   |
| 10.4*       | Form of Long-Term Stock Incentive Plan Award Agreement (Non-Employee Directors)                                                                                         | Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 7, 2006                                   |
| 10.5*       | Form of Long-Term Stock Incentive Plan Award Agreement (Executive Officers)                                                                                             | Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended July 25, 2004      |
| 10.6*       | Form of Non-Director and Non-Executive Officer Long-Term Stock Incentive Plan Award Agreement                                                                           | Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended July 25, 2004      |
| 10.7*       | Form of Long-Term Stock Incentive Plan Award Certificate                                                                                                                | Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q/A for the quarterly period ended October 29, 2006 |
| 10.8*       | Form of Non-Director and Non-Executive Officer Long-Term Stock Incentive Plan Award Certificate                                                                         | Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q/A for the quarterly period ended October 29, 2006 |
| 10.9*       | Adoption Agreement adopting The Executive Nonqualified Excess Plan (known as the Semtech Executive Compensation Plan) as amended and restated effective January 1, 2005 | Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended July 29, 2007     |
| 10.10*      | Amended and Restated Plan Document for The Executive Nonqualified Excess Plan (known as the Semtech Executive Compensation Plan), effective January 1, 2005             | Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended July 29, 2007     |
| 10.11       | Trust Agreement dated as of January 1, 2004 between Semtech Corporation and Bankers Trust Company, as Trustee, related to the Semtech Executive Compensation Plan       | Exhibit 10.14 to the Company's Annual Report on Form 10-K for the fiscal year ended January 25, 2004          |



**Table of Contents**

| Exhibit No. | Description                                                                                                               | Location                                                                                             |
|-------------|---------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|
| 10.12       | Form of Indemnification Agreement for Directors and Executive Officers                                                    | Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 24, 2010                     |
| 10.13*      | Semtech Corporation Bonus Plan, amended and restated effective January 29, 2007 (also known as the Executive Bonus Plan ) | Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 12, 2007                         |
| 10.14*      | Employment Offer Letter to Mohan Maheswaran, accepted as of March 12, 2006                                                | Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 14, 2006                        |
| 10.15*      | Employment Offer Letter to Emeka Chukwu, accepted as of November 11, 2006                                                 | Exhibit 10.26 to the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2007 |
| 10.16*      | Memo to Emeka Chukwu dated, April 5, 2007                                                                                 | Exhibit 10.27 to the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2007 |
| 10.17*      | Form of Long-Term Stock Incentive Plan Option Award Certificate                                                           | Exhibit 10.2 to the Company's Current Report on Form 8-K filed June 12, 2007                         |
| 10.18*      | Form of Long-Term Stock Incentive Plan Restricted Stock Award Certificate                                                 | Exhibit 10.3 to the Company's Current Report on Form 8-K filed June 12, 2007                         |
| 10.19*      | Form of Long-Term Stock Incentive Plan Performance Unit Award Certificate                                                 | Exhibit 10.4 to the Company's Current Report on Form 8-K filed June 12, 2007                         |
| 10.20*      | Form of Long-Term Stock Incentive Plan Option Award Certificate (Non-Employee Directors)                                  | Exhibit 10.5 to the Company's Current Report on Form 8-K filed June 12, 2007                         |
| 10.21*      | Form of Long-Term Stock Incentive Plan Non-Employee Director Stock Unit Award Certificate                                 | Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 19, 2007                         |
| 10.22*      | Form of Long-Term Stock Incentive Plan Restricted Stock Unit Award Certificate                                            | Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 20, 2008                        |

