

SEMTECH CORP  
Form 10-K  
March 31, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the fiscal year ended January 30, 2011

OR

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

Commission file number 1-6395

**SEMTECH CORPORATION**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**95-2119684**  
(I.R.S. Employer  
Identification No.)

**200 Flynn Road, Camarillo, California, 93012-8790**

(Address of principal executive offices, Zip Code)

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

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

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
<b>Common Stock par value \$.01 per share</b>	<b>The NASDAQ Stock Market LLC</b>

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

**None**

(Title of Class)

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

The aggregate market value of the common stock held by non-affiliates of the registrant (based upon the closing sale price of \$17.38 on the NASDAQ Global Select Market) as of July 30, 2010 was approximately \$776 million. Stock held by directors, officers and shareholders owning 5% or more of the outstanding common stock (as reported by shareholders on Schedules 13D and 13G) were excluded as they may be deemed affiliates. This determination of affiliate status is not a conclusive determination for any other purpose.

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The number of shares of the Registrant's common stock outstanding at March 24, 2011 was 64,684,008.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the following documents are incorporated by reference in Part III, Item numbers 11, 12, 13 and 14 and portions of Item 10 of this report to: Definitive Proxy Statement in connection with registrant's annual meeting of shareholders to be held on June 23, 2011, to be filed no later than 120 days after the end of the registrant's fiscal year ended January 30, 2011.

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*Special Note Regarding Forward Looking and Cautionary Statements*

*This Annual Report on Form 10-K (the "Form 10-K") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We may also make forward-looking statements in other reports filed with the Securities and Exchange Commission ("SEC"), in materials delivered to shareholders and in press releases. In addition, Company representatives may make oral forward-looking statements from time to time. Forward-looking statements are statements other than historical information or statements of current condition and relate to matters such as our future financial performance, future operational performance, and our plans, objectives and expectations. Some forward-looking statements may be identified by use of terms such as expects, anticipates, intends, estimates, believes, projects, should, will, plans and similar words.*

*Forward-looking statements should be considered in conjunction with the cautionary statements contained in Item 1A Risk Factors and elsewhere in this Form 10-K, in our other filings with the SEC, and in material incorporated herein and therein by reference. In light of the risks and uncertainties inherent in all such projected matters, forward-looking statements should not be regarded as a representation by the Company or any other person that our objectives or plans will be achieved or that any of our operating expectations or financial forecasts will be realized. Financial results could differ materially from those projected in forward-looking statements due to known or unknown risks. We assume no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

*In addition to regarding forward-looking statements with caution, you should consider that the preparation of the consolidated financial statements requires us to draw conclusions and make interpretations, judgments, assumptions and estimates with respect to certain factual, legal, and accounting matters. Our financial statements might have been materially impacted if we had reached different conclusions or made different interpretations, judgments, assumptions or estimates.*

**PART I**

**Item 1. Business**

**General**

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

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

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

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

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

Our end-customers are primarily original equipment manufacturers and their suppliers, including Alcatel-Lucent, Apple, Inc., Cisco Systems, Inc., Compal Electronics, Inc., Finisar Corporation, Huawei Technologies Co., Ltd., Hewlett-Packard, Intel Corporation, LG Electronics, Motorola, Nokia Siemens Networks, Opnext, Inc., Phonak International, Quanta Computer, Research In Motion Limited, Samsung Electronics Co., Ltd., Sanyo Electric Co., Ltd., Sony Corporation and ZTE Corporation.

**Overview of the Semiconductor Industry**

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

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electronics to interface with the outside world.

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

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

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

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

## **Business Strategy**

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

### **Leverage our rare analog design expertise**

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

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

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

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

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

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

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

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

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

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



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

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

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

## **Products and Technology**

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

**Protection Products.** We design, develop and market high performance protection devices, which are often referred to as transient voltage suppressors ( TVS ). TVS devices provide protection for electronic systems where voltage spikes (called transients), such as electrostatic discharge generated by the human body, can permanently damage voltage-sensitive components. Our portfolio includes filter and termination devices that can be sold as a complement to TVS devices. Our protection products feature low capacitance, providing robust protection while preserving signal integrity in high-speed voice and video interfaces and are low leakage, thus increasing battery life in electronic devices. Our protection products can be found in a broad range of applications including computer, data-communications, telecommunications and industrial applications.

