SIGMA DESIGNS INC
Form 10-Q
September 12, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended August 3, 2013

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 001-32207

Sigma Designs, Inc.

(Exact name of registrant as specified in its charter)

California	**94-2848099**

(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

1778 McCarthy Boulevard,

Milpitas, California 95035

(Address of principal executive offices including Zip Code)

(408) 262-9003

(Registrant's telephone number, including area code)

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

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

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

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

As of September 10, 2013, the Company had 34,567,958 shares of Common Stock outstanding.

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SIGMA DESIGNS, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE THREE MONTHS ENDED AUGUST 3, 2013

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ITEM 1. **UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

SIGMA DESIGNS, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	August 3, 2013	February 2, 2013
ASSETS		
Current assets		
Cash and cash equivalents	$57,141	$51,218
Short-term marketable securities	14,654	17,455
Restricted cash	1,771	1,769
Accounts receivable, net	39,034	21,648
Inventory	20,028	24,929
Deferred tax assets	4,904	5,868
Prepaid expenses and other current assets	10,207	13,578
Total current assets	147,739	136,465
Long-term marketable securities	17,090	14,253
Software, equipment and leasehold improvements, net	17,225	17,106
Intangible assets, net	34,389	36,573
Deferred tax assets, net of current portion	499	2,681
Long-term investments and notes receivable, net of current portion	6,442	8,943
Other non-current assets	4,834	4,810
Total assets	$228,218	$220,831
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$22,877	$11,046
Accrued compensation and related benefits	7,483	10,070
Accrued liabilities	20,639	18,721
Total current liabilities	50,999	39,837
Income taxes payable	19,103	17,723

Long-term deferred tax liabilities	587	804
Other long-term liabilities	185	449
Total liabilities	70,874	58,813
Commitments and contingencies (Note 13)		
Shareholders' equity		
Preferred stock	-	-
Common stock and additional paid-in capital	480,236	475,070
Treasury stock	(85,941)	(85,941)
Accumulated other comprehensive income	574	1,090
Accumulated deficit	(237,525)	(228,201)
Total shareholders' equity	157,344	162,018
Total liabilities and shareholders' equity	$228,218	$220,831

See the accompanying Notes to Unaudited Condensed Consolidated Financial Statements

SIGMA DESIGNS, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Months Ended		**Six Months Ended**	
	August 3, 2013	**July 28, 2012**	**August 3, 2013**	**July 28, 2012**
Net revenue	$53,762	$68,251	$106,302	$108,509
Cost of revenue	25,696	37,671	51,290	56,834
Gross profit	28,066	30,580	55,012	51,675
Operating expenses				
Research and development	18,769	27,975	38,973	49,764
Sales and marketing	5,527	7,795	11,209	14,683
General and administrative	4,937	9,489	9,699	15,868
Restructuring costs	680	-	890	-
Impairment of IP, mask sets and design tools	-	-	188	-
Gain on acquisition	-	(1,417)	-	(1,417)
Total operating expenses	29,913	43,842	60,959	78,898
Loss from operations	(1,847)	(13,262)	(5,947)	(27,223)
Gain on sale of development project	-	-	1,079	-
Interest and other income, net	121	242	812	733
Loss before income taxes	(1,726)	(13,020)	(4,056)	(26,490)
Provision for income taxes	3,065	398	5,268	630
Net loss	$(4,791)	$(13,418)	$(9,324)	$(27,120)
Net loss per common share:				
Basic	$(0.14)	$(0.41)	$(0.27)	$(0.83)
Diluted	$(0.14)	$(0.41)	$(0.27)	$(0.83)
Shares used in computing net loss per share:				
Basic	34,259	33,052	34,008	32,857
Diluted	34,259	33,052	34,008	32,857

SIGMA DESIGNS, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

	Three Months Ended		Six Months Ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
Net loss	$(4,791)	$(13,418)	$(9,324)	$(27,120)
Other comprehensive income (loss):				
Accumulated translation adjustment	48	(567)	(318)	(496)
Unrealized gain (loss) on marketable securities	(153)	61	(196)	328
Other comprehensive loss	(105)	(506)	(514)	(168)
Comprehensive loss	$(4,896)	$(13,924)	$(9,838)	$(27,288)

See the accompanying Notes to Unaudited Condensed Consolidated Financial Statements

SIGMA DESIGNS, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six Months Ended	
	August 3, 2013	**July 28, 2012**
Cash flows from operating activities:		
Net loss	$(9,324)	$(27,120)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	10,272	10,693
Stock-based compensation	3,719	5,576
Provision for excess and obsolete inventory	575	1,700
Provision for sales returns, discounts, and doubtful accounts	62	62
Deferred income taxes	2,913	(204)
Loss on disposal of equipment	20	87
Accretion of contributed leasehold improvements	(26)	(139)

Gain on acquisition	-	(1,417)
Gain on sale of development project	(1,079)	-
Impairment of IP, mask sets and design tools	188	-
Non-cash restructuring charges	830	-
Changes in operating assets and liabilities:		
Accounts receivable	(17,448)	(8,525)
Inventories	4,325	1,572
Prepaid expenses and other current assets	2,378	(3,190)
Other non-current assets	(47)	(2,567)
Accounts payable	13,809	9,113
Accrued compensation and related benefits and other liabilities	1,915	12,974
Income taxes payable	(991)	(856)
Other long-term liabilities	(347)	(957)
Net cash provided by (used in) operating activities	11,744	(3,198)
Cash flows from investing activities:		
Restricted cash	(2)	3

Purchases of marketable securities	(7,874)	(14,593)
Sales and maturities of marketable securities	7,641	72,511
Purchases of software, equipment and leasehold improvements	(4,995)	(1,485)
Proceeds from sale of development project, net of transaction fees	1,971	-
Cash paid in connection with acquisition	-	(39,740)
Repayment of note receivable	250	-
Purchases of IP	(4,099)	(1,827)
Net cash provided by (used in) investing activities	(7,108)	14,869
Cash flows from financing activities:		
Net proceeds from exercises of employee stock options and stock purchase rights	1,447	2,233
Net cash provided by financing activities	1,447	2,233
Effect of foreign	(160)	(116)

exchange rate changes on cash and cash equivalents		
Net increase in cash and cash equivalents	5,923	13,788
Cash and cash equivalents at beginning of period	51,218	44,283
Cash and cash equivalents at end of period	$57,141	$58,071
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$3,215	$1,282

See the accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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SIGMA DESIGNS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and summary of significant accounting policies

Organization and nature of operations: Sigma Designs, Inc. (referred to collectively in these interim condensed consolidated financial statements as "Sigma," "we," "our", "the Company" and "us") is a leader in connected media platforms. We specialize in digital television, or DTV, media processors and chipset solutions that serve as the foundation for some of the world's leading internet protocol television, or IPTV, set-top-boxes, connected media players, residential gateways and home control systems. We sell our products to manufacturers, designers and, to a lesser extent, to distributors who, in turn, sell to manufacturers.

Basis of presentation: The interim condensed consolidated financial statements include Sigma Designs, Inc. and its wholly-owned subsidiaries. All intercompany balances and transactions are eliminated upon consolidation. We operate and report quarterly financial results that consist of 13 weeks and end on the last Saturday of the period. The second quarter of fiscal 2014 and fiscal 2013 ended on August 3, 2013 (91 days) and July 28, 2012 (91 days), respectively.

The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or US GAAP, for interim financial information and the rules and regulations of the Securities and Exchange Commission, or SEC. They do not include all disclosures required by US GAAP for complete financial statements. Therefore, these financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended February 2, 2013, included in our fiscal 2013 Annual Report on Form 10-K, as filed with the SEC on April 12, 2013, referred to as our fiscal 2013 Annual Report.

The condensed consolidated financial statements included herein are unaudited; however, they contain all normal recurring accruals and adjustments that, in our opinion, are necessary to present fairly our consolidated financial position at August 3, 2013 and February 2, 2013, the consolidated results of our operations for the three and six months ended August 3, 2013 and July 28, 2012, and the consolidated cash flows for the six months ended August 3, 2013 and July 28, 2012. The results of operations for the three and six months ended August 3, 2013 are not necessarily indicative of the results to be expected for future quarters or the full year.

There have been no significant changes in our critical accounting policies during the six months ended August 3, 2013, as compared to the critical accounting policies described in our Annual Report on Form 10-K for the year ended February 2, 2013. For a complete summary of our significant accounting policies, refer to Note 1, "Organization and Summary of Significant Accounting Policies", in Part II, Item 8 of our fiscal 2013 Annual Report.

Use of estimates: The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, or US GAAP, requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The primary areas that require significant estimates and judgments by management include, but are not limited to, revenue recognition, allowances for doubtful accounts, sales returns, warranty obligations, inventory valuation, stock-based compensation expense, goodwill and purchased intangible asset valuations, strategic investments, deferred income tax asset valuation allowances, uncertain tax positions, tax contingencies, restructuring costs, litigation and other loss contingencies. These estimates and assumptions are based on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ from those estimates, and such differences may be material to our consolidated financial statements.

Business combinations: In May 2012, we completed our acquisition of certain assets from Trident Microsystems, Inc. and certain of its subsidiaries (collectively referred to as "Trident"). The consolidated financial statements include the results of operations of Trident commencing as of the acquisition date. Refer to Note 10, "Business combinations", in Part II, Item 8 of our fiscal 2013 Annual Report.

Recent Accounting Pronouncements

In July 2013, the FASB issued ASU No. 2013-11, *Income Taxes (Topic 740), Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry forward, a Similar Tax Loss, or a Tax Credit Carry forward Exists (a consensus of the FASB Emerging Issues Task Force).* U.S. GAAP does not include explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carry forward, a similar tax loss, or a tax credit carry forward exists. The amendments in this ASU state that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carry forward, a similar tax loss, or a tax credit carry forward, except as follows. To the extent a net operating loss carry forward, a similar tax loss, or a tax credit carry forward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This ASU applies to all entities that have unrecognized tax benefits when a net operating loss carry forward, a similar tax loss, or a tax credit carry forward exists at the reporting date. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted.

In July 2012, the FASB issued Accounting Standards Update No. 2012-02, *Intangibles—Goodwill and Other (Topic 350)—Testing Indefinite-Lived Intangible Assets for Impairment* (ASU 2012-02), to allow entities to use a qualitative approach to test indefinite-lived intangible assets for impairment. ASU 2012-02 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed quantitative impairment test by comparing the fair value of the indefinite-lived intangible asset with its carrying value. Otherwise, the quantitative impairment test is not required. ASU 2012-02 is effective for us in our fiscal 2014 and earlier adoption is permitted. We are currently evaluating the impact of our pending adoption of ASU 2012-02 on our consolidated financial statements.

2. Cash, cash equivalents and marketable securities

Cash, cash equivalents and marketable securities consist of the following (in thousands):

	August 3, 2013			**February 2, 2013**		
	Book Value	**Net Unrealized Gains (Losses)**	**Fair Value**	**Book Value**	**Net Unrealized Gains (Losses)**	**Fair Value**

Corporate bonds	$30,859	$ 366	$31,225	$30,642	$ 537	$31,179
Money market funds	13,228	-	13,228	21,032	-	21,032
Municipal bonds and notes	511	8	519	515	14	529
Fixed income mutual funds	1,247	27	1,274	1,259	20	1,279
Total cash equivalents and marketable securities	$45,845	$ 401	$46,246	$53,448	$ 571	$54,019

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Cash on hand held in the United States	2,206	1,441
Cash on hand held overseas	40,433	27,466
Total cash on hand	42,639	28,907
Total cash, cash equivalents and marketable securities	$88,885	$82,926
Reported as:		
Cash and cash equivalents	57,141	51,218
Short-term marketable securities	14,654	17,455
Long-term marketable securities	17,090	14,253
	$88,885	$82,926

The amortized cost and estimated fair value of cash equivalents and marketable securities, by contractual maturity, are as follows (in thousands):

	August 3, 2013		**February 2, 2013**	
	Book Value	**Fair Value**	**Book Value**	**Fair Value**
Due in one year or less	$29,014	$29,156	$39,595	$39,766
Due in greater than one year	16,831	17,090	13,853	14,253
Total	$45,845	$46,246	$53,448	$54,019

3. Fair values of assets and liabilities

Fair value is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price).” The accounting standards establish a consistent framework for measuring fair value and disclosure requirements about fair value measurements and among other things, require us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Fair value hierarchy

The accounting standards discuss valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). The standards utilize a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

Level 1 - Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 - Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our estimate of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Determination of fair value

Our cash equivalents and marketable securities are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. The types of marketable securities valued based on quoted market prices in active markets include most U.S. government and agency securities, sovereign government obligations, money market securities and certain corporate obligations with high credit ratings and an ongoing trading market.

Our foreign currency derivative instruments are classified as Level 2 because they are valued using quoted prices and other observable data of similar instruments in active markets.

The tables below present the balances of our assets and liabilities measured at fair value on a recurring basis as of August 3, 2013 and February 2, 2013 (in thousands):

	August 3, 2013			
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Corporate bonds	$31,225	$31,225	$ -	$ -
Money market funds	13,228	13,228	-	-
Municipal bonds and notes	519	519	-	-
Fixed income mutual funds	1,274	1,274	-	-
Total cash equivalents and marketable securities	$46,246	$46,246	$ -	$ -
Restricted cash	1,771	1,771	-	-
Derivative instruments asset	267	-	267	-
Total assets measured at fair value	$48,284	$48,017	$ 267	$ -

February 2, 2013			
Fair Value	**Quoted Prices in Active Markets for Identical**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**

		Assets (Level 1)		
Corporate bonds	$31,179	$31,179	$ -	$ -
Money market funds	21,032	21,032	-	-
Municipal bonds and notes	529	529	-	-
Fixed income mutual funds	1,279	1,279	-	-
Total cash equivalents and marketable securities	$54,019	$54,019	$ -	$ -
Restricted cash	1,769	1,769	-	-
Derivative instruments asset	438	-	438	-
Total assets measured at fair value	$56,226	$55,788	$ 438	$ -

Assets measured and recorded at fair value on a non-recurring basis

Our non-marketable promissory notes receivable and preferred stock investments in privately-held venture capital funded technology companies are recorded at cost and are adjusted to fair value only in the event that they become other-than-temporarily impaired, as we are not able to estimate their fair value by practicable means. As further described in Note 6, as of August 3, 2013, we held equity investments in five, and promissory notes receivable in one, privately-held venture capital funded technology companies and an equity investment in one joint venture, with an aggregate face value equal to cost of $6.9 million. As of August 3, 2013, we did not identify any events or changes in circumstances that may have had a significant adverse effect on the fair value of these investments; as a result they were not evaluated for impairment. Each of these equity investments in privately-held companies constituted less than a 20% ownership position. Furthermore, we do not believe that we have the ability to exert significant influence over any of these companies.

4. Derivative financial instruments

We use derivative instruments primarily to manage exposures to foreign currency exchange rate risks. Our primary objective in holding derivatives is to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates. Substantially all of our revenue is transacted in U.S. dollars; however, a significant amount of our operating expenditures and capital purchases are incurred in or exposed to other currencies, primarily the Israeli shekel, or NIS.

Foreign exchange contracts are recognized either as assets or as liabilities on the balance sheet at fair value at the end of each reporting period. The accounting treatment of these instruments is based on whether the instruments are designated as hedge or non-hedge instruments. For those derivatives qualifying for hedge accounting, the effective portions of derivative’s gains or losses on these hedges are initially recorded in accumulated other comprehensive income (“AOCI”) until the hedged item is recognized in earnings. The effective portions of net investment hedges are recorded in OCI as a part of the cumulative translation adjustment. We record the ineffective portions of the hedging instruments in interest and other income, net in our condensed consolidated statements of operations. For those derivative instruments that do not qualify for hedge accounting, we record the changes in fair value directly in earnings as interest and other income, net in our condensed consolidated statement of operations.

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Beginning in the first quarter of fiscal 2012, we elected to discontinue assessing new derivative contracts that are used in managing NIS denominated transactions for hedge effectiveness and thus such contracts do not qualify for hedge accounting. As a result of this change, we recognize all gains and losses from changes in the fair value of these derivate contracts directly into earnings rather than deferring any such amounts in OCI.

As of August 3, 2013, we had foreign exchange contracts to sell up to approximately $5.6 million for a total amount of approximately NIS 20.9 million, that mature on or before April 28, 2014. As of February 2, 2013, we had foreign exchange contracts to sell up to approximately $10.4 million for a total amount of approximately NIS 40.0 million, that mature on or before December 23, 2013. For the three and six months ended August 3, 2013, we recognized gains of approximately $0.0 million and $0.3 million, respectively, as a result of foreign exchange contracts.

The following table presents the fair value of our outstanding derivative instruments as of August 3, 2013 and February 2, 2013 (in thousands):

Derivative Assets	**Balance Sheet Location**	**August 3, 2013**	**February 2, 2013**
Foreign exchange contracts not designated as cash flow hedges	Prepaid expenses and other current assets	$ 267	$ 438
Total fair value of derivative instruments		$ 267	$ 438

The effects of derivative instruments on income and accumulated other comprehensive income for the three months and six months ended August 3, 2013 and July 28, 2012 are summarized as follows (in thousands):

	Gains (Losses) Recognized in Accumulated Other Comprehensive Income on Derivatives (Effective Portion)	**Gains Reclassified from Accumulated Other Comprehensive Income into Earnings**	**Gains (Losses) Recognized in Earnings on Derivatives (Including Ineffective Portion)**

Derivatives instruments	Amount		**Amount**	**Location**	**Amount**	**Location**
Three months ended August 3, 2013, foreign exchange contracts	$	—	$-	Operating expenses and cost of revenue	$(34)	Interest and other income, net
Six months ended August 3, 2013, foreign exchange contracts	$	—	$-	Operating expenses and cost of revenue	$251	Interest and other income, net
Three months ended July 28, 2012, foreign exchange contracts	$	—	$-	Operating expenses and cost of revenue	$(513)	Interest and other income, net
Six months ended July 28, 2012, foreign exchange contracts	$	—	$-	Operating expenses and cost of revenue	$(430)	Interest and other income, net

There was no impact from ineffective portions on designated cash flow derivative contracts for the three and six months ended August 3, 2013 and July 28, 2012.

5. Restricted cash

As of August 3, 2013 and February 2, 2013, we had $1.8 million of restricted cash related to deposits pledged to a financial institution with regard to our foreign exchange hedging transactions and an office-space operating lease.