**Table of Contents**

| Exhibit No. | Description                                                                                                                 | Location                                                                                                                 |
|-------------|-----------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|
| 10.23       | Semtech Corporation Executive Stock Ownership Guidelines                                                                    | Exhibit 10.39 to the Company's Annual Report on Form 10-K for the fiscal year ended January 27, 2008                     |
| 10.24       | Semtech Corporation Director Stock Ownership Guidelines                                                                     | Exhibit 10.7 to the Company's Current Report on Form 8-K filed on July 1, 2008                                           |
| 10.25*      | Semtech Corporation 2008 Long-Term Equity Incentive Plan                                                                    | Exhibit 10.40 to the Company's Annual Report on Form 10-K for the fiscal year ended January 27, 2008                     |
| 10.26*      | Restricted Stock Unit Award Agreement Cycleo Acquisition                                                                    | Filed herewith                                                                                                           |
| 10.27       | Form of Semtech Corporation 2008 Long-Term Equity Incentive Plan Option Award Agreement for Non-Employee Directors          | Exhibit 10.3 to the Company's Current Report on Form 8-K filed July 1, 2008                                              |
| 10.28       | Form of Semtech Corporation 2008 Long-Term Equity Incentive Plan Option Award Agreement for Non-Employee Directors          | Exhibit 10.4 to the Company's Current Report on Form 8-K filed July 1, 2008                                              |
| 10.29*      | Form of Semtech Corporation 2008 Long-Term Equity Incentive Plan Option Award Agreement for Non-Employee Directors          | Exhibit 10.5 to the Company's Current Report on Form 8-K filed July 1, 2008                                              |
| 10.30*      | Form of Semtech Corporation 2008 Long-Term Equity Incentive Plan Option Award Agreement for Non-Employee Directors          | Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 1, 2011                            |
| 10.31*      | Semtech Corporation Chief Executive Officer Bonus Plan, as amended on February 28, 2012                                     | Filed herewith                                                                                                           |
| 10.32*      | Semtech Corporation 2007 SMI Assumed Plan                                                                                   | Exhibit 4.3 to the Company's Registration Statement on Form S-8, Registration No. 333-163780, filed on December 16, 2009 |
| 10.33*      | Semtech Corporation 2000 SMI Assumed Plan                                                                                   | Exhibit 4.2 to the Company's Registration Statement on Form S-8, Registration No. 333-163780, filed on December 16, 2009 |
| 10.34*      | Semtech Corporation 2009 Long-Term Equity Inducement Plan                                                                   | Exhibit 10.2 to the Company's Current Report on Form 8-K filed December 15, 2009                                         |
| 10.35*      | Form of Semtech Corporation 2009 Long-Term Equity Inducement Plan Award Agreements (Performance-Based Vesting)              | Exhibit 10.37 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2010                     |
| 10.36*      | Form of Semtech Corporation 2009 Long-Term Equity Inducement Plan Award Agreements (Time-Based Vesting)                     | Exhibit 10.38 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2010                     |
| 10.37*      | Restricted Stock Award Agreement dated March 29, 2010 with respect to time-based restricted stock award to Mohan Maheswaran | Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 31, 2011                                            |
| 10.38       | Master Confirmation dated May 30, 2007 between Semtech Corporation and Goldman, Sachs & Co.                                 | Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 1, 2007                                              |
| 10.39       |                                                                                                                             | Exhibit 10.2 to the Company's Current Report on                                                                          |

## Edgar Filing: SEMTECH CORP - Form 10-K

|        |                                                                                                   |                                                                                   |
|--------|---------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
|        | Supplemental Confirmation dated May 30, 2007 between Semtech Corporation and Goldman, Sachs & Co. | Form 8-K filed June 1, 2007                                                       |
| 10.40* | Semtech Corporation Executive Change in Control Retention Plan                                    | Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 1, 2010 |