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

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

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

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### Semtech End-Markets

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

(percentage of net sales)	Fiscal Years		
	2011	2010	2009
Computing	9%	14%	18%
Communications	37%	23%	18%
High-End Consumer	33%	40%	37%
Industrial and Other	21%	23%	27%
	100%	100%	100%

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

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

### Semtech s

### Specific End-Product Applications

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

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

### Intellectual Capital and Product Development

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

Circuit design engineers, layout engineers, product and test engineers, application engineers and field application engineers are our most valuable employees. Together they perform the critical tasks of designing and laying out integrated circuits, turning these circuits into silicon

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devices, and conferring with customers about designing these devices into their applications. The majority of our engineers fit into one of these categories. Most of these engineers have many years of experience in the design, development and layout of circuits targeted for use in protection, advanced communications and sensing, power management and microwave and high-reliability applications. We also employ a number of software engineers and systems engineers that specialize in the development of software and systems architecture, who enable us to develop systems oriented products in select markets.

In fiscal year 2011, we incurred \$69.6 million of product development and engineering expense. This represents 15% of net sales. Product development and engineering costs were \$44.8 million or 16% of net sales and \$41.4 million or 14% of net sales in fiscal years 2010 and 2009, respectively. We intend to make further investments in research and development in the future, which may include increasing our employee headcount and investing in design and development equipment.

**Table of Contents****Sales and Marketing**

Sales made directly to customers during fiscal year 2011 were approximately 56% of net sales. The remaining 44% of net sales were made through independent distributors. We have direct sales personnel located throughout the United States, Europe and Asia who manage the sales activities of independent sales representative firms and independent distributors. We expense our advertising costs as they are incurred.

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

**Customers, Sales Data and Backlog**

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

**Representative Customers by End-Markets:**

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

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

During fiscal years 2011, 2010 and 2009, U.S. sales contributed 23%, 19% and 20%, respectively to our net sales. Foreign sales constituted 77%, 81% and 80% of our net sales during fiscal years 2011, 2010 and 2009, respectively. A majority of foreign sales were to customers located in the Asia-Pacific region, with sales to customers located in South Korea and China (including Hong Kong) comprising 10% and 34% of our net sales, respectively, in fiscal year 2011. No other foreign country comprised more than 10% of net sales in fiscal year 2011. See Note 14 to our consolidated financial statements included in Item 8 of this report for additional financial information by geographic region.

A summary of net sales by region follows.

**Sales by Region**

(in thousands)	Fiscal Years					
	2011		2010		2009	
North America	\$ 112,404	25%	\$ 72,818	25%	\$ 72,072	24%
Asia-Pacific	272,079	60%	165,880	58%	172,054	59%
Europe	70,019	15%	47,862	17%	50,694	17%
Total Net Sales	\$ 454,502	100%	\$ 286,560	100%	\$ 294,820	100%



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The following table sets forth the concentration of net sales and accounts receivable among the customers that accounted for more than 10% of our net sales in fiscal year 2011:

**Concentration of Net Sales - Significant Customers**

(percentage of net sales)	Fiscal Years		
	2011	2010	2009
Samsung Electronics (and affiliates)	12%	17%	15%
Frontek Technology Corp	11%	13%	13%

**Concentration of Accounts Receivable - Significant Customers**

(percentage of net accounts receivable as of fiscal year end)	Fiscal years	
	2011	2010
Samsung Electronics (and affiliates)	15%	13%
Frontek Technology Corp	12%	14%

For fiscal year 2011, end-market concentration for our significant customers was as follows:

(percentage of net sales)	Samsung Electronics (and affiliates)	Frontek Technology Corp
	Computing	1%
Communications	2%	2%
High-end Consumer	9%(1)	6%
Industrial	0%	0%
	12%	11%

- (1) For Samsung Electronics, approximately 49% of the sales into the High-end Consumer end-market relate to products focused on the handheld market, which includes cell phones. Our backlog of orders as of the end of fiscal years 2011, 2010 and 2009 was approximately \$112.3 million, \$78.8 million and \$34.0 million, respectively. The majority of our backlog is typically requested for delivery within six months. In markets where the end system life cycles are relatively short, customers typically request delivery in four to eight weeks. A backlog analysis at any given time gives little indication of our future business except on a short-term basis, principally within the next 45 days. We do not have any significant contracts with our customers calling for shipments over a period of more than 18 months.

**Manufacturing Capabilities**

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

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

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In keeping with our mostly fabless business model, we have no wafer fabrication facilities except for our operation in Reynosa, Mexico. For fiscal year 2011, the Reynosa facility provided almost all of the silicon for our packaged discrete rectifier products, which were approximately 5% of our end product sales. The remaining 95% of our end products were supported with finished silicon wafers purchased from outside wafer foundries in China, Taiwan, the United States, Canada, Europe and Israel. We anticipate that more than 90% of all silicon wafers we require will come from outside foundries in fiscal year 2012.