6. Investments in and notes receivable from privately held companies

The following table sets forth the value of investments in and notes receivable from privately-held companies (in thousands):

Equity investments:	**August 3, 2013**	**February 2, 2013**
Issuer B	$2,000	$ 2,000
Issuer C	1,000	1,000
Issuer D	1,000	1,000
Issuer E	300	300
Issuer F	2,000	2,000
Issuer G	142	143
Total equity investments	$6,442	$ 6,443
Notes receivable:		
Issuer B	500	750
Issuer H	-	2,500
Total notes receivable	500	3,250
Total equity investments and notes receivable	$6,942	$ 9,693

Equity investments

During fiscal 2009, we purchased shares of preferred stock in a privately-held venture capital funded technology company ("Issuer B") at a total investment cost of $1.0 million. In the fourth quarter of fiscal 2010, we purchased additional shares of preferred stock in Issuer B at a cost of $1.0 million.

In the third quarter of fiscal 2011, we purchased shares of preferred stock in another privately-held technology company ("Issuer C") at a total investment cost of $1.0 million.

In the fourth quarter of fiscal 2011, we purchased shares of preferred stock in another privately-held technology company (“Issuer D”) at a total investment cost of $1.0 million.

In the fourth quarter of fiscal 2011, we also purchased a convertible note, which has been converted to equity, from another privately-held technology company (“Issuer E”) with a face value equal to the cost of $0.3 million.

In the second quarter of fiscal 2012, we purchased shares of preferred stock in another privately-held technology company (“Issuer F”) at a total investment cost of $2.0 million.

In the third quarter of fiscal 2012, we made an equity investment of $0.1 million in a privately-held joint venture (“Issuer G”).

Notes receivable from privately-held companies

In November 2010, we loaned $1.0 million to Issuer B and received a secured promissory note. This promissory note is secured by the assets of Issuer B, bears interest at a rate of 5% per annum and is scheduled to be fully repaid by September 2013.

In January 2012, we loaned $2.5 million to a privately-held venture capital funded technology company (“Issuer H”), pursuant to a strategic agreement dated January 25, 2012. We made this loan in exchange for a secured promissory note, which was secured by the assets of Issuer H and bore interest at a rate of 3% per annum. The principal amount and accrued interest were due 36 months from the agreement date. On May 16, 2013, we entered into a Non-Exclusive License Agreement with Issuer H under which we agreed to apply Issuer H’s loan balance of $2.5 million plus accrued interest to offset the initial license fees under this license agreement for certain technologies.

As of August 3, 2013 and February 2, 2013, our notes receivable from privately-held companies were valued at $0.5 million and $3.3 million, respectively, representing their cost. We made each of the above-described investments because we viewed the issuer as either having strategic technology or a business that would complement our technological capabilities or help create an opportunity for us to sell our chipset solutions. The Company analyzes each investment quarterly for evidence of impairment.

The Company's President and Chief Executive Officer is a member of the Board of Directors of five of the seven companies we have invested in. Each of the aforementioned investment transactions is negotiated without the personal involvement of our Board members or, where applicable, the executive officer who may have a personal interest in the transaction.

7. Composition of certain financial statement captions

The following tables summarize the main items comprising certain financial statement captions as of August 3, 2013 and February 2, 2013 (in thousands):

Accounts receivable

	August 3, 2013	February 2, 2013
Accounts receivable	$39,376	$ 23,002
Allowance for doubtful accounts	(342)	(1,354)
Total accounts receivable, net	$39,034	$ 21,648

Inventory

	August 3, 2013	February 2, 2013
Wafers and other purchased materials	$10,280	$ 12,553
Work-in-process	1,776	1,071
Finished goods	7,972	11,305
Total inventory	$20,028	$ 24,929

Prepaid expenses and other current assets

	August 3, 2013	February 2, 2013
Prepayments for inventory	$2,535	$ 2,542
Amounts due from seller related to DTV acquisition	1,848	4,519
Note receivable	500	750
Assets held for sale	-	623
Other current assets	5,324	5,144
Total prepaid expenses and other current assets	$10,207	$ 13,578

Software, equipment and leasehold improvements

	Estimated Useful Lives (years)	August 3, 2013	February 2, 2013
Software	2	$26,955	$24,216
Equipment	2 to 5	19,267	17,688
Office equipment and furniture	2	8,883	8,338
Leasehold improvements	1 to 6	3,162	3,097
Total		58,267	53,339
Less: Accumulated depreciation and amortization		(41,042)	(36,233)
Total software, equipment and leasehold improvements, net		$17,225	$17,106

Software, equipment and leasehold improvement depreciation and amortization expense for the three months ended August 3, 2013 and July 28, 2012 was $2.1 million and $3.1 million, respectively, and for the six months ended August 3, 2013 and July 28, 2012, $5.0 million and $5.8 million, respectively.

Accrued liabilities:

	August 3, 2013	February 2, 2013
Income taxes	$2,136	$ 4,508
License fees	2,037	3,553
Deferred revenue	7,625	3,099
Rebates	4,337	1,475
Settlements	150	425
Other accrued liabilities	4,354	5,661
Total accrued liabilities	$20,639	$ 18,721

8. Business Combinations

On May 4, 2012, we completed our acquisition of certain assets from Trident Microsystems, Inc. and certain of its subsidiaries (collectively referred to as “Trident”) used in or related to Trident’s digital television and PC television businesses (the “DTV business”) for a purchase price of $38.2 million, subject to adjustments based on the closing asset balance of the DTV business, plus the assumption of certain employee related liabilities pursuant to an Asset Purchase Agreement dated March 23, 2012 (the “Purchase Agreement”). Trident filed for voluntarily petition under Chapter 11 bankruptcy on January 4, 2012. In April 2012, we were selected as the successful bidder to acquire Trident’s DTV business. The purchase price of the Trident acquisition was paid in cash.

In connection with the Trident acquisition, we acquired all of Trident’s DTV business products, certain licensed intellectual property rights, specified tangible assets and other assets specified in the Purchase Agreement. We also acquired the right to use certain facilities of Trident under short-term facilities use agreements for facilities located in Shanghai and Beijing, China, Germany, The Netherlands, Taiwan and California. We hired approximately 320 employees whose services are used in the DTV business. We also entered into a transition services agreement with Trident under which Trident agreed to provide certain services to us following the closing. The purchaser of Trident's set-top box business also agreed to provide transition support services to us.

The addition of Trident's industry-leading DTV media processor System-on-a-Chip, or SoC, products for next-generation Internet-enabled digital televisions has significantly expanded our served available market. DTV products complement our existing IPTV set-top-box and connected media player SoC solutions and augment our ability to develop innovative solutions for the anticipated convergence of IP-video delivery across any device within the home.

In connection with this acquisition, we obtained a valuation of the assets acquired in order to allocate the purchase price. The total purchase price was allocated to the net tangible and identified intangible assets based upon fair values as of May 4, 2012. The fair value of the tangible assets and identifiable intangible assets acquired, net of liabilities assumed, exceeded the purchase price by $1.4 million, which was recognized in the consolidated statements of operations as a gain on acquisition in fiscal 2013.

The purchase price in the transaction was allocated as follows (in thousands, except years):

	Amount	**Estimated Useful Lives (years)**
Purchase consideration:		
Cash	$ 38,210	
Tangible assets acquired and liabilities assumed	$ 38,431	
Identifiable intangible assets:		
Developed technology	1,168	3
Gain on acquisition	(1,389)	
Total consideration	$ 38,210	

The results of operations of the DTV business have been included in the consolidated results of operations from May 4, 2012.

For the three and six months ended August 3, 2013, net sales of approximately $14.4 million and $27.9 million, respectively, and an operating loss of approximately $0.4 million and $1.1 million, respectively, attributable to the DTV business, were included in the consolidated results of operations. We believe that Trident and/or a vendor of Trident still owed us $1.8 million as of August 3, 2013, which is included in “Prepaid expenses and other current assets” in the condensed consolidated balance sheets. As further described in Note 13, in April 2013, we initiated a lawsuit against Trident and a vendor to fully recover the outstanding balance of $1.8 million that we believe is due to us as of August 3, 2013.

The following unaudited pro forma consolidated results of operations give effect to the acquisition of the DTV business as if it had occurred as of the beginning of the fiscal years of the periods presented (in thousands, except per share data):

	Three Months Ended		**Six Months Ended**	
	August 3, 2013	**July 28, 2012**	**August 3, 2013**	**July 28, 2012**
Net revenue	$53,762	$68,251	$106,302	$131,453
Net loss	(4,791)	(13,418)	(9,324)	(45,665)
Basic and diluted net loss per share	(0.14)	(0.41)	(0.27)	(1.39)

The unaudited pro forma consolidated results of operations are provided for informational purposes only and do not purport to represent actual consolidated results of operations had the acquisition occurred on the date assumed, nor are these financial statements necessarily indicative of future consolidated results of operations. We expect to incur costs and realize benefits associated with integrating the operations of the DTV business. The unaudited pro forma consolidated results of operations do not reflect the cost of any integration activities or any benefits that may result from operating efficiencies or revenue synergies.

9. Intangible assets

Intangible assets at the end of each period consisted of the following (in thousands, except for years):

	August 3, 2013			
	Gross Value	Accumulated Amortization and Effect of Currency Translation	Net Value	Weighted Average Remaining Amortization Period (Years)
Acquired intangible assets:				
Developed technology	$52,024	$ (37,470)	$14,554	3.5
Customer relationships	20,219	(16,415)	3,804	3.4
Trademarks	2,677	(2,043)	634	5.6
Non-compete agreements	1,400	(1,400)	-	-
Purchased IP - amortizing	16,053	(9,740)	6,313	1.9
Total amortizing	92,373	(67,068)	25,305	3.1
Purchased IP - not yet deployed	9,084	-	9,084	
Total intangibles	$101,457	$ (67,068)	$34,389	

	February 2, 2013			
	Gross Value	Accumulated Amortization and Effect of Currency Translation	Net Value	Weighted Average Remaining Amortization Period (Years)
Acquired intangible assets:				
Developed technology	$52,025	$ (34,567)	$17,458	3.6
Customer relationships	20,218	(15,782)	4,436	3.6
Trademarks	2,678	(1,983)	695	5.9
Non-compete agreements	1,400	(1,400)	-	-
Purchased IP - amortizing	15,854	(7,970)	7,884	2.4

Total amortizing	92,175	(61,702)	30,473	3.4
Purchased IP - not yet deployed	6,100	-	6,100	
Total intangibles	$98,275	$ (61,702)	$36,573	

Acquired intangible assets represent intangible assets acquired through business combinations. Purchased intellectual property ("Purchased IP") represents intangible assets acquired through direct purchases of licensed technology from vendors which is incorporated into our products.

Purchased IP – not yet deployed relates to Purchased IP from third parties for our products that are currently in development. We begin amortizing such intellectual property upon the earlier of the beginning of the term of the license agreement, as appropriate, or at the time we begin shipment of the associated products into which such intellectual property is incorporated.

We test long-lived assets, including our intangible assets, other than IP R&D, for impairment whenever events or changes in circumstances, such as a change in technology, indicate that the carrying value of these assets may not be recoverable.

Amortization expense related to intangible assets was $2.7 million and $5.4 million for the three and six months ended August 3, 2013, respectively, and $2.5 million and $4.9 million for the three and six months ended July 28, 2012, respectively. As of August 3, 2013, we had $9.1 million of Purchased IP, which we have not yet begun to amortize.

The following table presents the amortization of intangible assets in the accompanying condensed consolidated statements of operations (in thousands):

	Three Months Ended		Six Months Ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
Cost of sales	$2,264	$2,078	$4,591	$4,069
Operating expenses	388	403	782	832
Total intangibles amortization expense	$2,652	$2,481	$5,373	$4,901

The estimated future amortization expense of intangible assets with finite lives as of August 3, 2013 is as follows (in thousands):

Fiscal year	**Total**
2014 (remaining six months)	$5,282
2015	8,800
2016	6,574
2017	3,912
2018	636
Thereafter	101
Total	$25,305

10. Product warranty

In general, we sell products with a one-year limited warranty that our products will be free from defects in materials and workmanship. Warranty cost is estimated at the time revenue is recognized based on historical activity, and additionally, for any specific known product warranty issues. Accrued warranty cost includes hardware repair and/or replacement and software support costs and is included in accrued liabilities on the accompanying condensed consolidated balance sheets.

Details of the change in accrued warranty as of August 3, 2013 and July 28, 2012 are as follows (in thousands):

Three Months Ended	Balance Beginning of Period	Additions and Adjustments	Deductions	Balance End of Period
August 3, 2013	$ 1,050	$ 192	$ (202)	$ 1,040
July 28, 2012	$ 1,125	$ 232	$ (200)	$ 1,157

Six Months Ended	Balance Beginning of Period	Additions and Adjustments	Deductions	Balance End of Period
August 3, 2013	$ 1,447	$ 38	$ (445)	$ 1,040
July 28, 2012	$ 1,326	$ 356	$ (525)	$ 1,157

11. Restructuring costs

In fiscal 2013, we initiated a number of targeted actions to address several areas in our business model which resulted in the adoption of company-wide cost saving measures. These actions were intended to align our cost structure with our current business outlook and divest or exit underperforming operations. As a result of the restructuring program, we recognized total restructuring costs of $3.3 million in fiscal 2013.

Pursuant to these restructuring initiatives, during the quarter ended May 4, 2013, we took further actions resulting in the headcount reduction of 17 employees and severance and termination related charges to cost of revenues and operating expenses of $40,000 and $210,000, respectively. Expenses recognized for restructuring activities impacting our operating expenses are presented in the “Restructuring costs” line of the condensed consolidated statements of operations.

For the quarter ended August 3, 2013, we had restructuring costs which were comprised of headcount adjustments of $0.2 million related to the closure of the Canada office and a facility accrual of $0.8 million for the related Canada lease, which were partially offset by the reversal of deferred rent related to the Canada lease. In connection with our restructuring measures, we closed down the operations of our wholly-owned subsidiary in Canada, which filed for bankruptcy on May 30, 2013. Upon filing for bankruptcy, the main outstanding liability of our Canadian entity relates to minimum monthly payments under a non-cancelable operating lease agreement for office space. In accordance with the provisions of the lease agreement and current communication with the landlord's agent, if Sigma Canada exercises its early termination provision, Sigma Canada would be liable for an early termination penalty of $0.3 million and monthly lease payments of approximately $45,000 from May 2013 through May 2015 for a total exposure of $1.1 million. If we elect to sublease the premises instead of exercising the option to terminate the lease, our potential exposure could be reduced if an agreement were entered into in a reasonable timeframe and on reasonable terms. Given the information received regarding the relevant Canadian real estate market, it appears at this stage that the potential exposure would be in the range of $0.8 million adjusted for recovery from the bankruptcy estate.

The following table summarizes the restructuring costs, outstanding payable balance and cumulative restructuring costs (in thousands):

	Employee Severance	**Impairment of Long-Lived Assets**	**Facility Exit Costs**	**Total**	**Cumulative Restructuring Costs**
Charges in fiscal 2013	$ 2,167	$ 1,089	$ 8	$3,264	$ 3,264
Cash payments	(1,153)	-	-	(1,153)	
Non-cash items	-	(1,089)	-	(1,089)	
Balance at February 2, 2013	1,014	-	8	1,022	3,264
Charges for the three months ended May 4, 2013*	250	-	-	250	250
Cash payments	(882)	-	(5)	(887)	
Non-cash items	-	-	-	-	
Balance at May 4, 2013	$ 382	$ -	$ 3	$385	$ 3,514
Charges for the three months ended August 3, 2013	234	-	446	680	680
Cash payments	(551)	-	(14)	(565)	
Non-cash items	-	-			
Balance at August 3, 2013	$ 65	$ -	$ 435	$500	$ 4,194

* The amount above includes $40,000 of certain restructuring charges that were recorded in the cost of revenue.

12. Sale of development project

On March 8, 2013, we entered into an Asset Purchase Agreement with a third party (the “Buyer”) to sell certain development projects (intellectual property) and long-lived assets (the “Connectivity Assets”) related to the connectivity technology over coaxial cable market, including the transfer of 21 employees (the “Connectivity Employees”) to the Buyer. The aggregate carrying amount of the Connectivity Assets ultimately transferred was approximately $0.6 million and were classified as assets held for sale in prepaid expenses and other current assets in the accompanying condensed consolidated balance sheet at February 2, 2013. We received an initial payment of $2.0 million in cash at the closing of the transaction and a payroll expense reimbursement payment of $0.6 million (as described more fully below). Under the terms of the Asset Purchase Agreement, if certain technical milestones are met by September 30, 2013 as a result of further development of the transferred technology by the Buyer, we will be paid an additional $5.0 million in cash. There can be no assurance that this technical milestone will be met.

In April 2013, upon receiving the closing consideration of $2.0 million, we recorded a gain of $1.1 million, net of the carrying value of the Connectivity Assets and fees for legal and bank services of approximately $0.4 million. The gain is included in “Gain on sale of development project” in the accompanying condensed consolidated statements of operations for the six months ended August 3, 2013. The gain was recorded in the previous fiscal quarter on the basis that we obtained a signed agreement, the closing consideration of $2.0 million was received (non-refundable), delivery of the underlying assets and intellectual property and transfer of employees occurred during our quarter ended May 4, 2013, and we do not have further obligations or deliverables under the Asset Purchase Agreement beyond May 4, 2013. Additionally, in April 2013, in connection with the Asset Purchase Agreement, the Buyer reimbursed us for payroll expenses related to the employees transferred to the Buyer for the period from February 1, 2013 through the actual payroll transfer, totaling $0.6 million.

We have elected to account for the contingent payment under the milestone method described by FASB ASC Topic 605-28, under which consideration contingent on the achievement of a substantive milestone is recognized in its entirety in the period when the milestone is achieved. Milestones are considered substantive based on the potential enhancement of value to the Buyer and the fact that consideration earned from the achievement of a milestone relates solely to past performance. Accordingly, payment consideration if and when the milestone is met associated with the technical milestone will be recorded as other income in our consolidated statements of operations in its entirety, which is due by September 30, 2013, in accordance with the Asset Purchase Agreement.

13. Commitments and contingencies

Commitments

Operating leases

Our primary facility is located in Milpitas, California. We also lease facilities in China, Denmark, France, Germany, The Netherlands, Hong Kong, Israel, Japan, California, Singapore, Taiwan, Vietnam, Korea and Israel. We also lease vehicles under non-cancelable leases.