**Table of Contents**

| Exhibit No. | Description                                                                                                                                                                                                                                             | Location                                                                                        |
|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
| 10.41*      | Amended and Restated Semtech Corporation Executive Change in Control Retention Plan                                                                                                                                                                     | Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 1, 2011   |
| 10.42*      | Form of Participation Agreement under the Semtech Corporation Executive Change in Control Retention Plan for non-Swiss employees                                                                                                                        | Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 1, 2010               |
| 10.43*      | Form of Participation Agreement under the Semtech Corporation Executive Change in Control Retention Plan for Swiss employees                                                                                                                            | Exhibit 10.3 to the Company's Current Report on Form 8-K filed on October 1, 2010               |
| 10.44*      | Semtech Nonqualified Executive Compensation Plan Adoption Agreement and Plan Document, as amended and restated effective October 12, 2007                                                                                                               | Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 31, 2011 |
| 10.45       | Policy Regarding Director Compensation                                                                                                                                                                                                                  | Filed herewith                                                                                  |
| 14          | Semtech Corporation Code of Conduct                                                                                                                                                                                                                     | Exhibit 14.1 to the Company's Current Report on Form 8-K filed June 25, 2010                    |
| 21.1        | Subsidiaries of the Company                                                                                                                                                                                                                             | Filed herewith                                                                                  |
| 23.1        | Consent of Independent Registered Public Accounting Firm                                                                                                                                                                                                | Filed herewith                                                                                  |
| 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.                                                                                                         | Filed herewith                                                                                  |
| 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.                                                                                                         | Filed herewith                                                                                  |
| 32.1        | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002 (As set forth in Exhibit 32.1 hereof, Exhibit 32.1 is being furnished and shall not be deemed filed .) | Filed herewith                                                                                  |
| 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 .)                                           | Filed herewith                                                                                  |
| 101.INS     | XBRL Instance Document **                                                                                                                                                                                                                               | Filed herewith                                                                                  |
| 101.SCH     | XBRL Taxonomy Extension Schema Document**                                                                                                                                                                                                               | Filed herewith                                                                                  |
| 101.CAL     | XBRL Taxonomy Extension Calculation Linkbase Document**                                                                                                                                                                                                 | Filed herewith                                                                                  |
| 101.DEF     | XBRL Taxonomy Extension Definition Linkbase Document**                                                                                                                                                                                                  | Filed herewith                                                                                  |
| 101.LAB     | XBRL Taxonomy Extension Label Linkbase Document**                                                                                                                                                                                                       | Filed herewith                                                                                  |
| 101.PRE     | XBRL Taxonomy Extension Presentation Linkbase Document**                                                                                                                                                                                                | Filed herewith                                                                                  |

\* Management contract or compensatory plan or arrangement.

\*\*

## Edgar Filing: SEMTECH CORP - Form 10-K

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 Section 13 or 15(d) 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: March 29, 2012

Semtech Corporation

By: /s/ Mohan R. Maheswaran  
Mohan R. Maheswaran  
President and Chief Executive Officer

78

**Table of Contents**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

|                      |                                                                                                                                       |
|----------------------|---------------------------------------------------------------------------------------------------------------------------------------|
| Date: March 29, 2012 | /s/ Mohan R. Maheswaran<br>Mohan R. Maheswaran<br>President and Chief Executive Officer<br>Director                                   |
| Date: March 29, 2012 | /s/ Emeka Chukwu<br>Emeka Chukwu<br>Senior Vice President and Chief Financial Officer<br>(Principal Accounting and Financial Officer) |
| Date: March 29, 2012 | /s/ Rockell N. Hankin<br>Rockell N. Hankin<br>Chairman of the Board                                                                   |
| Date: March 29, 2012 | /s/ Glen M. Antle<br>Glen M. Antle<br>Director                                                                                        |
| Date: March 29, 2012 | /s/ W. Dean Baker<br>W. Dean Baker<br>Director                                                                                        |
| Date: March 29, 2012 | /s/ James P. Burra<br>James P. Burra<br>Director                                                                                      |
| Date: March 29, 2012 | /s/ Bruce C. Edwards<br>Bruce C. Edwards<br>Director                                                                                  |
| Date: March 29, 2012 | /s/ James T. Lindstrom<br>James T. Lindstrom<br>Director                                                                              |
| Date: March 29, 2012 | /s/ John L. Piotrowski<br>John L. Piotrowski<br>Director                                                                              |