Despite our use of outside wafer foundries for sourcing a majority of our silicon needs, we do maintain internal process development capabilities. Our process engineers work closely with our outside foundries on the improvement and development of process capabilities. In fiscal year 2011, we purchased the vast majority of our wafers from approximately nine different third-

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party wafer foundries and used various manufacturing processes, including Bipolar, High-Speed Bipolar, Complementary Metal-Oxide-Semiconductor ( CMOS ), RF-CMOS, Bi-CMOS and SiGe processes.

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

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

Our largest wafer source is a foundry in China. In fiscal year 2011, this Chinese foundry provided 49% of our total silicon requirements in terms of cost of wafers purchased. We have consigned certain equipment to this foundry to support our specialized processes run at the foundry and to ensure a specified level of capacity over the next few years. The provision of these assets to the wafer foundry is factored into our pricing arrangement with the foundry.

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

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

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

## **Competition**

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

We are in direct and active competition, with respect to one or more of our product lines, with numerous manufacturers of varying size, technical capability and financial strength. A number of these competitors are dependent on semiconductor products as their principal source of income, and some are much larger than we are. The number of competitors has grown due to expansion of the market segments in which we participate. We consider our primary competitors with respect to our protection products to include STMicroelectronics N.V., NXP Semiconductors N.V., ON Semiconductor Corporation, Protek Devices and Infineon Technologies AG. Our primary competitors with respect to our advanced communications and sensing products are Silicon Laboratories, Integrated Device Technology Inc., Zarlink Semiconductor Inc., Micrel Inc., NXP Semiconductors N.V., Cypress Semiconductor Corporation, Broadcom Corporation, Inphi Corporation, and internal solutions. With respect to our power management products we consider our primary competitors to include Texas Instruments Inc., National Semiconductor Corporation, Linear Technology Corporation, Maxim Integrated Products Inc., Advanced Analogic Technologies Inc., and Monolithic Power Systems Inc. Our primary competitors with respect to our microwave and high-reliability products include Microsemi Corporation, Hittite Microwave Corporation, L3 Communications Holdings Inc., and gallium arsenide product manufacturers.

## **Intellectual Property and Licenses**



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We have been granted 89 U.S. patents and 37 foreign patents and have numerous patent applications pending with respect to our products and to technologies associated with our business. The expiration dates of issued patents range from 2014 to 2029.

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Although we consider patents to be helpful in maintaining a competitive advantage, we do not believe they create definitive competitive barriers to entry. There can be no assurance that our patent applications will lead to issued patents, that others will not develop or patent similar or superior products or technologies, or that our patents will not be challenged, invalidated, or circumvented by others.

We license certain patents and other intellectual property to others in exchange for use of the other party's intellectual property and/or royalties or other fees which, in the aggregate, were not material in fiscal year 2011. We believe the duration and other terms of the licenses are appropriate for our needs.

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

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

### **Employees**

As of January 30, 2011, we had 982 full-time employees. There were 294 employees in research and development, 201 in sales, marketing and field services, and 122 in general, administrative and finance. The remaining employees support operational activities, including product and test engineering, assembly, manufacturing, distribution and quality functions.

We have not had a work stoppage in at least the last decade and the only unionized employees are approximately 240 Mexican nationals who work at our manufacturing facility in Reynosa, Mexico. Our employee relations during the last fiscal year have been, and remain, satisfactory.

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

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

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

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

Our facilities throughout the world are subject to various environmental laws and regulations and we believe our operations are in substantial compliance with those laws and regulations. Due to our limited manufacturing operations, the expense related to environmental compliance for our ongoing operations was immaterial for fiscal years 2011, 2010 and 2009 and has not had any material adverse effect on our capital expenditures, net income, or competitive position. New laws or regulations or changes to existing laws or regulations could subject our ongoing operations to different or additional environmental standards that could increase our cost of compliance in the future. In addition, our cost of doing business could increase if our suppliers increase prices to recoup the cost of their compliance with environmental laws or regulations.

We have incurred, and may continue to incur, liabilities under various statutes for the cleanup of pollutants at locations we have operated and at third-party disposal and recycling sites we have used (see Note 12 to our consolidated financial statements included in Item 8 of this report). During fiscal years 2011, 2010 and 2009, the expense incurred with respect to these clean up matters was not material.