As further described in Note 11, in connection with certain restructuring measures adopted in fiscal 2013 and our quarter ended August 3, 2013, we have early terminated our non-cancelable lease agreement in Canada. As a result, minimum annual payments related to such non-cancelable lease agreement have been excluded from the below table.

Future minimum annual payments under non-cancelable operating leases as of August 3, 2013 are as follows (in thousands):

Fiscal Year	**Amount**
2014 (remaining six months)	$ 2,661
2015	4,336
2016	2,918
2017	1,641
2018	144
Total minimum lease payments	$ 11,700

Purchase commitments

We place non-cancelable orders to purchase semiconductor products from our suppliers on an eight to twelve week lead-time basis. As of August 3, 2013, the total amount of outstanding non-cancelable purchase orders was approximately $17.6 million.

Design Tools

During the quarter ended August 3, 2013, we entered into an agreement with a vendor to purchase $12.9 million of design tools. In June 2013, approximately $1.3 million of related licenses were delivered to us. The remaining $11.6 million of licenses will be delivered in December 2013. Payments on the licenses are being made on a quarterly basis from June 2013 through March 2016. As of August 3, 2013 remaining payments for the licenses totaled $12.4 million.

Indemnifications

In certain limited circumstances, we have agreed and may agree in the future to indemnify certain customers against patent infringement claims from third parties related to our intellectual property. In these limited circumstances, the terms and conditions of sale generally limit the scope of the available remedies to a variety of industry-standard methods including, but not limited to, a right to control the defense or settlement of any claim, procure the right for continued usage, and a right to replace or modify the infringing products to make them non-infringing. To date, we have not incurred or accrued any significant costs related to any claims under such indemnification provisions.

Our articles of incorporation and bylaws require that we indemnify our officers and directors against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with any proceedings arising out of their services to us. In addition, we have entered into separate indemnification agreements with each of our directors and executive officers, which provide for indemnification of these individuals under similar circumstances and under additional circumstances. The indemnification obligations are more fully described in our charter documents and the form of indemnification agreement filed with our SEC reports. We purchase insurance to cover claims or a portion of the claims made against our directors and officers. Since a maximum obligation is not explicitly stated in our charter documents or in our indemnification agreements and will depend on the facts and circumstances that arise out of any future claims, the overall maximum amount of the obligations cannot be reasonably estimated. The fair value of these obligations was zero on our consolidated balance sheet as of August 3, 2013.

Royalties

We pay royalties for the right to sell certain products under various license agreements. During the three and six months ended August 3, 2013, we recorded royalty expense of $0.6 million and $1.1 million, respectively, and $0.4 million and $0.8 million for the three and six months ended July 28, 2012, respectively, which was recorded to cost of revenue.

Our wholly owned subsidiary, Sigma Designs Israel SDI Ltd. (formerly, CopperGate Communication Ltd.), participated in programs sponsored by the Office of the Chief Scientist of Israel's Ministry of Industry, Trade and Labor, or the OCS, for the support of research and development activities that we conducted in Israel. Through August 3, 2013, we had obtained grants from the OCS aggregating to $4.9 million for certain of our research and development projects in Israel. We completed the most recent of these projects in 2013. We are obligated to pay royalties to the OCS, amounting up to 4.5% of the sales of certain products up to an amount equal to grants received, plus LIBOR-based interest. As of August 3, 2013, our remaining obligation under these programs was $0.8 million.

Contingencies

Litigation

From time to time, we are involved in claims and legal proceedings that arise in the ordinary course of business. We expect that the number and significance of these matters will increase as our business expands. In particular, we could face an increasing number of patent and other intellectual property claims as the number of products and competitors in our industry grows. Any claims or proceedings against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time, result in the diversion of significant operational resources or cause us to enter into royalty or licensing agreements which, if required, may not be available on terms favorable to us or at all. If an unfavorable outcome were to occur against us, there exists the possibility of a material adverse impact on our financial position and results of operations for the period in which the unfavorable outcome occurs and, potentially, in future periods.

In March 2013, we filed a motion to intervene in (and become a party to) U.S. Ethernet Innovations, LLC (USEI) v. AT&T Mobility, LLC (“AT&T”) and others, Case No. 5-10-cv-05254 CW, currently pending in the U.S. District Court for the Northern District of California, or the Litigation. In this Litigation, USEI filed a patent infringement complaint alleging that various AT&T products infringe USEI patents that have now expired, including alleging that set-boxes deployed by AT&T that contain our SoCs infringe a USEI patent. USEI has made similar allegations that other defendants infringe this and other now expired USEI patents in this Litigation and other related cases. Further, other interveners have already been added to this Litigation and other related cases. USEI seeks monetary damages, attorney’s fees, and an injunction against AT&T, other defendants and other interveners. AT&T, other defendants and other interveners have denied the allegations of infringement made by USEI and asserted that USEI’s patents are invalid, unenforceable, and not infringed. The Court granted our motion to intervene. As a result, we filed a declaratory judgment complaint. USEI answered this complaint and asserted counter-claims against us. We have responded to those counter-claims. The parties are now conducting discovery in the matter. The trial date for the Litigation has been set for January 5, 2015.

In April 2013, we initiated a lawsuit against Trident and NXP Semiconductors Netherlands B.V. (“NXP”) Adv. Aoc. No. 13-50940 (CSS) in the United States Bankruptcy Court for the District of Delaware. Trident filed for voluntarily petition under Chapter 11 bankruptcy on January 4, 2012. We were selected as the successful bidder and in May 2012, we entered into an Asset Purchase Agreement (“APA”) with Trident to acquire certain assets of its digital television and PC television businesses, as further discussed in Note 8. In connection with the APA, we entered into a Transition Services Agreement (“TSA”) under which Trident agreed to provide certain transition services to us following the closing, including management of billings and collections with their former customers and payment to former vendors, among others. We are seeking recovery of $1.8 million that we paid to Trident to specifically pay to NXP, on our behalf pursuant to the TSA, for purchases of inventory that Trident, on our behalf, made from NXP during the month of June 2012. NXP claimed they had not received payment of $1.8 million from Trident and reduced such amount from our inventory prepayment balance with NXP. Both Trident and NXP have filed motions to dismiss our claims and we have answered their motions. The Court has not yet ruled on their motions to dismiss. As a result of the complexities and uncertainties surrounding the process of voluntary petition under Chapter 11 bankruptcy (filed by Trident in January 2012), we are unable to determine the likelihood of an unfavorable outcome of recovering all or less than $1.8 million in this lawsuit and, accordingly, we are unable to reasonably estimate a potential range of loss, if any, at this time. Accordingly, we have not recognized any impairment on this receivable due from Trident or NXP to us, which is recorded in “Prepaid expenses and other current assets” in the accompanying condensed consolidated balance sheet at August 3, 2013.

Third-party licensed technology

We license technologies from various third parties and incorporate that technology into our products. Some of these licenses require us to pay royalties and others require us to report sales activities so that royalties may be collected from our customers. From time to time, we are audited by licensors of these technologies for compliance with the terms of these licenses. In the first quarter of fiscal 2013, we settled one such audit for $1.4 million. In the third quarter of fiscal 2013, we settled another audit for $6.3 million. For license agreements where we have royalty obligations, we charge any settlement payments that we make in connection with audits to cost of revenue. For license agreements where we simply have reporting obligations, we treat any settlement payments as penalties and charge the amounts to operating expenses in sales and marketing. In addition, in the third quarter of fiscal 2013, we settled another audit for $0.3 million payable in four quarterly equal installments commencing in September 2012. Concurrently, we negotiated a license agreement for this technology for a period of three years for an amount of $3.5 million, also payable in four quarterly equal installments commencing in September 2012. The full amount of the license fees was recorded as purchased IP in fiscal 2013 and will be amortized over the license term. On December 4, 2012, we received a letter from another technology licensor notifying us of their intent to audit our compliance with the terms of a license agreement that we use in our DTV business. On February 28, 2013, we received a letter from another technology licensor notifying us of their intent to audit our compliance with the terms of a license agreement that we use in our Media player business. On July 16, 2013, we received a letter from another technology licensor notifying us of their intent to audit our compliance with the terms of a license agreement that we use in our DTV business. As of August 3, 2013, the end of our second fiscal quarter to which this report relates, we believe we were in compliance with our license agreements. However, we could be required to make additional payments as a result of pending or future compliance audits.

Early termination lease agreement for office-space

In connection with our restructuring measures adopted during the third and fourth quarters of fiscal 2013, as further described in Note 11, and due to the lack of solvency and liquidity of our wholly owned subsidiary in Canada ("Sigma Canada"), we decided to close down the operations of Sigma Canada. On February 23, 2013, our Board of Directors approved the filing for bankruptcy of Sigma Canada, which we filed on May 30, 2013. Sigma Canada has appointed a Trustee in Canada to provide legal advice and assistance throughout the bankruptcy process. Based on our current assessment of the financial condition and obligations of Sigma Canada, outstanding obligations beyond the filing date for bankruptcy are mainly related to the minimum monthly payment obligations under a non-cancellable operating lease agreement for office space. In accordance with the provisions of the lease agreement and current communication with the landlord's agent, if Sigma Canada exercises its early termination provision, Sigma Canada would be liable for an early termination penalty of $0.3 million and monthly lease payments of approximately $45,000 million from May 2013 through May 2015 for a total exposure of up to $1.1 million. Were Sigma to elect to sublease the premises instead of exercising the option to terminate the lease, potential exposure could be reduced if an agreement were entered into in a reasonable timeframe and on reasonable terms. We have estimated, based on market data available to us, that the potential exposure could be approximately of $0.8 million adjusted for recovery from the bankruptcy estate.

14. Net loss per share

Basic and diluted net loss per share for the periods presented is computed by dividing net loss by the weighted average number of common shares outstanding.

The following table sets forth the basic and diluted net loss per share computed for the three and six months ended August 3, 2013 and July 28, 2012 (in thousands, except per share amounts):

	Three Months Ended		**Six Months Ended**	
	August 3, 2013	**July 28, 2012**	**August 3, 2013**	**July 28, 2012**
Net loss, as reported	$(4,791)	$(13,418)	$(9,324)	$(27,120)
Weighted-average common shares outstanding-basic	34,259	33,052	34,008	32,857
Dilutive effect of employee stock plans	-	-	-	-
Weighted-average common shares outstanding- diluted	34,259	33,052	34,008	32,857
Net loss per share – basic	$(0.14)	$(0.41)	$(0.27)	$(0.83)
Net loss per share – diluted	$(0.14)	$(0.41)	$(0.27)	$(0.83)

The following table sets forth the excluded anti-dilutive and excluded potentially dilutive securities for the three and six months ended August 3, 2013 and July 28, 2012 (in thousands):

	Three Months Ended		**Six Months Ended**	
	August 3, 2013	**July 28, 2012**	**August 3, 2013**	**July 28, 2012**
Stock options excluded because the effect of including would be anti-dilutive	18	168	21	161
Stock options excluded because exercise price is in excess of average stock price	4,513	5,454	4,677	5,500
Restricted stock awards and units excluded because the effect of including would be anti-dilutive	32	94	29	57
Restricted stock awards and units excluded because potential buyback shares exceed weighted average restricted stock units and awards outstanding	457	69	501	401

15. Equity incentive plans and employee benefits

Stock option awards

Activity of our combined stock option plans for the three months and six months ended August 3, 2013 is summarized as follows:

	Number of Options	**Weighted Average Exercise Price (Per Option)**
As of February 2, 2013	5,055,787	$ 12.50
Granted	-	-
Exercised	(9,949)	3.26
Cancelled or forfeited	(459,834)	11.18
As of May 4, 2013	4,586,004	$ 12.65

Granted	368,680	4.59
Exercised	(8,878)	2.21
Cancelled or forfeited	(728,912)	15.07
As of August 3, 2013	4,216,894	$ 11.57
Options exercisable as of:		
February 2, 2013	3,790,842	$ 13.31
May 4, 2013	3,621,537	$ 13.42
August 3, 2013	3,092,912	$ 12.89

Restricted stock awards

Activity of our restricted stock awards, or RSAs, for the three and six months ended August 3, 2013 is summarized as follows:

	Number of RSAs	**Weighted Average Grant-Date Fair Value (Per RSA)**	**Aggregate Value**
As of February 2, 2013	163,311	$ 8.71	$1,422,439
Granted	-	-	
Vested	(6,588)	9.50	
Cancelled	(13,175)	9.50	
As of May 4, 2013	143,548	$ 8.60	$1,234,513
Granted	-		
Vested	(10,980)	6.83	
Cancelled or forfeited	-	-	
As of August 3, 2013	132,568	$ 8.75	$1,159,970

Restricted stock units

Activity of our restricted stock units, or RSUs, for the three months and six months ended August 3, 2013 is summarized as follows:

	Number of RSUs	Weighted Average Grant-Date Fair Value (Per RSU)	Aggregate Value
As of February 2, 2013	632,262	$ 6.28	$3,970,605
Granted	37,675	4.65	
Vested	(44,024)	6.14	
Cancelled	(75,582)	6.39	
As of May 4, 2013	550,331	$ 6.16	$3,390,039
Granted	143,536	5.12	
Vested	(56,952)	6.23	
Cancelled	(49,411)	6.36	
As of August 3, 2013	587,504	$ 5.88	$3,455,878

Employee stock purchase plan

As of August 3, 2013 we had reserved a total of 2,500,000 shares of common stock for issuance under the 2010 Purchase Plan, of which 1,895,613 shares had been issued.

Stock-based compensation expense

The following table sets forth the total stock-based compensation expense that is included in each functional line item in the condensed consolidated statements of operations (in thousands):

	Three Months Ended	Six Months Ended

	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
Cost of revenue	$67	$133	$150	$250
Research and development expenses	853	1,508	1,943	2,971
Sales and marketing expenses	315	483	664	955
General and administrative expenses	451	627	962	1,400
Total share-based compensation	$1,686	$2,751	$3,719	$5,576

401(k) tax deferred savings plan

We maintain a 401(k) tax deferred savings plan for the benefit of qualified employees who are U.S. based. The matching program was suspended effective December 1, 2012. The matching contributions we made to the 401(k) tax deferred savings plan totaled zero for the three and six months ended August 3, 2013 and $0.2 million and $0.5 million for the three and six months ended July 28, 2012, respectively.

Group registered retirement savings plan

We maintain a Group Registered Retirement Savings Plan, or GRRSP, for the benefit of qualified employees who are based in Canada. We made matching contributions to the GRRSP of approximately $0.1 million for the three and six months ended August 3, 2013 and July 28, 2012. In connection with the Company’s restructuring, as further described in Note 11, we terminated the GRRSP in April 2013.

Endowment insurance pension plan

Related to our acquisition of our DTV business in May 2013, we added operations in Shanghai, China, where we are required to provide pension insurance to our Shanghai employees.

The matching contributions to the pension insurance totaled $0.4 million and $1.1 million for the three months and six months ended August 3, 2013, respectively, and $0.2 million for the three and six months ended July 28, 2012.

Retirement pension plans

The following table summarizes our contributions to retirement pension plans for the benefits of qualified employees based in the following countries (in thousands):

	Three Months Ended		Six Months Ended	
	August 3, 2013	**July 28, 2012**	**August 3, 2013**	**July 28, 2012**
Denmark	$61	$ 48	$109	$95
Taiwan	38	33	77	47
(*) The Netherlands	93	-	252	-
(*) Germany	(40)	-	54	-
Total matching contributions	$152	$ 81	$492	$142

(*) As a result of our acquisition of the DTV business, we added operations in The Netherlands and Germany in May 2013.

Severance plan

We maintain a severance plan for several Israeli employees pursuant to Israel's Severance Pay Law based upon the most recent salary of the employees multiplied by the number of year's employment. Accrued severance liability at August 3, 2013 and February 2, 2013 totaled $1.2 million, offset by $1.2 million of severance employee funds.

16. Income taxes

We recorded a provision for income taxes of $3.1 million and $0.4 million for the three months ended August 3, 2013 and July 28, 2012, respectively. The provision for income taxes was $5.3 million and $0.6 million for the six months ended August 3, 2013 and July 28, 2012, respectively. The increase in tax expense for the three and six months ended August 3, 2013 is primarily attributable to increasing profitability in taxable jurisdictions and increasing deductible temporary differences against which we have placed a valuation allowance. During the three and six months ended August 3, 2013, we were unable to reasonably project our annual effective tax rate, and therefore computed our provision for income taxes based on year-to-date actual financial results. Included in our provision for income taxes are foreign exchange gains or losses on unsettled income tax liabilities.

We benefit from tax incentives granted by local tax authorities in certain foreign jurisdictions. The Economic Development Board of Singapore granted development and expansion incentives to our wholly owned subsidiary in Singapore in 2008 for a period of four years, which ended March 1, 2012, contingent on meeting specified requirements. The Company is currently in negotiation with the Economic Development Board for its operations plan in Singapore and is not benefiting from the incentives during the three months and six months ended August 3, 2013.

17. Segment and geographical information

Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. We are organized as, and operate in, one reportable segment. Our operating segment consists of our geographically based entities in the United States, Hong Kong, Israel and Singapore. Our chief operating decision-maker reviews consolidated financial information, accompanied by information about revenue by product group, target market and geographic region. We do not assess the performance of our geographic regions on other measures of income or expense or net income.

We sell our products into four primary target markets, which are the DTV market, home networking market, set-top box market, and home control market. We also have license revenue, included in the license and other market that complements our home control customer solutions. Starting with the first quarter of fiscal 2014, we have defined the DTV market to include all products that are sold into digital televisions as well as other adjacent markets using chipset products that are designed for video post-processing and have eliminated the prosumer and industrial audio/video market as a separate revenue segment as the majority of demand accruing from these sales will be represented in the DTV market segment. Also starting with the first quarter of fiscal 2014, we have defined the set-top box market to include all set-top box products delivering IP streaming video, including hybrid versions of these products, and we have eliminated the connected media player market as a separate revenue market as the majority of demand accruing from these sales will be represented in the set-top box market segment.

The following table sets forth net revenue attributable to each target market (in thousands):

	Three Months Ended		Six Months Ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
DTV	$14,438	$29,055	$30,280	$31,626
Home Networking	19,557	22,418	39,738	43,256
Set-top Box	11,480	11,933	20,795	25,475
Home Control	5,849	3,222	10,438	6,406
License and Other	2,438	1,623	5,051	1,746
Net revenue	$53,762	$68,251	$106,302	$108,509

The following table sets forth net revenue for each geographic region based on the ship-to location of customers (in thousands):

	Three Months Ended		Six Months Ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
Asia	$40,426	$44,314	$78,466	$80,918
North America	5,630	5,325	10,660	7,191
Europe	5,978	15,924	13,968	16,513
Other regions	1,728	2,688	3,208	3,887
Net revenue	$53,762	$68,251	$106,302	$108,509

The following table sets forth net revenue to each significant country based on the ship-to location of customers (in thousands):

	Three Months Ended		Six Months Ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
China, including Hong Kong	$28,670	$32,465	$56,175	$62,543
Hungary	4,091	12,159	9,669	12,159
United States	5,412	4,517	9,983	5,889
Rest of the world	15,589	19,110	30,475	27,918
Net revenue	$53,762	$68,251	$106,302	$108,509

The following table sets forth the major customers that accounted for 10% or more of our net revenue:

	Three Months Ended		Six Months Ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
TP Vision	*	18 %	*	11 %
Flextronics	10%	*	12%	12 %
Motorola	*	*	*	12 %

* Accounted for less than 10% of our period net revenue.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

You should read the following discussion in conjunction with our unaudited condensed consolidated financial statements and related notes in this Form 10-Q. Except for historical information, the following discussion contains forward-looking statements within the meaning of Section 27A of the Securities Exchange Act of 1933 and Section 21E of the Securities Exchange Act of 1934. In some cases, you can identify forward-looking statements by terms such as "may," "might," "will," "objective," "intend," "should," "could," "can," "would," "expect," "believe," "estimate," "predict," "potential," "plan," or the negative of these terms, and similar expressions intended to identify forward-looking statements. These forward-looking statements, include, but are not limited to, statements about our capital resources and needs, including the adequacy of our current cash reserves, revenue, anticipated deployments and design wins in the set-top box market, anticipated seasonality associated with our DTV business and our expectations that our gross margin will vary from period to period. These forward-looking statements involve risks and uncertainties. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ materially from those discussed in the forward-looking statements include, but are not limited to, those discussed under Part II, Item 1A "Risk Factors" in this Form 10-Q as well as other information found in the documents we file from time to time with the Securities and Exchange Commission. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this Form 10-Q. Unless required by U.S. federal securities laws, we do not intend to update any of these forward-looking statements to reflect circumstances or events that occur after the statement is made.

Overview

Our goal is to be a leader in intelligent media platforms for use in home entertainment and control. We focus on integrated system-on-chip, or SoC, solutions that serve as the foundation for some of the world's leading consumer products, including televisions, set-top boxes and video networking products. All of our primary products are semiconductors that are targeted toward end-product manufacturers, Original Equipment Manufacturers, or OEMs, and Original Design Manufacturers, or ODMs. We sell our products into four primary markets which are the Digital Television, or DTV market, the home networking market, the set-top box market, and the home control market. We derive a minor portion of our revenue from other products and services, including technology licenses, software development kits, engineering support services for hardware and software, engineering development for customization of chipsets and other accessories.

Our chipset products and target markets

We consider all of our semiconductor products to be chipsets because each of our products is comprised of multiple semiconductors. We believe our chipsets enable our customers to efficiently bring consumer multimedia devices to market. We design our highly integrated products to significantly improve performance, lower power consumption and reduce cost.

We derive nearly all of our operating net revenue from sales of chipset products. We sell our chipsets into four primary target markets, which are the DTV market, the home networking market, set-top box market, and home control market. We also have license revenue, included in the license and other market, which complements our home control customer solutions. Because of our focus on these target markets, we separately report revenues that we derive from sales into each of these target markets.

DTV Market: Starting with the first quarter of fiscal 2014, we have defined the DTV market to include all products that are sold into digital televisions or “SmartTVs” as well as other adjacent markets using chipset products that are designed for video post-processing. We believe DTV products complement our existing set-top box products, which will provide substantial research and development leverage and improved operating scale to augment our ability to develop innovative solutions for the anticipated convergence of IP-video delivery across any device within the connected home. We serve this market with our media processor SoCs and dedicated post-processing products.

Set-top Box Market: Also starting with the first quarter of fiscal 2014, we have defined the set-top box market to include all set-top box products delivering IP streaming video, including hybrid versions of these products. We have also eliminated the connected media player market as a separate revenue market as the majority of demand accruing from these sales will be represented in the set-top box market. We serve this market primarily with our media processor products.

Home Networking Market: The home networking market consists of communication devices that use a standard protocol to connect equipment inside the home and stream IP-based video and audio, VoIP, or data through wired or wireless connectivity. We serve the home networking market with our wired home networking controllers that are designed to provide connectivity solutions between various home entertainment products and incoming video streams.

Home Control Market: We define the home control market to include all the gateways and interconnected appliances that provide home monitoring and control for the management of security, safety, energy, health, and convenience. Our home control product line consists of our wireless Z-Wave chipsets, which consist of wireless transceiver devices along with a mesh networking protocol.

Other Markets: We also have engineering development fee, development boards and technology license revenue and sell products into other markets, such as the digital signage, high definition television, or HDTV, projection TV and PC-based add-in markets, which we refer to as our other market. We derive minor revenue from sales of our products into these other markets.

We have presented our results in the historical periods consistent with our new presentation of markets so that the presented information is comparable.

Restructuring program

In fiscal 2013, we initiated a number of key targeted actions to streamline several areas in our business, which resulted in the adoption of company-wide cost saving measures. These actions were intended to align our cost structure with our current business outlook, divest or exit certain operations and lower our cost structure. As a result of the restructuring program, we reduced our headcount by 109 employees and recognized total restructuring costs of $3.3 million in fiscal 2013. Pursuant to these restructuring initiatives, during the quarter ended May 4, 2013, we took further actions resulting in the headcount reduction of 17 employees and charges to operating expenses of $0.3 million, consisting primarily of severance and termination related costs.

For the quarter ended August 3, 2013, we had restructuring costs which were comprised of headcount adjustments of $0.2 million related to the closure of the Canada office and a facility accrual of $0.8 million for the related Canada lease, which were partially offset by the reversal of deferred rent related to the Canada lease. In connection with our restructuring measures, we closed down the operations of our wholly-owned subsidiary in Canada, which filed for bankruptcy on May 30, 2013. Upon filing for bankruptcy, the main outstanding liability of our Canadian entity relates to minimum monthly payments under a non-cancelable operating lease agreement for office space. In accordance with the provisions of the lease agreement and current communication with the landlord’s agent, if Sigma Canada exercises its early termination provision, Sigma Canada could be liable for an early termination penalty of up to $0.3 million and monthly lease payments of approximately $45,000 from May 2013 through May 2015 for a total estimated exposure of up to $1.1 million. Were Sigma to elect to sublease the premises instead of exercising the option to terminate the lease, potential exposure could be reduced if an agreement were entered into in a reasonable timeframe and on reasonable terms. Given the information received regarding the relevant Canadian real estate market, it appears at this stage that the potential exposure could be in the range of $0.8 million adjusted for recovery from the bankruptcy estate. We will continue assessing further cost-saving measures during the remainder of our fiscal 2014 and beyond.

Sale of development project

In March 2013, we entered into an Asset Purchase Agreement with a third party, or the Buyer, to sell certain development projects (intellectual property) and long-lived assets related to the connectivity technology over coaxial cable market, including the transfer of 21 employees to the Buyer. The aggregate carrying amounts of the transferred assets was $0.6 million and were classified as assets held for sale in prepaid expenses and other current assets in the accompanying condensed consolidated balance sheet at February 2, 2013. We received an initial payment of $2.0 million in cash at the closing of the transaction and a payroll expense reimbursement payment of $0.6 million. Under the terms of the Asset Purchase Agreement, if certain technical milestones are met by September 30, 2013 as a result of further development of the transferred technology by the Buyer, we will be paid an additional $5.0 million in cash. There can be no assurance that this technical milestone will be met. For the three months ended May 4, 2013, we recorded a gain of $1.1 million, which was the amount of the closing consideration we received minus the carrying value of the transferred assets and expenses incurred in connection with the sale and for the three months ended August 3, 2013, we recorded no gains or losses in connection with the sale of our development project.

Transfer of research and development project

In July 2013, we transferred seven employees from a research and development project to a third party. The seven employees were working out of our Taiwan office and will continue working in that office while being employed by the third party who will be paying their salaries and benefits. We have entered into an agreement with this third party to pay them $42,000 per quarter as support fees related to the research and development project and related technologies that were developed primarily by these employees.

Critical Accounting Policies and Estimates

There have been no significant changes in our critical accounting policies during the three months ended August 3, 2013, as compared to the critical accounting policies described in our Annual Report on Form 10-K for the year ended February 2, 2013. For a complete summary of our significant accounting policies, refer to Note 1, "Organization and Summary of Significant Accounting Policies", in Part II, Item 8 of our fiscal 2013 Annual Report.

Use of estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, or US GAAP, requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The primary areas that require significant estimates and judgments by management include, but are not limited to, revenue recognition, allowances for doubtful accounts, sales returns, warranty obligations, inventory valuation, stock-based compensation expense, goodwill and purchased intangible asset valuations, strategic investments, deferred income tax asset valuation allowances, uncertain tax positions, tax contingencies, restructuring costs, litigation and other loss contingencies. These estimates and assumptions are based on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ from those estimates, and such differences may be material to our consolidated financial statements.

Business combinations

In May 2012, we completed our acquisition of certain assets from Trident Microsystems, Inc. and certain of its subsidiaries (collectively referred to as "Trident"). The consolidated financial statements include the results of operations of Trident commencing as of the acquisition date. Refer to Note 8, "Business combinations" of Part 1, Item 1, "notes to unaudited condensed consolidated financial statements."

Results of Operations

The following table is derived from our unaudited condensed consolidated financial statements and sets forth our historical operating results as a percentage of net revenue for each of the periods indicated (in thousands, except percentages):

	Three Months Ended				Six Months Ended			
	August 3, 2013	% of Net Revenue	July 28, 2012	% of Net Revenue	August 3, 2013	% of Net Revenue	July 28, 2012	% of Net Revenue
Net revenue	$53,762	100%	$68,251	100%	$106,302	100%	$108,509	100%
Cost of revenue	25,696	48%	37,671	55%	51,290	48%	56,834	52%
Gross profit	28,066	52%	30,580	45%	55,012	52%	51,675	48%
Operating expenses								
Research and development	18,769	35%	27,975	41%	38,973	37%	49,764	46%
Sales and marketing	5,527	10%	7,795	11%	11,209	11%	14,683	13%
General and administrative	4,937	9%	9,489	14%	9,699	9%	15,868	15%
Gain on acquisition	-	-	(1,417)	(2%)	-	-	(1,417)	(1%)
Restructuring costs	680	1%	-	-	890	1%	-	-
Impairment of IP, mask sets and design tools	-	-	-	-	188	-	-	-
Total operating expenses	29,913	55%	43,842	64%	60,959	58%	78,898	73%
Loss from operations	(1,847)	(3%)	(13,262)	(19%)	(5,947)	(6%)	(27,223)	(25%)
Gain on sale of development project	-	-	-	-	1,079	1%	-	-
Interest income and other income, net	121	*	242	*	812	1%	733	1%
Loss before income taxes	(1,726)	(3%)	(13,020)	(19%)	(4,056)	(4%)	(26,490)	(24%)
Provision for income taxes	3,065	(6%)	398	1%	5,268	5%	630	1%
Net loss	$(4,791)	(9%)	$(13,418)	(20%)	$(9,324)	(9%)	$(27,120)	(25%)

* The percentage of net revenue is less than one percent.

Net revenue

Our net revenue for the three months ended August 3, 2013 decreased by $14.5 million compared to the corresponding period in the prior fiscal year mainly driven by a decrease in DTV revenue of $14.6 million. For the six months ended August 3, 2013, our net revenue decreased by $2.2 million, or 2%, compared to the corresponding period in the prior fiscal year. This was primarily driven by a decrease in set-top box revenue of $4.7 million, home networking revenue of $3.5 million and DTV revenue of $1.2 million, partially offset by home control revenue increasing by $4.0 million and license and other revenue increasing by $3.2 million as we successfully transitioned to the next generation products where Internet protocol services and OTT delivery are converging with traditional broadcasting.

Net revenue by target market

We sell our products into four primary target markets, consisting of: the DTV market, which includes the products resulting from our acquisition of certain assets from Trident Microsystems in the second quarter of fiscal 2013 and our prosumed and industrial audio/video products previously reported as a separate revenue market now included in DTV; the home networking market; the set-top box market, which includes the combination of our previously separately reported IPTV media processor products and our connected home player products; and the home control market. We also have license and other revenue that complements our home control customer solutions.

The following table sets forth our net revenue by target market and the percentage of net revenue represented by our product sales to each target market (in thousands, except percentages):

	Three Months Ended				**Six Months Ended**			
	August 3, 2013	**% of Net Revenue**	**July 28, 2012**	**% of Net Revenue**	**August 3, 2013**	**% of Net Revenue**	**July 28, 2012**	**% of Net Revenue**
DTV	$14,438	27 %	$29,055	43 %	$30,280	28 %	$31,626	29 %
Home networking	19,557	36 %	22,418	33 %	39,738	37 %	43,256	40 %
Set-top Box	11,480	21 %	11,933	17 %	20,795	20 %	25,475	23 %
Home Control	5,849	11 %	3,222	5 %	10,438	10 %	6,406	6 %
License and Other	2,438	5 %	1,623	2 %	5,051	5 %	1,746	2 %
Net revenue	$53,762	100 %	$68,251	100 %	$106,302	100 %	$108,509	100 %

DTV market: For the three months ended August 3, 2013, net revenue from sales of our products into the DTV market, primarily resulting from our acquisition of Trident Microsystems in the second quarter of fiscal 2013, decreased by $14.6 million, or 50% compared to the corresponding period in the prior fiscal year. For the six months ended August 3, 2013, net revenue decreased by $1.3 million or 4% compared to the corresponding period in the prior fiscal year. The overall decline was a result of lower demand for our product due to overall softness in the macro conditions especially in Europe and due to the roll off of legacy products as we continue to focus on the development of our new products. We expect that our DTV business may experience seasonality common to consumer electronics markets. We expect our revenue from the DTV market to continue to be a significant percentage of net revenue but will fluctuate in certain periods as we develop and introduce new products for this market. Starting with the first quarter of fiscal 2014, we have defined the DTV market to include all products that we sell into digital televisions as well as other adjacent markets using chipset products that are designed for video-post processing, including our prosumer and industrial video products. Our results for the fiscal periods presented above are consistent with this characterization.

Home networking market: For the three months ended August 3, 2013, net revenue from sales of our products into the home networking market decreased $2.9 million, or 13%, compared to the corresponding period in the prior fiscal year. For the six months ended August 3, 2013, net revenues decreased $3.5 million, or 8%, compared to the corresponding period in the prior fiscal year. The decrease was primarily the result of ASP declines and contract manufacturers' inventory adjustments. We expect our revenue from the home networking market to fluctuate in future periods based on seasonality changes with our contract manufacturers who manufacture equipment incorporating our products for deployment by telecommunication providers and transitions to next generation technologies.

Home control market: For the three months ended August 3, 2013, net revenue from sales of our products into the home control market increased $2.6 million, or 82%, compared to the corresponding period in the prior fiscal year. For the six months ended August 3, 2013, net revenue from sales of our products into the home control market increased $4.0 million, or 63%, compared to the corresponding period in the prior fiscal year. The increase was primarily the result of increased demand in the home control market, evidenced by the increase in unit shipments. We have unique products for our home control market and we anticipate an increase in our net revenue in the second half of fiscal 2014 as we continue to target large operators who are introducing home control products primarily in the North America and European regions. We expect our revenue from the home control market to continue to increase in the foreseeable future.

Set-top box market: For the three months ended August 3, 2013, net revenue from sales of our products into the set-top box market decreased $0.5 million, or 4%, compared to the corresponding period in the prior fiscal year. For the six months ended August 3, 2013, net revenue from sales of our products into the set-top box market decreased $4.7 million, or 18%, compared to the corresponding period in the prior fiscal year. This decrease in set-top box market net revenue was attributable to weaker demand in Asia. IPTV service providers deploy set-top boxes for many years and take a long time to evaluate potential new platforms, which results in long cycles between design wins and actual revenue. As such, our current decline in demand is a result of design losses that took place over a year ago. On the other hand, we believe that our recent successes in design wins, especially for Mediaroom second generation, should result in a new wave of deployments. We expect our net revenue from the set-top box market to fluctuate in future periods as this revenue is dependent on IPTV service deployments by telecommunication service providers, adoption of newer and future generations of our technology, changes in inventory levels at the contract manufacturers that supply them and competitive market pressures. Starting with our first quarter of fiscal 2014, we defined the set-top box market to include all set-top products delivering IP streaming video, including hybrid versions of these products. We anticipate an increase in our net revenue in the second half of fiscal 2014 as we release our second generation Mediaroom products, scheduled for distribution by our service provider customers in the second half of fiscal 2014.

***License and other revenue*:** Our other market consists primarily of technology license revenue and other ancillary markets. The increase in net revenue for the three months ended August 3, 2013 compared to the same period in the prior year was $0.8 million, or 50%. For the six months ended August 3, 2013, we had an increase in revenues of $3.3 million, or 189%, due to an increase in revenue from a customer in the North America region.

Net revenue by geographic region

The following table sets forth net revenue for each geographic region based on the ship-to location of customers (in thousands, except percentages):

	Three Months Ended						Six Months Ended					
	August 3, 2013	% of Net Revenue		July 28, 2012	% of Net Revenue		August 3, 2013	% of Net Revenue		July 28, 2012	% of Net Revenue	
Asia	$40,426	75	%	$44,314	65	%	$78,466	74	%	$80,918	75	%
North America	5,630	10	%	5,325	8	%	10,660	10	%	7,191	7	%
Europe	5,978	11	%	15,924	23	%	13,968	13	%	16,513	15	%
Other regions	1,728	4	%	2,688	4	%	3,208	3	%	3,887	3	%
Net revenue	$53,762	100	%	$68,251	100	%	$106,302	100	%	$108,509	100	%

Asia: Our net revenue in absolute dollars from Asia decreased $3.9 million, or 9%, for the three months ended August 3, 2013, compared to the corresponding period in the prior fiscal year. The decrease was spread across DTV, home control and set-top box target markets, partially offset by increases in home networking and license and other revenue. Our net revenue for the six months ended August 3, 2013 decreased $2.5 million, or 3%, compared to the corresponding period in the prior fiscal year. The decrease was a result of lower net revenue in the home networking and set-top box markets, partially offset by increases in DTV and home control net revenues.