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We have used an environmental firm, specializing in hydrogeology, to perform monitoring of the groundwater at our former facility in Newbury Park, California that we leased for approximately forty years. We vacated the building in May 2002. Certain contaminants have been found in the local groundwater and site soils. Groundwater monitoring results to date over a number of

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years indicate that groundwater contaminants are in full or in material part from adjacent facilities. Responsibility for soil contamination remains under investigation. The location of key soil contamination is concentrated in an area of an underground storage tank that the Company believes to have been installed and used in the early 1960s by a former tenant at the site who preceded the Company's tenancy. There are no claims pending or asserted by the U.S. Environmental Protection Agency with respect to environmental matters at the Newbury Park site. However, the applicable regulatory agency having authority over the site issued joint instructions in November 2008, ordering the Company and the current owner of the site to perform additional assessments and surveys, and to create ongoing groundwater monitoring plans before any final regulatory action for "no further action" may be approved. In September 2009, the regulatory agency issued supplemental instructions to the Company and the current site owner regarding the previously ordered site assessments, surveys and groundwater monitoring. The costs to perform all site work directed by the regulatory agency to date are not anticipated to be material. The Company and the site owner have agreed on an equitable cost sharing arrangement for current site work. At January 30, 2011, accrued liabilities includes approximately \$243,000 of fees payable in connection with pending testing and monitoring activities at this site. It is not currently possible to determine the ultimate amount, if any, of future site clean-up costs that may be directed by the regulatory agency following the current site assessments and surveys. Accordingly, no reserve for site clean-up costs has been provided at this time.

### **Available Information**

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

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

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

*You should carefully consider and evaluate all of the information in this report, including the risk factors listed below. The risks described below are not the only ones facing our company. Additional risks not now known to us or that we currently deem immaterial may also impair our business operations. If any of these risks actually occur, our business could be materially harmed. If our business is harmed, the trading price of our common stock could decline.*

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

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

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

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

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

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

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

product obsolescence;

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

the cyclical nature of demand for our customers' products;

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

changes in manufacturing yields;

capacity utilization;

product mix and pricing;

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movements in exchange rates, interest rates or tax rates;

the availability of adequate supply commitments from our outside suppliers;

the manufacturing and delivery capabilities of our subcontractors; and

litigation and regulatory matters.

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

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

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

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

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

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

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

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

When natural disasters, like the recent earthquake and Tsunami in Japan (whose market represents approximately 7% of our revenue) result in wide-spread destruction, the impact on our business may not be readily apparent. This is especially true when trying to assess the impact of the disaster on our end customers, who themselves may not fully understand the impact of the event on their business. As a result, although we do not currently expect a material adverse impact on our results of operations from the recent earthquake and Tsunami in Japan, we are currently unable to assess the full impact of these events and there is no assurance that our results of operations may not be materially affected as a result of the impact of this disaster on our end customers.

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

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could significantly harm our business.

Terrorist attacks, wars and other acts of violence, such as those that may result from the tension in the Middle East and the Korean peninsula, or any other national or international crisis, calamity or emergency, may result in interruption to the business activities of many entities, business losses and overall disruption of the U.S. economy at many levels. These events may directly impact our physical facilities or those of our customers and suppliers. Additionally, these events or armed conflicts may cause some of our customers or potential customers to reduce the level of expenditures on their services and products that ultimately may reduce our revenue. The consequences of these reductions are unpredictable, and we may not be able to foresee events that could have an

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adverse effect on our business. For example, as a result of these events, insurance premiums for businesses may increase and the scope of coverage may be decreased. Consequently, we may not be able to obtain adequate insurance coverage for our business and properties. To the extent that these disruptions result in delays or cancellations of customer orders, a general decrease in corporate spending, or our inability to effectively market our services and products, our business and results of operations could be harmed.

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

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

**Risks Relating to Production Operations**

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

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

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

Most of our outside subcontractors and suppliers, including third-party foundries that supply silicon wafers, are located in foreign countries, including China, Malaysia, Korea, Taiwan, Israel, the Philippines and Germany. For fiscal year 2011, approximately 49% of our silicon in terms of cost of wafers, was supplied by a third-party foundry in China, and this percentage could be even higher in future periods. For fiscal years 2010 and 2009, approximately 50% and 40%, respectively, of our silicon in terms of cost of wafers was supplied by this third-party foundry in China. While our utilization of multiple outside foundries does create some redundancy of fabrication processes, any interruption of supply by one or more of these foundries could materially impact us. We maintain some amount of business interruption insurance to help reduce the risk of wafer supply interruption, but we are not fully insured against such risk.

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





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an increase in production costs and a delay in production associated with such a transition, both of which could have a significant negative effect on our operating results, as these risks are substantially uninsured.

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

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

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

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

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

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

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

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

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

timely and efficient completion of process design and development;

timely and efficient implementation of manufacturing and assembly processes;

product performance;

the quality and reliability of the product; and

effective marketing, sales and service.