North America: Our net revenue in absolute dollars from North America increased $0.3 million, or 6%, for the three months ended August 3, 2013 compared to the corresponding period in the prior fiscal year. This increase was due to higher revenues in set-top box markets and license and other revenue, partially offset by declines in home control and home networking net revenues. For the six months ended August 3, 2013 net revenue increased $3.5 million, or 48% compared to the corresponding period in the prior fiscal year. The increase was spread across products that we sell into all target markets with the exception of DTV.

Europe: Our net revenue in absolute dollars from Europe decreased $9.9 million, or 62%, for the three months ended August 3, 2013 compared to the corresponding period in the prior fiscal year. The net revenue from Europe represented 11% of total net revenue compared to 23% in the comparable prior year period. For the six months ended August 3, 2013, net revenue decreased $2.5 million, or 15% compared to the corresponding period in the prior fiscal year. The decreases in both comparative periods are primarily the result of the decrease in shipments to our largest customer and the economic conditions in Europe.

Other regions: Our net revenue in absolute dollars from other regions decreased $1.0 million, or 36%, for the three months ended August 3, 2013, compared to the corresponding period in the prior fiscal year. For the six months ended August 3, 2013 net revenue decreased $0.7 million, or 17% compared to the corresponding period in the prior fiscal year. The decrease in both comparative periods was primarily the result of the decrease in demand for our products in the home networking market in Brazil.

Major Customers

The following table sets forth the major customers that accounted for 10% or more of our net revenue:

	Three Months Ended		**Six Months Ended**	
	August 3, 2013	**July 28, 2012**	**August 3, 2013**	**July 28, 2012**
TP Vision	*	18%	*	11 %
Flextronics	10%	*	12%	12 %
Motorola	*	*	*	12 %

* This customer provided less than 10% of our net revenue in this period.

Gross Profit and Gross Margin

The following table sets forth our gross profit and gross margin and the related change (in thousands, except percentages):

	Three Months Ended			Six Months Ended		
	August 3, 2013	% Change	July 28, 2012	August 3, 2013	% Change	July 28, 2012
Gross profit	$28,066	(8%)	$30,580	$55,012	6%	$51,675
Gross margin	52.2%		44.8%	51.8%		47.6%

Our gross profit decreased $2.5 million, or 8%, for the three months ended August 3, 2013, compared to the corresponding period in the prior fiscal year. The decrease is mainly to lower revenue in Europe of $10.3 million in our DTV market products. Our gross profit increased $3.3 million, or 6%, for the six months ended August 3, 2013, compared to the corresponding period in the prior fiscal year. The increase was mainly due to $3.0 million in North America due to our license revenue. Our gross margin increased 7.4 and 4.2 percentage points, respectively, for the three and six months ended August 3, 2013 as compared to the corresponding periods in the prior fiscal year. The increase in gross margin was primarily due to the sale of higher margin DTV market products.

Although average selling prices, or ASP, continued to decline across most of our target markets in the three and six months ended August 3, 2013, we continued our significant efforts to reduce average cost per unit, or ACU, across our markets through internal cost savings in our production efforts. The increase in gross margin for the six months ended August 3, 2013 was primarily a result of an increase in license revenue of $3.0 million which has no cost of sale. This was partially offset by the continued decline in volume and ASP products sold into our set-top box market. The decrease in ACU was primarily due to cost reduction efforts and a decrease of fixed costs per unit. Our fixed costs include items such as depreciation and amortization, reserves and compensation costs for operations.

Research and development expense

Research and development expense consists of compensation and benefits costs including variable compensation expense, development and design costs such as mask, prototyping, testing and subcontracting costs, depreciation and amortization of our engineering design tools and equipment costs, stock-based compensation expense, and other expenses such as costs for facilities and travel. The following table sets forth research and development expense and the related change (in thousands, except percentages):

	Three Months Ended August 3, 2013	**July 28, 2012**	**$ Change**	**% Change**
Research and development expense	$18,769	$27,975	(9,206)	(33 %)
Percent of net revenue	34.9 %	41.0 %		

	Six Months Ended August 3, 2013	**July 28, 2012**	**$ Change**	**% Change**
Research and development expense	$38,973	$49,764	$(10,791)	(22 %)
Percent of net revenue	36.7 %	45.9 %		

The decrease in research and development, R&D, expense of $9.2 million, or 33%, for the three months ended August 3, 2013 compared to the three months ended July 28, 2012 was primarily due to reductions of $6.5 million in employee-related expenses, $0.7 million in stock-based compensation expense, $0.6 million in amortization and depreciation expense, $0.4 million in professional and other service fees and $1.0 million in engineering tools, supplies and other costs. The decrease in research and development expense of $10.8 million, or 22%, for the six months ended August 3, 2013 compared to the six months ended July 28, 2012 was due to reductions of $7.2 million in employee-related expenses, $1.0 million in stock-based compensation expense, $1.0 million in outside services and subcontractors costs, $1.7 million in design and development costs and $0.3 million in depreciation and amortization expense. The decrease was partially offset by an increase of $0.4 million in facilities and related expenses. In both the three and six month periods, the significant cost reduction in our R&D expense resulted from our restructuring efforts, principally through reductions in force.

Sales and marketing expense

Sales and marketing expense consists primarily of compensation and benefits costs, including commissions to our direct sales force, stock-based compensation expense, trade shows, travel and entertainment expenses and external commissions. The following table sets forth sales and marketing expense and the related change (in thousands, except percentages):

	Three Months Ended			
	August 3, 2013	July 28, 2012	$ Change	% Change
Sales and marketing expense	$ 5,527	$ 7,795	$ (2,268)	(29 %)
Percent of net revenue	10.3 %	11.4 %		

	Six Months Ended			
	August 3, 2013	July 28, 2012	$ Change	% Change
Sales and marketing expense	$ 11,209	$ 14,683	$ (3,474)	(24 %)
Percent of net revenue	10.5 %	13.5 %		

The decrease in sales and marketing, S&M, expenses of $2.3 million, or 29%, for the three months ended August 3, 2013 compared to the three months ended July 28, 2012 was primarily due to reductions of $1.3 million in employee-related expenses, $0.2 million in stock-based compensation expense, $0.4 million in marketing and travel costs and $0.2 million each in sales commission and other variable costs.

The decrease in sales and marketing expense of $3.5 million, or 24%, for the six months ended August 3, 2013 compared to the six months ended July 28, 2012 was due to decreases of $1.9 million in employee-related expenses, $0.3 million in stock-based compensation, $0.9 million in travel and marketing costs and $0.6 million in other variable costs. These decreases were partially offset by a $0.2 million increase in outside services. The overall decrease in our S&M expense is a result of our reduction in force and our restructuring efforts.

General and administrative expense

General and administrative expense consists primarily of compensation and benefits costs, stock-based compensation expense, legal, accounting and other professional fees and facilities expenses. The following table sets forth general and administrative expense and the related change (in thousands, except percentages):

		Three Months Ended		
	August 3, 2013	**July 28, 2012**	**$ Change**	**% Change**
General and administrative expense	$4,937	$9,489	$(4,552)	(48%)
Percent of net revenue	9.2%	13.9%		

		Six Months Ended		
	August 3, 2013	**July 28, 2012**	**$ Change**	**% Change**
General and administrative expense	$9,699	$15,868	$(6,169)	(39%)
Percent of net revenue	9.1%	14.6%		

The decrease in general and administrative, G&A, expense of $4.6 million, or 48%, for the three months ended August 3, 2013 compared to the three months ended July 28, 2012 was primarily due to decreases of $1.0 million in employee-related expense, $0.2 million in stock-based compensation expense, $1.4 million in legal and accounting fees and the annual meeting of shareholders, $0.6 million in professional and service fees, $0.8 million in facilities and related costs, and $0.5 million in corporate allocations.

The decrease in general and administrative expense of $6.2 million, or 39%, for the six months ended August 3, 2013 compared to the six months ended July 28, 2012 was due to reductions of $1.1 million in personnel-related expenses, $0.4 million in stock-based compensation, $2.3 million in legal and accounting fees and the annual meeting of shareholders, $1.0 million in corporate allocation, $0.4 million in outside services and $1.0 million in other variable expenses. The overall decrease in our general and administrative expense is a result of our reduction in force and our restructuring efforts.

Impairment of IP, mask sets and design tools

We test long-lived assets, including purchased intangible assets (other than goodwill and in-process research and development) for impairment whenever events or changes in circumstances, such as a change in technology, indicate that the carrying value of these assets may not be recoverable. If indicators of impairment exist, we determine whether the carrying value of an asset or asset group is recoverable, based on comparisons to undiscounted expected future cash flows that the assets are expected to generate. If an asset is not recoverable, we record an impairment loss equal to the amount by which the carrying value of the asset exceeds its fair value. We primarily use the income valuation approach to determine the fair value of our long-lived assets and purchased intangible assets. During the three and six months ended August 3, 2013 we recorded an impairment of intangible assets of $0 and $0.2 million, respectively. There were no such impairments recorded in the three and six months ended July 28, 2012.

Restructuring costs

In fiscal 2013, we initiated a number of targeted actions to address several areas in our business model which resulted in the adoption of company-wide cost saving measures. These actions were intended to align our cost structure with our current business outlook and divest or exit underperforming operations. As a result of the restructuring program, we recognized total restructuring costs of $3.3 million in fiscal 2013.

Pursuant to these restructuring initiatives, during the quarter ended May 4, 2013, we took further actions resulting in the headcount reduction of 17 employees and severance and termination-related charges to cost of revenues and operating expenses of $40,000 and $210,000, respectively.

For the quarter ended August 3, 2013, we had restructuring costs which were comprised of headcount adjustments of $0.2 million related to the closure of the Canada office and a facility accrual of $0.8 million for the related Canada lease, which were partially offset by the reversal of deferred rent related to the Canada lease. In connection with our restructuring measures, we closed down the operations of our wholly-owned subsidiary in Canada, which filed for bankruptcy on May 30, 2013. Upon filing for bankruptcy, the main outstanding liability of our Canadian entity relates to minimum monthly payments under a non-cancelable operating lease agreement for office space. In accordance with the provisions of the lease agreement and current communication with the landlord's agent, if Sigma Canada exercises its early termination provision, Sigma Canada would be liable for an early termination penalty of $0.3 million and monthly lease payments of approximately $45,000 from May 2013 through May 2015 for a total exposure of up to $1.2 million. Were Sigma to elect to sublease the premises instead of exercising the option to terminate the lease, potential exposure could be reduced if an agreement were entered into in a reasonable timeframe and on reasonable terms. We have estimated, based on market data available to us, that the potential exposure could be approximately $0.8 million adjusted for recovery from the bankruptcy estate.

The following table summarizes the restructuring costs, outstanding payable balance and cumulative restructuring costs (in thousands):

	Employee Severance	Impairment of Long-Lived Assets	Facility Exit Costs	Total	Cumulative Restructuring Costs
Charges in fiscal 2013	$ 2,167	$ 1,089	$ 8	$ 3,264	$ 3,264
Cash payments	(1,153)	-	-	(1,153)	-
Non-cash items	-	(1,089)	-	(1,089)	-
Balance at February 2, 2013*	1,014	-	8	1,022	3,264
Charges for the three months ended May 4, 2013	250	-	-	250	250
Cash payments	(882)	-	(5)	(887)	-
Non-cash items	-	-	-	-	-
Balance at May 4, 2013	$ 382	$ -	$ 3	$ 385	$ 3,514
Charges for the three months ended August 3, 2013	234	-	446	680	680
Cash payments	(551)	-	(14)	(565)	-
Non-cash items	-	-	-	-	-
Balance at August 3, 2013	$ 65	$ -	$ 435	$ 500	$ 4,194

* The amount above includes $40 of certain restructuring charges that were recorded in the Cost of revenue.

In connection with our restructuring measures adopted during the third and fourth quarters of fiscal 2013, as further described in Note 11, "Restructuring costs", to our unaudited condensed consolidated financial statements, and due to the lack of solvency and liquidity of our wholly-owned subsidiary in Canada, or Sigma Canada, we closed down the operations of Sigma Canada.

Gain on sale of development project

On March 8, 2013, we entered into an Asset Purchase Agreement with a third party, or the Buyer, to sell certain development projects (intellectual property) and long-lived assets related to the connectivity technology over coaxial cable market, including the transfer of 21 employees to the Buyer. The aggregate carrying amount of the transferred assets was approximately $0.6 million, and we classified these assets as assets held for sale in prepaid expenses and other current assets in the accompanying condensed consolidated balance sheet at February 2, 2013. In April 2013, upon receiving the closing consideration of $2.0 million, we recorded a gain of $1.1 million, net of the carrying value of the transferred assets and fees for legal and financial advisory services of approximately $0.4 million.

Interest and other income, net

The following table sets forth net interest and other income and the related change (in thousands, except percentages):

	Three Months Ended August 3, 2013	July 28, 2012	$ Change	% Change
Interest and other income, net	$121	$242	$ (121)	(50)%

	Six Months Ended August 3, 2013	July 28, 2012	$ Change	% Change
Interest and other income, net	$812	$733	$ 79	11 %

Interest and other income primarily consist of gains or losses on foreign exchange transactions, interest income from marketable securities, gains or losses on disposal of assets, gains or losses on sales of marketable securities and gains or losses on currency hedging activities. The decrease of $0.1 million, or 50%, for the three months ended August 3, 2013 compared to the three months ended July 28, 2012 was primarily due to lower interest income. The increase of $80,000, or 11%, for the six months ended August 3, 2013 compared to the six months ended July 28, 2012 was due to a $0.3 million gain on foreign exchange forward contracts, partially offset by a reduction in interest income.

Provision for income taxes

We recorded a provision for income taxes of $3.1 million and $0.4 million for the three months ended August 3, 2013 and July 28, 2012, respectively. The provision for income taxes was $5.3 million and $0.6 million for the six months ended August 3, 2013 and July 28, 2012, respectively.

The effective tax rates for the three months ended August 3, 2013 and July 28, 2012, were (178)% and (3)%, respectively. The effective tax rates for the six months ended August 3, 2013 and July 28, 2012, were (130)% and (2)%, respectively. Our effective tax rates for the three and six months ended August 3, 2013 and July 28, 2012 differ from the federal statutory rate of 35% primarily because of net losses in a foreign tax jurisdiction with a zero tax rate where no tax benefit could be realized. The increase in negative tax rate is primarily attributable to increasing profitability in taxable jurisdictions relative to our overall worldwide loss. As we are anticipating marginal losses for the year, but have relatively significant tax expense primarily as a result of our jurisdictional mix of income, we are unable to reliably estimate our annual effective tax rate, as small changes in forecosted income would cause significant variability in our effective tax rate. Consequently, during the three and six months ended August 3, 2013, we computed our provision for income taxes based on year to date actual financial results. During the three and six months ended July 28, 2012, the provision for income taxes was computed using a projected annual effective tax rate.

We benefit from tax incentives granted by local tax authorities in certain foreign jurisdictions. The Economic Development Board of Singapore granted development and expansion incentives to our wholly owned subsidiary in Singapore in 2008 for a period of four years, which ended March 1, 2012, contingent on meeting specified requirements. We are currently in negotiations with the Economic Development Board for our operations plan in Singapore because we have not been benefitting from the incentives over the last year.

Liquidity and Capital Resources

The following table sets forth the balances of cash and cash equivalents and short-term marketable securities (in thousands):

	August 3, 2013	**February 2, 2013**
Cash and cash equivalents	$57,141	$ 51,218
Short-term marketable securities	14,654	17,455
	$71,795	$ 68,673

As of August 3, 2013, our principal sources of liquidity consisted of cash and cash equivalents and short-term marketable securities of $71.8 million, which represents an increase of $3.1 million from $68.7 million at February 2, 2013. Our cash benefited from positive cash flow generated by operations of $11.7 million, net proceeds from the sale of a development project of $2.0 million and the repayment of a note receivable of $0.3 million. These sources of cash were partially offset by $5.0 million of purchases of software, equipment and leasehold improvements and $4.1 million of purchases of IP.

As of August 3, 2013, we held $17.1 million of long-term marketable securities. Although these marketable securities have maturities of greater than one year, we classify them as available-for-sale and may access these funds prior to their contractual maturities.

The following table sets forth the primary net cash inflows and outflows (in thousands):

	Six Months Ended	
	August 3, 2013	**July 28, 2012**
Net cash provided by (used in):		
Operating activities	$11,744	$(3,198)
Investing activities	(7,108)	14,869
Financing activities	1,447	2,233
Effect of foreign exchange rate changes on cash and cash equivalents	(160)	(116)
Net increase in cash and cash equivalents	$5,923	$13,788

Cash flows from operating activities

Net cash generated by operating activities of $11.7 million for the six months ended August 3, 2013 was primarily due to a net loss of $9.3 million offset by $17.4 million of non-cash charges included in the net loss and $3.6 million of cash flow increases reflected in the net change of operating assets and liabilities.

Non-cash charges consisted primarily of $10.3 million of depreciation and amortization, $3.6 million of stock-based compensation, $2.9 million for deferred taxes, $0.6 million provision for excess and obsolete inventory, a $0.1 million provision for sales returns, discounts and doubtful accounts, $0.2 million impairment of IP, mask sets and design tools, and $0.8 million of non-cash restructuring charges, partially offset by a $1.1 million gain recognized from our sale of a development project.

The increase in cash flow from operating assets and liabilities for the six months ended August 3, 2013 included a decrease in inventory of $4.3 million, an increase in accounts payable of $13.8 million, a decrease in prepaid expenses and other current assets of $2.4 million, and a decrease in accrued compensation and related benefits and other liabilities of $1.9 million. These increases in cash flows were partially offset by an increase in accounts receivable of $17.4 million, a decrease in income taxes payable of $1.0 million and a decrease in other long-term liabilities of $0.3 million. The changes in operating assets and liabilities reflect the increase in back-end loaded revenue resulting in increase in accounts receivable and our overall restructuring efforts.

The increase in accounts receivable was primarily the result of $8.4 million of invoiced licenses which was not received prior to the end of our second quarter as well as the timing of product shipments during the quarter, which resulted in an increase of our days of sales outstanding from 46 days in the first quarter to 66 days in the current quarter.

The decrease in inventory was the result of purchases of wafers used by our media processor products during the quarter, which resulted in an increase in our annualized rate of inventory turns to 6 times per year compared to 7 for the prior quarter.

The net decrease in accounts payable and accrued compensation and related benefits and other liabilities was primarily due to decreased purchases of inventory and the timing of payments for inventory and software.

Net cash used in operating activities of $3.2 million for the six months ended July 28, 2012 was primarily due to a net loss of $27.1 million, partially offset by $16.4 million of non-cash charges included in the net loss and $7.5 million of cash flow increases reflected in the net change of operating assets and liabilities. Non-cash charges consisted primarily of $10.7 million of depreciation and amortization, $5.6 million of stock-based compensation and a $1.7 million provision for excess and obsolete inventories, partially offset by a $1.4 million gain related to the acquisition of the DTV business from Trident Microsystems, reflecting that the sum of the fair value of net assets we acquired exceeded the acquisition cost. Cash flow increases reflected in the net change of operating assets and liabilities consisted primarily of a $13.0 million increase in accrued compensation and related benefits and other liabilities, a $9.1 million increase in accounts payable and a $1.6 million decrease in inventories, partially offset by a $8.5 million increase in accounts receivable, a $3.2 million increase in prepaid expenses and other current assets, a $2.6 million increase in other non-current assets and a $1.0 million reduction in other long-term liabilities. The changes in operating assets and liabilities generally reflect the increase in revenues and related expenses resulting from the expansion of our DTV business subsequent to the Trident Microsystems asset acquisition, partially offset by a reduction of media processor wafer inventory.

Cash flows from our operating activities will continue to fluctuate based upon our ability to grow net revenues while managing the timing of payments to us from customers and from us to vendors, the timing of inventory purchases and subsequent manufacture and sale of our products and the ongoing success of our cost reduction efforts.

Cash flows from investing activities

Net cash used in investing activities was $7.1 million for the six months ended August 3, 2013, which was primarily due to payments of $5.0 million for capital assets, primarily to support research and development activities, purchases of IP of $4.1 million and net purchases of marketable securities of $0.2 million. These uses were partially offset by net proceeds from the sale of a development project of $2.0 million and the repayment of a note receivable of $0.3 million.

Net cash provided by investing activities was $14.9 million for the six months ended July 28, 2012, which was primarily due to net sales of marketable securities of $57.9 million, partially offset by payments of $39.7 million in connection with the Trident Microsystems asset acquisition and $3.3 million for the purchase of capital assets and IP, primarily to support research and development activities.

Cash flows from financing activities

Net cash provided by financing activities was $1.4 million for the six months ended August 3, 2013, which was primarily due to proceeds from exercises of employee stock options. Net cash provided by financing activities was $2.2 million for the six months ended July 28, 2012, which was due to proceeds from exercises of employee stock options.

Our marketable securities include primarily corporate bonds, money market funds, fixed income mutual funds and municipal notes and bonds. We monitor all our marketable securities for impairment and if these securities are reported to have had a decline in fair value, we may need to use significant judgment to identify events or circumstances that would likely have a significant adverse effect on the future value of each investment including: (i) the nature of the investment; (ii) the cause and duration of any impairment; (iii) the financial condition and near term prospects of the issuer; (iv) for securities with a reported decline in fair value, our ability to hold the security for a period of time sufficient to allow for any anticipated recovery of fair value; (v) the extent to which fair value may differ from cost; and (vi) a comparison of the income generated by the securities compared to alternative investments. We would recognize an impairment charge if a decline in the fair value of our marketable securities is judged to be other-than-temporary.

Contractual obligations and commitments

We generally do not have guaranteed price or quantity commitments from any of our suppliers. Additionally, we generally acquire products for sale to our customers based on purchase orders received as well as forecasts from such customers. Purchase orders with delivery dates greater than twelve weeks are typically cancelable without penalty to our customers. We currently place non-cancelable orders to purchase semiconductor wafers, other materials and finished goods from our suppliers on an eight to twelve week lead-time basis.

As further described in Note 11, "Restructuring costs" and Note 13, "Commitments and contingencies," of the Notes to the Unaudited Condensed Consolidated Financial Statements of this Form 10-Q, in connection with certain restructuring measures adopted in fiscal 2013 and our quarter ended May 4, 2013, we have early terminated our non-cancelable lease agreement in Canada. As a result, minimum annual payments related to such non-cancelable lease agreement have been excluded from the below table.

The following table sets forth the amounts of payments due under specified contractual obligations as of August 3, 2013 (in thousands):

	Payments Due by Period			
	Fiscal 2014 (Remaining 6 months)	**Fiscal 2015 - 2016**	**Fiscal 2017 - 2018**	**Total**
Operating leases	$2,661	$7,254	$1,785	$11,700
Non-cancelable purchase obligations	17,594	-	-	17,594

Total contractual obligations	$20,255	$7,254	$1,785	$29,264

Design Tools

During the quarter ended August 3, 2013, we entered into an agreement with a vendor to purchase $12.9 million of design tools. In June 2013, approximately $1.3 million of the related licenses were delivered to us. The remaining $11.6 million of licenses will be delivered in December 2013. Payments on the licenses are being made on a quarterly basis from June 2013 through March 2016. As of August 3, 2013, remaining payments for the licenses totaled $12.4 million.

Recent accounting pronouncements

See Note 1, "Recent Accounting Pronouncements," of the Notes to Unaudited Condensed Consolidated Financial Statements of this Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following discussion about our market risk disclosures involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. We face exposure to market risk from adverse movements in interest rates and foreign currency exchange rates, which could impact our operations and financial condition. To mitigate some of the foreign currency exchange rate risk, we utilize derivative financial instruments to hedge certain foreign currency exposures. We do not use derivative financial instruments for speculative or trading purposes.

Interest rate sensitivity: As of August 3, 2013 and February 2, 2013, we held approximately $88.9 million and $82.9 million, respectively, of cash, cash equivalents and short-term and long-term marketable securities. If short-term interest rates were to decrease 10%, the decreased interest income associated with these cash, cash equivalents and marketable securities would not have a significant impact on our net income and cash flows.

Foreign currency exchange rate sensitivity: We transact our revenue in U.S. dollars. The U.S. dollar is our functional and reporting currency except for our subsidiaries in Canada, China, Denmark, France, Germany, Japan, The Netherlands, Taiwan and Vietnam where the Canadian Dollar, Chinese Renminbi, Danish Krone, Euro, Euro, Japanese Yen, Euro, Taiwanese Dollar and Vietnamese Dong are the primary functional currencies, respectively. Additionally, significant portions of our Israel subsidiary's expenses are payroll related and are denominated in Israeli shekels. This foreign currency exposure gives rise to market risk associated with exchange rate movements of the U.S. dollar against the Israeli shekel. To the extent the U.S. dollar weakens against the Israeli shekel, our Israeli subsidiary will experience a negative impact on its results of operations.

As of August 3, 2013, with the exception of our Israel operation, we had not entered into foreign exchange forward contracts to hedge certain balance sheet exposures or inter-company balances against future movements in foreign exchange rates. For our Israel operation, we do hedge portions of our forecasted expenses that are denominated in the New Israeli Shekel with foreign exchange forward contracts. As of August 3, 2013, we had foreign exchange contracts with notional values of approximately $5.6 million that mature on or before April 28, 2014. These hedges of cash flow exposures will only mitigate a portion of our foreign exchange exposure. If foreign exchange rates were to weaken against the U.S. dollar immediately and uniformly by 10% from the exchange rates at August 3, 2013, the notional value of our derivative instruments would decline and we would record a foreign exchange loss of approximately $0.4 million, a portion of which should be offset by our foreign exchange hedging activities.

We maintain certain cash balances denominated in the Chinese Renminbi, Danish Krone, Euro, Hong Kong Dollar, Israeli Shekel, Singapore Dollar, Taiwanese Dollar and Vietnamese Dong. If foreign exchange rates were to weaken against the U.S. dollar immediately and uniformly by 10% from the exchange rates at August 3, 2013, the aggregate fair value of all these foreign currency amounts would decline by $0.4 million.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We are committed to maintaining disclosure controls and procedures designed to ensure that information required to be disclosed in our periodic reports filed under the Securities and Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and we necessarily are required to apply our judgment in evaluating the cost-benefit relationship of possible controls and procedures and implementing controls and procedures.

As of August 3, 2013, the end of the period covered by this Quarterly Report on Form 10-Q, we have, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of the design and effectiveness of our disclosure controls and procedures, as such terms are defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act. Based on this evaluation, we have concluded that our disclosure controls and procedures were effective as of August 3, 2013.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the three months ended August 3, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

During fiscal 2014 to date, we have experienced turnover in our finance and accounting function, including our Chief Financial Officer. We have hired and continue to hire key qualified personnel to address departures in our finance and accounting department and believe this turnover has not had a material impact on our internal control over the financial reporting as of August 3, 2013. We will continue assessing and monitoring the impact, if any, of this turnover on our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a discussion of legal proceedings, see Note 13, “Commitments and contingencies,” in the Notes to condensed consolidated financial statements, included in Part I, Item 1, of this Form 10-Q. For an additional discussion of certain risks associated with legal proceedings, see “Risk Factors” immediately below.

ITEM 1A. RISK FACTORS

If any of the following risks actually occurs, our business, financial condition and results of operations could be harmed. In that case, the trading price of our common stock could decline and you might lose all or part of your investment in our common stock. The risks and uncertainties described below are not the only ones we face. You should also refer to other information set forth in this Form 10-Q, including our unaudited condensed consolidated financial statements and the related notes. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations.

Risks Related to Our Business and Our Industry

If we do not successfully anticipate market needs and develop products and product enhancements in a timely manner that meet those needs, or if those products do not gain market acceptance, we may not be able to compete effectively and our ability to generate revenue will suffer.

We may not be able to accurately anticipate future market needs or be able to develop new products or product enhancements to meet such needs or to meet them in a timely manner. Our ability to develop and deliver new products successfully will depend on various factors, including our ability to:

- accurately predict market requirements and evolving industry standards;
- accurately design new chipset products;
- timely complete and introduce new product designs;
- timely qualify and obtain industry interoperability certification of our products and the equipment into which our products will be incorporated;

ensure that our subcontractors have sufficient foundry, assembly and test capacity and packaging materials and achieve acceptable manufacturing yields;
shift our products to smaller geometry process technologies to achieve lower cost and higher levels of design integration; and
gain market acceptance of our products and our customers' products.

If we fail to anticipate market requirements or to develop new products or product enhancements to meet those needs in a cost-effective and timely manner, it could substantially decrease market acceptance and sales of our present and future products and we may be unable to attract new customers or retain our existing customers, which would significantly harm our business and financial results.

Even if we are able to anticipate, develop and commercially introduce new products and enhancements, our new products or enhancements may not achieve widespread market acceptance. Any failure of our products to achieve market acceptance could adversely affect our business and financial results.

If demand for our chipsets declines or does not grow, we will be unable to increase or sustain our net revenue.

We expect our chipsets to account for a substantial majority of our net revenue for the foreseeable future. For fiscal 2013, sales of our chipsets represented nearly all of our net revenue. Even if the consumer electronic markets that we target continue to expand, manufacturers of consumer products in these markets may not choose to utilize our chipsets in their products. The markets for our products are characterized by frequent introduction of new technologies, short product life cycles and significant price competition. If we or our customers are unable to manage product transitions in a timely and cost effective manner, our net revenue would suffer. In addition, frequent technological changes and introduction of next generation products may result in inventory obsolescence which would increase our cost of revenue and adversely affect our operating performance. If demand for our chipsets declines or fails to grow or we are unable to develop new products to meet our customers' demand, our net revenue could be harmed.

Our industry is highly competitive and we may not be able to compete effectively, which would harm our market share and cause our revenue to decline.

The markets in which we operate are extremely competitive and are characterized by rapid technological change, continuously evolving customer requirements and declining average selling prices. We may not be able to compete successfully against current or potential competitors. Most of our products compete with large semiconductor providers that have substantial experience and expertise in video, audio and multimedia technology and in selling to consumer equipment providers. Many of these companies have substantially greater engineering, marketing and financial resources than we have. As a result, our competitors may be able to respond better to new or emerging technologies or standards and to changes in customer requirements. Further, some of our competitors are in a better financial and marketing position from which to influence industry acceptance of a particular industry standard or competing technology than we are. Our competitors may also be able to devote greater resources to the development, promotion and sale of products, and may be able to deliver competitive products at a lower price. We also may face competition from newly established competitors, suppliers of products based on new or emerging technologies and customers who choose to develop their own chipsets. Additionally, some of our competitors operate their own fabrication facilities or may have stronger manufacturing partner relationships than we have. We expect our current customers, particularly in the set-top box market, to seek additional suppliers of chipsets for inclusion in their products, which will increase competition and could reduce our market share. If we do not compete successfully, our market share and net revenue could decline.

Our restructuring efforts may not be effective, might have unintended consequences, and could negatively impact our business.

In the third and fourth quarter of fiscal 2013 and the first and second quarter of fiscal 2014, we launched and implemented a restructuring plan to significantly reduce our operating expenses. Despite our efforts to structure our business to operate in a cost-effective manner, some cost reduction measures could have unexpected negative consequences, such as attrition among employees and a slowdown of development projects. While our restructuring efforts are intended to reduce our costs, we cannot be certain that all restructuring efforts will be successful, or that we will not be required to implement additional restructuring activities in the future. If we are unable to recognize the anticipated benefit from our restructuring plan, our results of operations would be harmed.

If we fail to achieve initial design wins for our products, we may be unable to recoup our investments in our products and revenue could decline.

We expend considerable resources in order to achieve design wins for our products, especially our new products and product enhancements, without any assurance that a customer will select our product. Once a customer designs a semiconductor into a product, it is likely to continue to use the same semiconductor or enhanced versions of that semiconductor from the same supplier across a number of similar and successor products for a lengthy period of time due to the significant costs and risks associated with qualifying a new supplier and potentially redesigning the product to incorporate a different semiconductor. As a result, if we fail to achieve an initial design win in a customer's qualification process, we may lose the opportunity for significant sales to that customer for a number of its products and for a lengthy period of time, or we would only be able to sell our products to these customers as a second source, which usually means we would only be able to sell a limited amount of product to them. Also, even if we achieve new design wins with customers, these manufacturers may not purchase our products in sufficient volumes to recoup our development costs, and they can choose at any time to stop using our products, for example, if their own products are not commercially successful. This may cause us to be unable to recoup our investments in the development of our products and cause our revenue to decline.

We depend on a limited number of customers and any reduction, delay or cancellation of an order from these customers or the loss of any of these customers could cause our revenue to decline.

Our dependence on a limited number of customers means that the loss of a major customer or any reduction in orders by a major customer could materially reduce our net revenue and adversely affect our results of operations. We expect that sales to relatively few customers will continue to account for a significant percentage of our net revenue for the foreseeable future. We have no firm, long-term volume commitments from any of our major customers and we generally accept purchase commitments from our customers based upon their purchase orders. Customer purchase orders may be cancelled and order volume levels can be changed, cancelled or delayed with limited or no penalties. We have experienced fluctuations in order levels from period to period and expect that we will continue to experience such fluctuations and may experience cancellations in the future. We may not be able to replace the cancelled, delayed or reduced purchase orders with new orders. Any difficulty in the collection of receivables from key customers could also harm our business.

For the three months ended August 3, 2013, Flextronics accounted for 10% of our net revenue. For the three months ended July 28, 2012, TP Vision accounted for 18% of our net revenue.

Our business also depends on demand for our chipsets from companies, such as large telecommunication carriers, who are not our direct customers but deploy IPTV set-boxes that incorporate our chipsets. Large carriers often use multiple set-top box providers, who in turn sometimes use multiple contract manufacturers to purchase our chipsets and manufacture set-top boxes. Even though we do not sell our products directly to these companies that ultimately deploy set-top boxes to consumers, these companies have a significant impact on the demand for our chipsets. For example, a significant number of our chipsets are incorporated in set-top boxes deployed by AT&T. This significant concentration on AT&T set-top boxes was increased by our acquisition of CopperGate. A significant percentage of the chipsets sold by CopperGate are also used in set-top boxes as well as gateways deployed by AT&T. In the past, companies that deploy set-top boxes incorporating our chipsets have had significant fluctuations in demand, which has resulted in a decline in our business from our direct customers, such as original equipment manufacturers and contract manufacturers. We may experience increased competition as companies that deploy set-top boxes incorporating our chipsets seek additional or alternate sources of supply of chipsets for inclusion in their products. Any decrease in the demand from the companies that deploy IPTV set-top boxes incorporating our chipsets, and in particular AT&T, could have a material and adverse effect on our net revenue and results of operations.

We base orders for inventory on our forecasts of our customers' demand and if our forecasts are inaccurate, our financial condition and liquidity will suffer.

We place orders with our suppliers based on our forecasts of our customers' demand. Our forecasts are based on multiple assumptions, each of which may introduce errors into our estimates. When the demand for our customers' products increases significantly, we may not be able to meet demand on a timely basis and we may need to expend a significant amount of effort and time working with our customers to allocate a limited supply and maintain positive customer relations. If we underestimate customer demand, we may forego revenue opportunities, lose market share and damage our customer relationships. Conversely, if we overestimate customer demand, we may allocate resources to manufacturing products that we may not be able to sell when we expect to or at all. For example, during fiscal 2013 and 2012, we recorded a provision for excess inventory of $7.1 million and $9.0 million, respectively, which was primarily the result of the end of life of certain products and our end customer’s transition to a next generation product sold by one of our competitors. When we have excess or obsolete inventory, the value of our inventory declines, which increases our cost of revenue and reduces our liquidity.

We have engaged, and may in the future engage in acquisitions of other businesses and technologies which could divert our attention and prove difficult to integrate with our existing business and technology.

We continue to consider investments in and acquisitions of other businesses, technologies or products as part of our efforts to improve our market position, broaden our technological capabilities and expand our product offerings. For example, in May 2012, we completed the acquisition of certain assets used in the digital TV business of Trident Microsystems, where we hired approximately 320 new employees. In March 2011, we completed the acquisition of certain assets from a large computer manufacturer and in November 2009, we completed the acquisition of CopperGate Communications Ltd., an Israeli company, which added substantial operations, including 141 employees. We also completed the acquisition of Zensys Holdings Corporation in December 2008, the acquisition of certain assets of the VXP Group from Gennum Corporation in February 2008 and the acquisition of Blue7 Communications in February 2006. In the future, we may not be able to acquire or successfully identify companies, products or technologies that would enhance our business. Once we identify a strategic opportunity, the process to consummate a transaction could divert our attention from the operation of our business causing our financial results to decline.