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

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

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

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

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

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

**Risks Relating to International Operations**

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

Sales to foreign customers accounted for approximately 77% of net sales in the fiscal year ended January 30, 2011. Sales to our customers located in China (including Hong Kong) and South Korea constituted 34% and 10%, respectively, of net sales for fiscal year 2011. International sales are subject to certain risks, including unexpected changes in regulatory requirements, tariffs and other barriers, political and economic instability, difficulties in accounts receivable collection, difficulties in managing distributors and representatives, difficulties in staffing and managing foreign subsidiary and branch operations and potentially adverse tax consequences. These factors may harm our business. Our use of the Semtech name may be prohibited or restricted in some countries, which may negatively impact our sales efforts. In addition, substantially all of our foreign sales are denominated in U.S. dollars and currency exchange fluctuations in countries where we do business could harm us by resulting in pricing that is not competitive with prices denominated in local currencies.

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

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

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



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From time to time, we do a limited amount of hedging of our foreign exchange exposure. As of or during the year ended January 30, 2011, we had no foreign currency hedging contracts in place. As a means of managing our foreign exchange exposure, we routinely convert U.S. dollars into foreign currency in advance of the expected payment. Any future use of forward contracts to hedge foreign exchange exposure may be required to be marked-to-market each quarter and can create volatility in net income not directly tied to our operating results.

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

As of January 30, 2011, our foreign subsidiaries held approximately \$165.7 million of cash, cash equivalents, and short-term investments and \$225.7 million of unremitted earnings for which no Federal or state taxes have been provided. If we needed these funds for investment in our domestic operations, any repatriation, such as that which occurred in fiscal year 2010 to partially fund the acquisition of SMI, could result in increased tax liabilities.

In the third quarter of fiscal year 2010, in connection with the pending acquisition of SMI, we changed our prior assertions regarding the amount of foreign subsidiary earnings that were considered to be permanently reinvested offshore. This change in assertion resulted in a \$39.2 million increase in the tax provision for the period ended October 25, 2009 and our effective tax rate for fiscal year 2009 was 97% compared to 9% in fiscal year 2011 and 19% in fiscal year 2009. If we were to change our assertions in the future, this could adversely affect our earnings per share.

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

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

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

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

The semiconductor industry is intensely competitive and is characterized by price erosion, rapid technological change, and design and other technological obsolescence. We compete with domestic and international semiconductor companies, many of which have substantially greater financial and other resources with which to pursue engineering, manufacturing, marketing and distribution of their products. Some of these competitors include: Texas Instruments Inc., National Semiconductor Corporation, Linear Technology Corporation, Maxim Integrated Products Inc., Advanced Analogic Technologies Inc., and Monolithic Power Systems Inc., with respect to our power management products; and STMicroelectronics N.V., NXP Semiconductors N.V., ON Semiconductor Corporation, Protek Devices and Infineon Technologies AG, with respect to our protection products. Our primary competitors with respect to our advanced communications and sensing products are Silicon Laboratories, Integrated Device Technology Inc., Zarlink Semiconductor Inc., and Micrel Inc., Broadcom Corporation, Inphi Corporation and internal solutions; Our primary competitors with respect to our microwave and high-reliability products include Microsemi Corporation, Hittite Microwave Corporation and L3 Communications Holdings Inc., and gallium arsenide product manufacturers.

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

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

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

maintaining high product quality and reliability;

pricing policies of our competitors;

performance of competitors' products;

ability to deliver in large volume on a timely basis;

marketing, manufacturing and distribution capability; and

financial strength.

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

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

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

**Concentration of Net Sales - Significant Customers**

(percentage of net sales)	Fiscal Years		
	2011	2010	2009
Samsung Electronics (and affiliates)	12%	17%	15%
Frontek Technology Corp	11%	13%	13%

**Concentration of Accounts Receivable - Significant Customers**

(percentage of net accounts receivable)	Fiscal Years	
	2011	2010
Samsung Electronics (and affiliates)	15%	13%
Frontek Technology Corp	12%	14%

In addition to those customers representing greater than 10% of net sales listed above, we had several end-customers in fiscal year 2011 that, on an annual basis, accounted for more than 5% of net sales, but less than 10% of net sales.

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

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

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

In fiscal year 2011, authorized distributors accounted for approximately 44% of our net sales. We generally do not have long-term contracts with our distributors and most can terminate their agreement with us with little or no notice. For fiscal year 2011, our two largest distributors were based in Asia.

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

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

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



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

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

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

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

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

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

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

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

We are subject to review by domestic and foreign taxing authorities, including the Internal Revenue Service ( IRS ). Tax years prior to 2007 (fiscal year 2008) are generally not subject to examination by the IRS except for items with tax attributes that could impact open tax years. Changes to our tax filings could materially impact our tax liabilities and effective tax rate.

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

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

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

### **We are subject to an SEC inquiry, a Federal Grand Jury subpoena, and stockholder litigation related to our historical stock option practices**

See Note 12 to the consolidated financial statements included in Item 8 of this report for information regarding inquiries into our historical stock option practices being conducted by the SEC and under a Federal Grand Jury subpoena. In the event that either or both of these investigations lead to action against any of our current or former directors, officers, or employees, or the Company itself, the trading price of our common stock may be adversely impacted. If we are subject to adverse findings in either of these matters, we could be required to pay damages or penalties or have other remedies imposed upon us which could have a material adverse effect on our business, financial condition, results of operations and cash flows.



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At mediation held on December 5, 2010, an agreement in principle to settle the class action litigation was reached. We have agreed to pay \$20 million to settle all claims in the litigation. The agreement in principle contemplates the negotiation and execution of a final settlement agreement. The proposed settlement would fully resolve all claims against us, all of our current officers and directors named in the lawsuit, and certain of our former officers and directors named in the lawsuit. No parties admit any wrongdoing as part of the proposed settlement. The settlement is subject to preliminary approval by the Court, notice to the putative class and subsequent final approval by the Court. The preliminary approval hearing is scheduled for April 11, 2011. We expect preliminary approval to be given by the Court, as well as final approval at a later date to be determined.

Also see Note 12 and Note 15 to the consolidated financial statements included in Item 8 of this report for information regarding the class action litigation and other matters related to our historical stock option practices.

### **We may be required to further amend our financial statements**

With the filing of the Form 10-K/A for fiscal year 2006 to restate our historical financial statements in order to reflect additional non-cash stock-based compensation following a review of our stock option practices (the restatement ) and the fiscal year 2007 Form 10-Qs in March 2007, we believe we have corrected the accounting errors arising from our past stock option practices. However, if the SEC disagrees with the accounting methods we used, objects to the manner in which we disclosed the restated financial information or related qualitative information, or otherwise imposes additional requirements with respect to our restated financial statements or stock option restatements in general, we could be required to further amend these filings. Further restatement could also be required if new facts become available as a result of the SEC inquiry, the Federal Grand Jury subpoena, the stockholder litigation if pending settlement of the litigation is not approved and completed or through other means. A further revision of our financial statements could negatively affect our business and the price of the Company's common stock. Also, a further revision of our financial statements could delay the filing of subsequent SEC reports which, in turn, might result in the delisting of our stock from the NASDAQ Stock Market for failure to meet listing maintenance requirements.

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

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

We maintain and rely upon certain critical information systems for the effective operation of our business. These information systems include telecommunications, the Internet, our corporate intranet, various computer hardware and software applications, network communications, and e-mail. These information systems may be owned by us or by our outsource providers or even third parties such as vendors and contractors and may be maintained by us or by such providers or third parties. These information systems are subject to attacks, failures, and access denials from a number of potential sources including viruses, destructive or inadequate code, power failures, and physical damage to computers, hard drives, communication lines and networking equipment. To the extent that these information systems are under our control, we have implemented security procedures, such as virus protection software and emergency recovery processes, to address the outlined risks; however, security procedures for information systems cannot be guaranteed to be failsafe and our inability to use or access these information systems at critical points in time could unfavorably impact the timely and efficient operation of our business.

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

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

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

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

We have expanded our operations through strategic acquisitions, such as the acquisition of Sierra Monolithics, Inc. ( SMI ) in December 2009, and we may continue to expand and diversify our operations with additional acquisitions. Acquisitions have used and could use in the future a significant portion of our available liquid assets or we could incur debt or issue equity securities to



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fund acquisitions. Issuance of equity securities could be dilutive to existing shareholders. Debt financing could subject us to restrictive covenants that could have an adverse effect on our business. Although we undertake detailed reviews of proposed acquisition candidates and attempt to negotiate acquisition terms favorable to us, we may encounter difficulties or incur liabilities for which we have no recourse. We cannot provide any assurance that any acquisition will have a positive impact on our future performance.

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

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

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

assuring acquired products meet our quality standards;

loss of key employees or customers of the acquired company;

hiring additional management and other critical personnel;

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

consolidation of facilities and functions;

the geographic distance between the companies; and

disparate corporate cultures.

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

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

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

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

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and former directors, officers and executives under pre-existing indemnification agreements and to other current and former employees under the California Labor Code and a resolution of our Board of Directors authorizing such advances. Contingent upon the final approval of the proposed settlement of stock option class action litigation, we expect that these expenses may continue to be significant until the government inquiries and option-related litigation are resolved. See Note 12 to the consolidated financial statements included in Item 8 of this report for information regarding indemnification arrangements associated with the restatement and its underlying circumstances. We cannot estimate the amount of potential future payments, if any, that we might be required to make with respect to other matters as a result of these agreements, corporate documents, and statutes.