Acquisitions may require large one-time charges and can result in increased debt or contingent liabilities, adverse tax consequences, additional stock-based compensation expense, and the recording and subsequent amortization of amounts related to certain purchased intangible assets, any of which items could negatively impact our results of operations. We may also record goodwill in connection with an acquisition and incur goodwill impairment charges in the future. For example, in fiscal 2012, we recorded a goodwill impairment charge of $45.1 million, which represented a full write-off of all goodwill associated with our acquisitions to date, which had a materially adverse impact on our results of operations. In addition, in order to complete acquisitions, we may issue equity securities and incur debt, which would result in dilution to our existing shareholders and could negatively impact profitability.

We may experience difficulties in integrating acquired businesses. Integrating acquired businesses involves a number of risks, including:

- potential disruption of our ongoing business and the diversion of management resources from other business concerns;
- unexpected costs or incurring unknown liabilities;
- difficulties relating to integrating the operations and personnel of the acquired businesses;
- adverse effects on the existing customer relationships of acquired companies; and
- adverse effects associated with entering into markets and acquiring technologies in areas in which we have little experience.

If we are unable to successfully integrate the businesses we acquire, our operating results could be harmed.

The timing of our customer orders and product shipments can adversely affect our operating results and stock price.

Our net revenue and operating results depend upon the volume and timing of customer orders received during a given period and the percentage of each order that we are able to ship and recognize as net revenue during each period. Customers may change their cycle of product orders from us, which would affect the timing of our product shipments. Any failure or delay in the closing of orders expected to occur within a quarterly period, particularly from significant customers, would adversely affect our operating results. Further, to the extent we receive orders late in any given quarter, we may not be able to ship products to fill those orders during the same period in which we received the corresponding order which could have an adverse impact on our operating results for that period.

We are facing and may face additional intellectual property claims that could be costly to defend and result in our loss of significant rights.

The semiconductor industry is characterized by frequent litigation regarding patent and intellectual property rights. We believe that it may be necessary, from time to time, to initiate litigation against one or more third parties to preserve our intellectual property rights. From time to time, we have received, and may receive in the future, notices that claim we have infringed upon, misappropriated or misused other parties' proprietary rights. We have also been subject to claims based on our alleged failure to comply with license terms. Any of the foregoing events or claims could result in litigation. In fiscal 2013, we were named in a lawsuit alleging certain of our products infringe the patents held by another party. In addition, we have filed a motion to intervene, which has been granted, in a patent infringement lawsuit based upon now expired patents that was previously brought by U.S. Ethernet Innovations, LLC, or USEI, against AT&T Mobility, Inc., or AT&T, after the court in early 2013 lifted a stay that had been in place regarding the allegedly infringing AT&T product that contains our chipset and after renewed requests for indemnification and defense concerning the lawsuit. USEI has asserted counter-claims against us in this action, and we have responded to these counter-claims. From time to time, we have been subject to audits of our compliance with license agreements. As a result of these audits, we have been required to make additional payments to our licensing partners. Any litigation or additional audits of our licensing compliance, including the audits we are currently undergoing, could result in significant expense to us and divert the efforts of our technical and management personnel. In the event of an adverse result in any such litigation or additional payments from any licensing audits, we could be required to pay substantial damages, cease the manufacture, use and sale of certain products or expend significant resources to develop non-infringing technology or to obtain licenses to the technology that is the subject of the litigation or audit, and we may not be successful in such development or in obtaining such licenses on acceptable terms, if at all. In addition, patent disputes in the electronics industry have often been settled through cross-licensing arrangements. Although we have a portfolio of applicable issued patents, we may not be able to settle an alleged patent infringement claim through a cross-licensing arrangement.

To remain competitive, we need to continue to transition our chipsets to increasingly smaller sizes while maintaining or increasing functionality, and our failure to do so may harm our business.

We periodically evaluate the benefits, on a product-by-product basis, of migrating to more advanced technology to reduce the size of our chipsets. The smaller chipset size reduces our production and packaging costs, which enables us to be competitive in our pricing. We also continually strive to increase the functionality of our chipsets, which is essential to competing effectively in our target markets. The transition to smaller geometries while maintaining or increasing functionality requires us to work with our contractors to modify the manufacturing processes for our products and to redesign some products. This effort requires considerable development investment and a risk of reduced yields as a new process is brought to acceptable levels of operating and quality efficiency. In the past, we have experienced difficulties in shifting to smaller geometry process technologies or new manufacturing processes, which resulted in reduced manufacturing yields, delays in product deliveries and increased expenses. We may face similar difficulties, delays and expenses as we continue to transition our products to smaller geometry processes, all of which could harm our relationships with our customers, and our failure to do so would impact our ability to provide competitive prices to our customers, which would have a negative impact on our sales.

The average selling prices of semiconductor products have historically decreased rapidly and will likely do so in the future, which could harm our revenue and gross margins.

The semiconductor industry, in general, and the consumer electronics markets that we target, specifically, are characterized by intense price competition, frequent introductions of new products and short product life cycles, which can result in rapid price erosion in the average selling prices for semiconductor products. A decline in the average selling prices of our products could harm our revenue and gross margins. The willingness of customers to design our chipsets into their products depends to a significant extent upon our ability to sell our products at competitive prices. In the past, we have reduced our prices to meet customer requirements or to maintain a competitive advantage. Reductions in our average selling prices to one customer could impact our average selling prices to all customers. If we are unable to reduce our costs sufficiently to offset declines in product selling prices or are unable to introduce more advanced products with higher margins in a timely manner, we could experience declines in our net revenue and gross margins.

We added two new directors to our board of directors in fiscal 2014, which may lead to changes in the execution of our business strategies and objectives.

In connection with our annual meeting of shareholders on July 26, 2013, two new directors were elected to our board of directors. Two of our other directors have served on our board of directors for less than 18 months. Because of these additions, our board of directors has not worked together as a group for an extended period of time. This turnover in our board of directors may lead to changes in the execution of our business strategies and objectives as these new directors analyze our business and contribute to the formulation of our business strategies and objectives.

We rely upon patents, trademarks, copyrights and trade secrets to protect our proprietary rights and if these rights are not sufficiently protected, it could harm our ability to compete and to generate revenue.

Our ability to compete may be affected by our ability to protect our proprietary information. As of August 3, 2013, we held 47 patents and these patents will expire within the next six to twenty years. These patents cover the technology underlying our products. We have filed certain patent applications and are in the process of preparing others. We cannot assure you that any additional patents for which we have applied will be issued or that any issued patents will provide meaningful protection of our product innovations. Like other semiconductor companies, we rely primarily on trade secrets and technological know-how in the conduct of our business. We use measures such as confidentiality agreements to protect our intellectual property. However, these methods of protecting our intellectual property may not be sufficient.

The complexity of our products could result in unforeseen delays or expenses and in undetected defects, which could damage our reputation with current or prospective customers, adversely affect the market acceptance of new products and result in warranty claims.

Highly complex products, such as those that we offer, frequently contain defects, particularly when they are first introduced or as new versions are released. Our chipsets contain highly sophisticated silicon technology and complex software. In the past we have experienced, and may in the future experience, defects in our products, both with our chipsets and the related software products we offer. If any of our products contain defects or have reliability, quality or compatibility problems, our reputation may be damaged and our customers may be reluctant to buy our products, which could harm our ability to retain existing customers and attract new customers. In addition, these defects could interrupt or delay sales or shipment of our products to our customers. Manufacturing defects may not be detected by the testing process performed by our subcontractors. If defects are discovered after we have shipped our products, it could result in unanticipated costs, order cancellations or deferrals and product returns or recalls, harm to our reputation and a decline in our net revenue, income from operations and gross margins.

In addition, our agreements with some customers contain warranty provisions which provide the customer with a right to damages if a defect is traced to our products or if we cannot correct errors in our product reported during the warranty period. However, any contractual limitations to our liability may be unenforceable in a particular jurisdiction. We do not have insurance coverage for any warranty or product liability claims and a successful claim could require us to pay substantial damages. A successful warranty or product liability claim against us, or a requirement that we participate in a product recall, could have adverse effects on our business results.

If our third-party manufacturers do not achieve satisfactory yields or quality, our relationships with our customers and our reputation will be harmed, which in turn would harm our operating results and financial performance.

The fabrication of semiconductors is a complex and technically demanding process. Minor deviations in the manufacturing process can cause substantial decreases in yields and, in some cases, cause production to be stopped or suspended. Although we work closely with our third-party manufacturers to minimize the likelihood of reduced manufacturing yields, their facilities have from time to time experienced lower than anticipated manufacturing yields that have resulted in our inability to meet our customer demand. It is not uncommon for yields in semiconductor fabrication facilities to decrease in times of high demand, in addition to reduced yields that may result from normal wafer lot loss due to workmanship or operational problems at these facilities. When these events occur, especially simultaneously, as happens from time to time, we may be unable to supply our customers' demand. Many of these problems are difficult to detect at an early stage of the manufacturing process and may be time consuming and expensive to correct. Poor yields from the wafer foundries or defects, integration issues or other performance problems in our products could cause us significant customer relations and business reputation problems or force us to sell our products at lower gross margins and therefore harm our financial results.

If the growth of demand in the consumer electronics market does not continue, our ability to increase our revenue could suffer.

Our business is highly dependent on developing sectors of the consumer electronics market, including DTV, home networking, set-top box, and home control market. The consumer electronics market is highly competitive and is characterized by, among other things, frequent introductions of new products and short product life cycles. The consumer electronics market may also be negatively impacted by a slowdown in overall consumer spending. The worldwide economy, generally, and consumer spending, specifically, has significantly declined, which has negatively impacted our target markets. If our target markets do not grow as rapidly or to the extent we anticipate, our business could suffer. We expect the majority of our revenue for the foreseeable future to come from the sale of our chipsets for use in emerging consumer applications. Our ability to sustain and increase revenue is in large part dependent on the continued growth of these rapidly evolving market sectors, whose future is largely uncertain. Many factors could impede or interfere with the expansion of these consumer market sectors, including consumer demand in these sectors, general economic conditions, and other competing consumer electronic products, delays in the deployment of telecommunications video services and insufficient interest in new technology innovations. In addition, if market acceptance of the consumer products that utilize our products does not occur as expected, our business could be harmed.

Due to the cyclical nature of the semiconductor industry, our operating results may fluctuate significantly, which could adversely affect the market price of our common stock.

The semiconductor industry is highly cyclical and subject to rapid change and evolving industry standards and, from time to time, has experienced significant downturns. These downturns are characterized by decreases in product demand, excess customer inventory and accelerated erosion of prices. These factors have caused, and could cause, substantial fluctuations in our net revenue and in our operating results. Any downturns in the semiconductor industry may be severe and prolonged, and any failure of this industry to fully recover from downturns could harm our business. The semiconductor industry also periodically experiences increased demand and production capacity constraints, which may affect our ability to ship products. Accordingly, our operating results have varied and may vary significantly as a result of the general conditions in the semiconductor industry, which could cause our stock price to decline.

Our ability to raise capital in the future may be limited and our failure to raise capital when needed could prevent us from executing our growth strategy.

We believe that our existing cash and cash equivalents, and short-term and long-term marketable securities will be sufficient to meet our anticipated cash needs for at least the next 12 months. The timing and amount of our working capital and capital expenditure requirements may vary significantly depending on numerous factors, including:

market acceptance of our products;
the need to adapt to changing technologies and technical requirements;
the existence of opportunities for expansion; and
access to and availability of sufficient management, technical, marketing and financial personnel.

If our capital resources are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity securities or debt securities or obtain debt financing. In fiscal 2013, we used $14.6 million of our cash in our operating activities. During the second quarter of fiscal 2013, we made cash payments aggregating $38.2 million related to the acquisition of certain assets of the DTV business of Trident Microsystems. During fiscal 2009, we used an aggregate of $85.9 million to purchase 4.2 million shares of our common stock. In November 2009, we used approximately $116.0 million in cash (which included approximately $28.0 million of acquired CopperGate cash) for the acquisition of CopperGate. The amount of cash we used for these acquisitions and common stock repurchases could limit our ability to execute our business plans and require us to raise additional capital in the future in order to fund any further repurchases or for other purposes. The sale of additional equity securities or convertible debt securities would result in additional dilution to our shareholders. Additional debt would result in increased expenses and could result in covenants that would restrict our operations. We have not made arrangements to obtain additional financing and there is no assurance that financing, if required, will be available in amounts or on terms acceptable to us, if at all.

Changes in our effective tax rate or tax liability may have an adverse effect on our results of operations.

As a global company, we are subject to taxation in Hong Kong, Israel, Singapore, the United States and various other countries and states. Significant judgment is required to determine and estimate worldwide tax liabilities. Any significant change in our future effective tax rates could adversely impact our consolidated financial position, results of operations and cash flows. Our future effective tax rates may be adversely affected by a number of factors including:

changes in tax laws in the countries in which we operate or the interpretation of such tax laws;

changes in the valuation of our deferred tax assets and liabilities, including the effect of foreign exchange rate fluctuations relative to the U.S. Dollar;
increases in expenses not deductible for tax purposes, including write-offs of acquired in-process research and development and impairment of goodwill in connection with acquisitions;
changes in stock-based compensation expense;
changes in generally accepted accounting principles; and
our ability to use our tax attributes such as research and development tax credits and net operating losses of acquired companies to the fullest extent.

In an effort to increase commercial activities in Singapore, an agency of the government of Singapore negotiated with us a reduction in its customary income tax rates in return for our commitment to fulfill a defined set of milestones that were comprised of business activities in Singapore including the establishment of an operations center. During fiscal 2009, we established a foreign operating subsidiary in Singapore. However, due to changes in our business conditions, product development cycles and other factors, we have only been able to fulfill a portion of these milestones. As a result, we have initiated renewed negotiations with the Singapore tax agency in an effort to modify the business milestones to be more achievable and continue to benefit from a reduced rate of taxation. Even though the agency continues to negotiate with us, there is a risk that we will not be able to achieve the modified milestones which could result in a significantly higher tax rate on the income we recognize in Singapore. For the three months ended August 3, 2013, we did not recognize any tax benefits from Singapore. The increased tax rate in Singapore if we were to permanently lose some or all of these tax benefits could be applied to current profits or retroactively to income generated over previous years in Singapore, which could have a material adverse impact on our consolidated financial results.

We anticipate that a portion of our consolidated pre-tax income will continue to be subject to foreign tax at relatively lower tax rates when compared to the United States' federal statutory tax rate and, as a consequence, our effective income tax rate has been and is expected to continue to be lower than the United States' federal statutory rate. Our future effective income tax rates could be adversely affected if tax authorities challenge our international tax structure, if the relative mix of United States and international income or losses changes for any reason, or if we lose the benefit of our reduced tax rate in Singapore. Accordingly, there can be no assurance that our income tax rate will be less than the United States' federal statutory rate.

We have a history of fluctuating operating results, including net losses in fiscal 2012 and 2013 and we may not be able to return to profitability in the future, which may cause the market price of our common stock to decline.

We have a history of fluctuating operating results. We reported net income of $26.4 million in fiscal 2009, net income of $2.5 million in fiscal 2010, net income of $9.1 million in fiscal 2011, a net loss of $168.0 million in fiscal 2012, a net loss of $101.8 million in fiscal 2013, and a net loss of $4.8 million and $9.3 million for the three and six months ended August 3, 2013, respectively. To return to profitability, we will need to successfully develop new products and product enhancements and sustain higher revenue while controlling our cost and expense levels. In recent years, we made significant investments in our product development efforts and have expended substantial funds to enhance our sales and marketing efforts and otherwise operate our business. However, we may not realize the benefits of these investments. We may incur operating losses in future quarterly periods or fiscal years, which in turn could cause the price of our common stock to decline.

Our sales cycle can be lengthy, which could result in uncertainty and delays in generating net revenue.

Because our products are based on constantly evolving technologies, we have experienced a lengthy sales cycle for some of our chipsets, particularly those designed for set-top box applications. After we have qualified a product with a customer, the customer will usually test and evaluate our product with its service provider prior to the customer completing the design of its own equipment that will incorporate our product. Our customers and the telecommunications carriers our customers serve may need from three months to more than a year to test evaluate and adopt our product and an additional three to more than nine months to begin volume production of equipment that incorporates our product. Our complete sales cycle typically ranges from nine to eighteen months, but could be longer. As a result, we may experience a significant delay between the time we increase expenditures for research and development, sales and marketing efforts and inventory and the time we generate net revenue, if any, from these expenditures. In addition, because we do not have long-term commitments from our customers, we must repeat our sales process on a continual basis even for current customers looking to purchase a new product. As a result, our business could be harmed if a customer reduces or delays its orders, chooses not to release products incorporating our chipsets or elects not to purchase a new product or product enhancements from us.

The complexity of our international operations may increase our operating expenses and disrupt our business.

We transact business and have operations worldwide. For example, we derive a substantial portion of our net revenue from our customers outside of North America and we plan to continue expanding our business in international markets in the future. For fiscal 2013, we derived 92% of our revenue from customers outside of North America. We also have significant international operations, including research and development facilities in Vietnam, sales and research and development facilities in China, Denmark, France, Israel, Japan, Singapore, Taiwan, Korea, Germany and The Netherlands and a sales and distribution facility in Hong Kong.

As a result of our international business, we are affected by economic, regulatory and political conditions in foreign countries, including the imposition of government controls, changes or limitations in trade protection laws, unfavorable changes in tax treaties or laws, varying statutory equity requirements, difficulties in collecting receivables and enforcing contracts, natural disasters, labor unrest, earnings expatriation restrictions, misappropriation of intellectual property, changes in import/export regulations, tariffs and freight rates, economic instability, public health crises, acts of terrorism and continued unrest in many regions and other factors, which could have a material impact on our international revenue and operations. In particular, in some countries we may experience reduced intellectual property protection. Our results of operations could also be adversely affected by exchange rate fluctuations, which could increase the sales price in local currencies of our products in international markets. Overseas sales and purchases to date have been denominated in U.S. dollars. Although we engage in some hedging of our foreign currency exposures, we do not hedge all such exposures and our hedging arrangements may not always be effective. See “Foreign currency exchange rate sensitivity” under Part I Item 3 “Quantitative and Qualitative Disclosures about Market Risk” in this Form 10-Q. Moreover, local laws and customs in many countries differ significantly from those in the United States. We also face challenges in staffing and managing our global operations. If we are unable to manage the complexity of our global operations successfully, our financial performance and operating results could suffer.

The volatile global economy could negatively affect our business, results of operations and financial condition.

Current uncertainty in global economic conditions poses a risk to the overall economy as consumers and businesses may defer purchases in response to tighter credit and negative financial news, which could negatively affect demand for our products and other related matters. Consequently, demand for our products could be different from our expectations due to factors including:

- changes in business and economic conditions, including conditions in the credit market that could negatively affect consumer confidence;
- customer acceptance of our products and those of our competitors;
- changes in customer order patterns including order cancellations; and
- reductions in the level of inventory our customers are willing to hold.

Because many of our products are incorporated into customer devices, a general slowdown in the economy or in consumer confidence could have a significant negative impact on the demand for the products that incorporate our products, which in turn would have a negative impact on our results of operations. There could also be a number of secondary effects from the current uncertainty in global economic conditions, such as insolvency of suppliers resulting in product delays, an inability of our customers to obtain credit to finance purchases of our products or a desire of our customers to delay payment to us for the purchase of our products. The effects, including those mentioned above, of the current global economic environment could negatively impact our business, results of operations and financial condition.

We rely on a limited number of independent third-party manufacturers for the fabrication, assembly and testing of our chipsets and the failure of any of these third-party manufacturers to deliver products or otherwise perform as requested could damage our relationships with our customers, decrease our sales and limit our growth.

We are a fabless semiconductor company and thus we do not own or operate a fabrication or manufacturing facility. We depend on independent manufacturers, each of whom is a third-party manufacturer for numerous companies, to manufacture, assemble and test our products. We currently rely on Taiwan Semiconductor Manufacturing Corporation, or TSMC, and, to a lesser extent, United Microelectronics Corporation, or UMC, and NXP Semiconductors, or NXP, to produce substantially all of our chipsets. We only recently began working with NXP as a result of our acquisition of certain assets of the DTV business from Trident Microsystems. As we continue to establish a relationship with NXP, we may experience delays, disruptions and technical or quality control problems as we integrate them into our manufacturing processes. In June 2013, we filed a lawsuit against NXP, as well as Trident, to attempt to recover $1.8 million in damages we suffered resulting from the period of time during which Trident was acting on our behalf in operating our DTV business and placing orders with NXP for inventory. This lawsuit could adversely affect our relationship with NXP. We rely on Advanced Semiconductor Engineering, Inc., or ASE, to assemble, package and test substantially all of our products. These third-party manufacturers may allocate capacity to the production of other companies' products while reducing product deliveries or the provision of services to us on short notice or they may increase the prices of the products and services they provide to us with little or no notice. In particular, other clients that are larger and better financed than we are or that have long-term agreements with ASE, TSMC, UMC or NXP may cause any or all of them to reallocate capacity to those clients, decreasing the capacity available to us.

If we fail to effectively manage our relationships with the third-party manufacturers, if we are unable to secure sufficient capacity at our third-party manufacturers' facilities or if any of them should experience delays, disruptions or technical or quality control problems in our manufacturing operations or if we had to change or add additional third-party manufacturers or contract manufacturing sites, our ability to ship products to our customers could be delayed, our relationships with our customers would suffer and our market share and operating results would suffer. If our third-party manufacturers' pricing for the products and services they provide increases and we are unable to pass along such increases to our customers, our operating results would be adversely affected. Also, the addition of manufacturing locations or additional third-party subcontractors would increase the complexity of our supply chain management. Moreover, all of our product manufacturing, assembly and packaging is performed in Asian countries and is therefore subject to risks associated with doing business in these countries such as quarantines or closures of manufacturing facilities due to the outbreak of viruses such as swine flu, SARS, avian flu or any similar outbreaks. Each of these factors could harm our business and financial results.

We may not be able to effectively manage our growth or develop our financial and managerial control and reporting systems, and we may need to incur significant expenditures to address the additional operational and control requirements of our growth, either of which could harm our business and operating results.

To continue to grow, we must continue to expand and improve our operational, engineering, accounting and financial systems, procedures, controls and other internal management systems. This may require substantial managerial and financial resources and our efforts in this regard may not be successful. Our current systems, procedures and controls may not be adequate to support our future operations. For example, we implemented a new enterprise resource management system in fiscal 2009. We integrated the operations of CopperGate into our enterprise resource management system in fiscal 2011. We integrated DTV business operations, having completed the acquisition of certain assets of the DTV business of Trident Microsystems in the second quarter of fiscal 2013. Any integration efforts could be costly and time consuming. If we fail to adequately manage our growth or to improve and develop our operational, financial and management information systems or fail to effectively motivate or manage our current and future employees, the quality of our products and the management of our operations could suffer, which could adversely affect our operating results.

In the event we seek or are required to use a new manufacturer to fabricate or to assemble and test all or a portion of our chipset products, we may not be able to bring new manufacturers on-line rapidly enough, which could damage our relationships with our customers, decrease our sales and limit our growth.

We use a single wafer foundry to manufacture a substantial majority of our products and to a lesser extent two other foundries including NXP. We only recently began working with NXP as a result of our acquisition of certain assets of the DTV business from Trident Microsystems. We use a single source to assemble and test substantially all of our products. This exposes us to a substantial risk of delay, increased costs and customer dissatisfaction in the event our third-party manufacturers are unable to provide us with our chipset requirements. Particularly during times when semiconductor capacity is limited, we may seek to, and in the event that our current foundry were to stop producing wafers for us altogether, we would be required to, qualify one or more additional wafer foundries to meet our requirements, which would be time consuming and costly. In order to bring any new foundries on-line, our customers and we would need to qualify their facilities, which process could take as long as several months. Once qualified, each new foundry would then require an additional number of months to actually begin producing chipsets to meet our needs, by which time our perceived need for additional capacity may have passed, or the opportunities we previously identified may have been lost to our competitors. Similarly, qualifying a new provider of assembly, packaging and testing services would be a lengthy and costly process and, in both cases, they could prove to be less reliable than our existing manufacturers, which could result in increased costs and expenses as well as delays in deliveries of our products to our customers.

Our ability to develop, market and sell products could be harmed if we are unable to retain or hire key personnel.

Our future success depends upon our ability to recruit and retain the services of key executive, engineering, finance and accounting, sales, marketing and support personnel. Our Chief Executive Officer has served in that role for us for over thirty years and the loss of his services could have a negative impact on our operations. The supply of highly qualified individuals, in particular engineers in very specialized technical areas, or sales people specializing in the semiconductor industry, is limited and competition for such individuals is intense. As part of our restructuring efforts in fiscal 2013, we terminated a significant number of employees and also imposed work furloughs. Our remaining employees, many of whom are highly qualified engineers, may be discomforted by these actions and seek alternative employment opportunities. None of our officers or key employees is bound by an employment agreement for any specific term. For example, in fiscal 2014, we announced the resignation of our Chief Financial Officer. The loss of the services of any of our key employees, the inability to attract or retain key personnel in the future or delays in hiring required personnel, particularly engineers and sales people, and the complexity and time involved in hiring and training new employees, could delay the development and introduction of new products, and negatively impact our ability to market, sell or support our products.

Litigation due to stock price volatility or other factors could cause us to incur substantial costs and divert our attention and resources.

In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. Companies such as ours in the semiconductor industry and other technology industries are particularly vulnerable to this kind of litigation due to the high volatility of their stock prices. While we are not aware of any such contemplated class action litigation against us, we may in the future be the target of securities litigation. Any future lawsuits to which we may become a party will likely be expensive and time consuming to investigate, defend and resolve. Such costs, which include investigation and defense, the diversion of our attention and resources and any losses resulting from these claims, could significantly increase our expenses and adversely affect our profitability and cash flow.

Our business is subject to seasonality, which may cause our revenue to fluctuate.

Our business is subject to seasonality as a result of our target markets, particularly the DTV business, which historically has peaked in the third quarter. We sell a number of our semiconductor products to our customers who manufacture products for the consumer electronics market. Our customers who manufacture products for the consumer electronics market typically experience seasonality in the sales of their products which in turn may affect the timing and volume of orders for our chipsets. We expect to experience lower sales in our first and/or fourth fiscal quarters and higher sales in our second and/or third fiscal quarters as a result of the seasonality of demand associated with the consumer electronics markets. For example, we expect that our DTV business may experience some seasonality typical of the consumer electronics markets, resulting in slower DTV sales in the first and fourth quarter of each calendar year and strongest DTV sales in the third calendar quarter. As a result of the potential seasonality in our business, our operating results may vary significantly from quarter to quarter.

If credit market conditions deteriorate further, it could have a material adverse impact on our investment portfolio.

U.S. sub-prime mortgage defaults have had a significant impact across various sectors of the financial markets, causing global credit and liquidity related difficulties. Beginning mid-2007, global short-term funding markets have experienced credit issues, leading to liquidity issues and failed auctions in the auction rate securities market. If the global credit market continues to be weak or deteriorates further, the liquidity of our investment portfolio may be impacted and we could determine that some of our investments are impaired. This could materially adversely impact our results of operations and financial condition.

Regional instability in Israel may adversely affect business conditions and may disrupt our operations and negatively affect our revenues and profitability.

As a result of our acquisition of CopperGate in November 2009, we have engineering facilities, administrative and sales support operations and, as of August 3, 2013, we had 127 employees located in Israel. Accordingly, political, economic and military conditions in Israel may directly affect our business. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, as well as incidents of civil unrest. In addition, in the past, Israel and companies doing business with Israel has been the subject of economic boycotts. Although Israel has entered into various agreements with Egypt, Jordan and the Palestinian Authority, Israel has been and is subject to civil unrest and terrorist activity, with varying levels of severity since September 2000. Recently, there has been an increase in civil unrest and political instability in the Middle East, including the recent escalation of conflict in Syria. Any future armed conflicts, civil unrest or political instability in the region may negatively affect business conditions and adversely affect our results of operations.

In addition, our business insurance does not cover losses that may occur as a result of events associated with the security situation in the Middle East. Although the Israeli government currently covers the reinstatement value of direct damages that are caused by terrorist attacks or acts of war, we cannot assure you that this government coverage will be maintained. Any losses or damages incurred by us could have a material adverse effect on our business and financial results.

The income tax benefits in Israel to which we are currently entitled from our approved enterprise program may be reduced or eliminated by the Israeli government in the future and also require us to satisfy specified conditions. If they are reduced or if we fail to satisfy these conditions, we may be required to pay increased taxes and would likely be denied these benefits in the future.

The Investment Center of the Ministry of Industry, Trade and Labor has granted "approved and/or beneficiary enterprise" status to certain product development programs at our facility in Tel Aviv. Sigma Designs Israel's taxable income from the approved and beneficiary enterprise program is exempt from tax for a period of two years commencing calendar year 2008 and 2009, respectively, and will be subject to a reduced tax rate for an additional eight years thereafter, depending on the percentage of Sigma Designs Israel's share capital held by non-Israelis. The Israeli government may reduce, or eliminate in the future, tax benefits available to approved enterprise programs. Our approved and beneficiary programs and the resulting tax benefits may not continue in the future at their current levels or at any level. The termination or reduction of these tax benefits would likely increase our tax liability. Additionally, the benefits available to an approved and beneficiary enterprise program are dependent upon the fulfillment of conditions stipulated under applicable law and in the certificate of approval. If we fail to comply with these conditions, in whole or in part, we may be required to pay additional taxes for the period in which we benefited from the tax exemption or reduced tax rates and would likely be denied these benefits in the future. In either case, the amount by which our taxes would increase will depend on the difference between the then applicable tax rate for non-approved enterprises and the rate of tax, if any, that we would otherwise pay as an approved enterprise, and the amount of any taxable income that we may earn in the future. The current maximum enterprise tax rate in Israel is 25%.

Failure to maintain effective internal control over financial reporting may cause us to delay filing our periodic reports with the SEC, affect our NASDAQ listing and adversely affect our stock price.

The SEC, as directed by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring public companies to include a report of management on internal control over financial reporting in their annual reports on Form 10-K. Our management is responsible for maintaining internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with GAAP. Our management assessed the effectiveness of our internal control over financial reporting as of February 2, 2013 and concluded that our internal control over financial reporting was effective. However, during the second quarter of fiscal 2013, we acquired certain assets used in the DTV business of Trident Microsystems. As a result of completing the accounting procedures related to this acquisition, we were unable to timely file our quarterly report on Form 10-Q for the quarterly period in which we completed this acquisition. In fiscal 2013, we also experienced significant turnover in our finance and accounting personnel. In addition, we recently announced the resignation of our chief financial officer. All of these changes placed a strain on our internal control over financial reporting, and we must continue to apply significant resources in order to maintain effective internal controls. Although we review our internal control over financial reporting in order to ensure compliance with the Section 404 requirements, our failure to maintain adequate internal controls over financial reporting could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our financial statements, which ultimately could negatively impact our stock price.

Our headquarters, certain of our other facilities, and some of our suppliers and third-party manufacturers are located in active earthquake zones. Earthquakes, tsunamis, floods or other types of natural disasters affecting our suppliers, our manufacturers or us could cause resource shortages and production delays, which would disrupt and harm our business, results of operations and financial condition.

We are headquartered in the San Francisco Bay Area, have research and development and sales offices in Japan and outsource most of our manufacturing to Taiwan. Each of these areas is an active earthquake zone, and certain of our suppliers and third-party manufacturers conduct operations in the same regions or in other locations that are susceptible to natural disasters. The occurrence of a natural disaster, such as an earthquake, tsunami or flood, or localized extended outages of critical utilities or transportation systems, or any critical resource shortages, affecting us, our suppliers or our third-party manufacturers could cause a significant interruption in our production, business, damage or destroy our facilities or those of our suppliers and cause us to incur significant costs or result in limitations on the availability of our raw materials, any of which could harm our business, financial condition and results of operations.

Risks Related to Our Common Stock

Our operating results are subject to significant fluctuations due to many factors and any of these factors could adversely affect our stock price.

Our operating results have fluctuated in the past and may continue to fluctuate in the future due to a number of factors, including:

- failure to reduce our expenses sufficiently to achieve profitability at current revenue levels;
- the loss of one or more significant customers;
- changes in our pricing models and product sales mix;
- unexpected reductions in unit sales and average selling prices, particularly if they occur precipitously;
- new product introductions by us and our competitors;
- the level of acceptance of our products by our customers and acceptance of our customers' products by their end user customers;
- an interrupted or inadequate supply of semiconductor chips or other materials included in our products;
- availability of third-party manufacturing capacity for production of certain products;
- shifts in demand for the technology embodied in our products and those of our competitors;
- the timing of, and potential unexpected delays in, our customer orders and product shipments;
- the impairment and associated write-down of strategic investments that we may make from time-to-time;

- write-downs of accounts receivable;
- inventory obsolescence;
- a significant increase in our effective tax rate in any particular period as a result of the exhaustion, disallowance or accelerated recognition of our net operating loss carry-forwards or otherwise;
- technical problems in the development, production ramp up and manufacturing of products, which could cause shipping delays;
- the impact of potential economic instability in the United States and Asia-Pacific region, including the continued effects of the recent worldwide economic slowdown;
- expenses related to implementing and maintaining a new enterprise resource management system and other information technologies; and
- expenses related to our compliance efforts with Section 404 of the Sarbanes-Oxley Act of 2002.

In addition, the market prices of securities of semiconductor and other technology companies have been volatile. This volatility has significantly affected the market prices of securities of many technology companies for reasons frequently unrelated to the operating performance of the specific companies.

Accordingly, you may not be able to resell your shares of common stock at or above the price you paid.

Our stock price has demonstrated volatility and continued volatility in the stock market or our operating performance may cause further fluctuations or decline in our stock price.

The market for our common stock has been subject to significant volatility which is expected to continue. For example, for the quarter ended August 3, 2013, the closing sale price per share of our common stock on the NASDAQ Global Market ranged from a high of $5.73 on July 15, 2013 to a low of $4.58 on May 22, 2013. During the fiscal year ended February 2, 2013, the closing sale price per share of our common stock on the NASDAQ Global Market ranged from a high of $7.13 on August 28, 2012 to a low of $4.68 on April 10, 2012. This volatility may or may not be related or proportionate to our operating performance. Our operating performance as well as general economic and market conditions, could cause the market price of our common stock to decline.

If securities or industry analysts do not publish research or reports about our business or if they issue an adverse opinion regarding our stock, our stock price and trading volume could decline.

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about our business or us. If one or more of the analysts who cover us issue an adverse opinion regarding our stock, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets which in turn could cause our stock price or trading volume to decline.

Provisions in our organizational documents and California law could delay or prevent a change in control of Sigma that our shareholders may consider favorable.

Our articles of incorporation and bylaws contain provisions that could limit the price that investors might be willing to pay in the future for shares of our common stock. Our Board of Directors can authorize the issuance of preferred stock that can be created and issued by our Board of Directors without prior shareholder approval, commonly referred to as "blank check" preferred stock, with rights senior to those of our common stock. The rights of the holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that we may issue in the future. The issuance of preferred stock could have the effect of delaying, deterring or preventing a change in control and could adversely affect the voting power of your shares. In addition, provisions of California law could make it more difficult for a third party to acquire a majority of our outstanding voting stock by discouraging a hostile bid or delaying or deterring a merger, acquisition or tender offer in which our shareholders could receive a premium for their shares or a proxy contest for control of Sigma or other changes in our management.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

(a) Exhibits

The following exhibits are filed herewith:

31.1	Certification of the President and Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer and Secretary pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
32.1	Certificate of President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (1)
32.2	Certificate of Chief Financial Officer and Secretary pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (1)
101.INS**	XBRL Instance Document.
101.SCH**	XBRL Taxonomy Extension Schema Document.
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document.

** Furnished with this Form 10-Q. In accordance with 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 the 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 these sections.

(1) The certificates contained in Exhibits 32.1 and 32.2 are not deemed “filed” for purposes of Section 18 of the Securities and Exchange Act of 1934 and are not to be incorporated by reference into any filing of the registrant under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof irrespective of any general incorporation by reference language contained in any such filing, except to the extent that the registration specifically incorporates it by reference.

SIGNATURES

Pursuant to the requirement 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.

	SIGMA DESIGNS, INC.
Date: September 12, 2013	
	By: /s/ Thinh Q. Tran Thinh Q. Tran *President and Chief Executive Officer* *(Principal Executive Officer)*
	By: /s/ Elias N. Nader Elias N. Nader *Interim Chief Financial Officer and Secretary* *(Principal Financial and Accounting Officer)*

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