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

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

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

In addition, the future sale of a substantial number of shares of common stock by us or by our existing stockholders or option holders (including directors, officers, and employees, some of whom hold stock options that are approaching their expiration date) may have an adverse impact on the market price of the shares of common stock. There can be no assurance that the trading price of our common stock will remain at or near its current level. The market price of our common stock may be adversely affected by matters arising from the aforementioned SEC investigation, grand jury subpoena and class action litigation, as well as by press commentary on our situation and option granting practices in general.

### **Item 1B. Unresolved Staff Comments**

None.

### **Item 2. Properties**

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

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

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

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

We lease a facility in St. Gallen, Switzerland which serves as corporate headquarters for our Semtech International AG subsidiary and houses finance, administrative and other general functions. The lease on this facility runs through June 2011. We have entered into a new lease in St. Gallen for a facility that will serve as our new corporate headquarters for our Semtech International AG subsidiary once the current lease expires. This new lease will run through June 2019. In addition, we lease office and warehouse space in Neuchatel, Switzerland, the headquarters for our Advanced Communications and Sensing product line. The lease on this facility expires in 2013.

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

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

### **Item 3. Legal Proceedings**

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



**Item 4. (Removed and Reserved)**

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

During fiscal years 2011 and 2010, our common stock traded on the NASDAQ Global Select Market under the symbol SMTC. The following table sets forth, for the periods indicated, the high and low sale prices of our common stock, as reported on the NASDAQ market, giving effect to all stock splits through the date hereof.

	High	Low
<b>Fiscal year ending January 31, 2010:</b>		
First Quarter	\$ 15.01	\$ 10.82
Second Quarter	\$ 18.43	\$ 13.61
Third Quarter	\$ 19.16	\$ 15.93
Fourth Quarter	\$ 17.55	\$ 14.66
<b>Fiscal year ending January 30, 2011:</b>		
First Quarter	\$ 19.43	\$ 14.70
Second Quarter	\$ 18.54	\$ 16.10
Third Quarter	\$ 21.41	\$ 16.24
Fourth Quarter	\$ 24.43	\$ 21.44

On March 24, 2011, the reported last sale price of our common stock on the NASDAQ Global Select Market was \$24.27 per share.

 **Holders**

As of March 24, 2011, we had 355 holders of record of our common stock.

 **Dividends**

The payment of dividends on our common stock is within the discretion of our Board of Directors. Currently, we intend to retain earnings to finance the growth of our business. We have not paid cash dividends on our common stock during at least the five most recent fiscal years and our Board of Directors has not indicated intent to declare a cash dividend on the common stock in the foreseeable future.

 **Purchases of Equity**

Information with respect to purchases by the Company of shares of common stock during the fourth quarter of fiscal year 2011 follows:

 **Issuer Purchases of Equity Securities**

Fiscal Month/Year	Total Number of Shares Purchased (2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares That May Yet Be Purchased Under The Program (1)
November 2010 (11/1/10 - 11/28/10)		\$		\$ 13.7 million
December 2010 (11/29/10 - 12/26/10)		\$		\$ 13.7 million

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January 2011 (12/27/10 - 1/30/11)	\$	\$	13.7 million
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Total fourth quarter

- 1) On March 4, 2008, we announced that our Board of Directors authorized the repurchase of up to \$50 million of our common stock from time to time through negotiated or open market transactions. This stock repurchase program does not have an expiration date.
- 2) The table does not include shares surrendered to us in connection with the cashless exercise of stock options by employees and directors or shares surrendered to us to cover tax liabilities upon vesting of restricted stock.

**Table of Contents****Securities Authorized for Issuance Under Equity Compensation Plans**

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

**Sales of Unregistered Securities**

We did not make any unregistered sales of equity securities during fiscal year 2011.

**Performance Graph**

This chart and graph show the value of a \$100 cash investment on the last day of fiscal year 2006 in (i) the Company's common stock, (ii) the NASDAQ Composite Index, and (iii) the Philadelphia Semiconductor Index. Note that historic stock price performance is not necessarily indicative of future stock price performance.

<b>Fiscal Year</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Semtech	\$ 100	\$ 69	\$ 65	\$ 60	\$ 79	\$ 114
NASDAQ Composite	\$ 100	\$ 106	\$ 101	\$ 64	\$ 93	\$ 117
PHLX SEMICONDUCTOR SECTOR	\$ 100	\$ 84	\$ 64	\$ 38	\$ 57	\$ 80

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

**Item 6. Selected Financial Data**

The consolidated statement of income data set forth below for fiscal years 2011, 2010 and 2009 and the consolidated balance sheet data as of the end of fiscal years 2011 and 2010 are derived from, and qualified by reference to, the audited consolidated financial statements included in Item 8 of this report. The consolidated statement of income data for fiscal years 2008 and 2007 and the consolidated balance sheet data as of the end of fiscal years 2009, 2008 and 2007 are derived from the audited financial statements previously filed with the SEC on Form 10-K.

This information should be read in conjunction with Management's Discussion and Analysis contained in Item 7 of this report, the audited financial statements and accompanying notes included in Item 8 of this report, and the corresponding items included in our Form 10-K for fiscal years 2010, 2009 and 2008.

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

**Table of Contents**Income Statement Data**Consolidated Statement of Income (1)**

(in thousands, except per share amounts)	Fiscal Year Ended				
	January 30 2011	January 31 2010	January 25 2009	January 27 2008	January 28 2007
Net Sales	\$ 454,502	\$ 286,560	\$ 294,820	\$ 284,790	\$ 252,538
Cost of Sales	186,196	130,514	135,233	128,513	115,564
Gross Profit	268,306	156,046	159,587	156,277	136,974
Operating costs and expenses:					
Selling, general and administrative	110,404	77,448	72,890	68,924	70,661
Product development and engineering	69,624	44,847	41,405	43,064	41,256
Intangible amortization	9,520	2,348	1,091	1,102	1,192
Restructuring costs		486	2,310		
Total operating costs and expenses	189,548	125,129	117,696	113,090	113,109
Operating income	78,758	30,917	41,891	43,187	23,865
Interest and other income, net	574	3,054	4,287	15,120	13,546
Income before taxes	79,332	33,971	46,178	58,307	37,411
Provision for taxes	6,760	33,014	8,657	10,524	6,283
Net income	\$ 72,572	\$ 957	\$ 37,521	\$ 47,783	\$ 31,128
Earnings per share:					
Basic	\$ 1.16	\$ 0.02	\$ 0.61	\$ 0.72	\$ 0.43
Diluted	\$ 1.12	\$ 0.02	\$ 0.61	\$ 0.71	\$ 0.42
Weighted average number of shares used in computing earnings per share:					
Basic	62,339	60,779	61,249	66,424	72,372
Diluted	64,523	61,676	61,999	67,709	74,017

Balance Sheet Data

(In thousands)	Balances as of				
	January 30 2011	January 31 2010	January 25 2009	January 27 2008	January 28 2007
Cash, cash equivalents and investments	\$ 258,342	\$ 162,223	\$ 258,815	\$ 213,397	\$ 338,480
Working capital	259,873	146,086	279,887	255,562	325,443
Total assets	659,943	514,294	420,795	395,412	521,654
Other long-term liabilities	37,503	35,173	8,960	10,680	9,989
Total stockholders' equity	528,615	405,741	378,020	348,710	481,181

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



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

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

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

**Overview**

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

We operate our business in one enterprise-wide reportable segment. Most of our sales to customers are made on the basis of individual customer purchase orders. Many customers include liberal cancellation provisions in their purchase orders. Trends within the industry toward shorter lead-times and just-in-time deliveries have resulted in our reduced ability to predict future shipments. As a result, we rely on orders received and shipped within the same quarter for a significant portion of our sales. Sales made directly to customers during fiscal year 2011 were 56% of net sales. The remaining 44% of net sales were made through independent distributors.

Our business relies on foreign-based entities. Most of our outside subcontractors and suppliers, including third-party foundries that supply silicon wafers, are located in foreign countries, including China, Taiwan, Singapore, Thailand, Malaysia, the Philippines, Germany, Israel and Canada. For the fiscal year ended January 30, 2011, approximately 49% of our silicon, in terms of cost of wafers purchased, was manufactured in China. Foreign sales for fiscal year 2011 constituted approximately 77% of our net sales. Approximately 80% of foreign sales in fiscal year 2011 were to customers located in the Asia-Pacific region. The remaining foreign sales were primarily to customers in Europe, Canada, and Mexico.

**Results of Operations****Fiscal Year 2011 Compared With Fiscal Year 2010**

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

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

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

Higher revenue in the communications end market was attributed to the impact of the addition of 40G communications infrastructure product revenues resulting from the SMI acquisition in our Advanced Communications & Sensing product group and strengthening demand for our TopSync products in the Advanced Communications & Sensing product line. Higher revenues in the high-end consumer end market were driven by strengthening demand for Protection products. Higher computing revenues were driven by strengthening demand for Protection products offsetting a decline in revenues in our Power Management product group attributed to its strategic exit from lower-margin segments of the computing segment. Within the industrial category, higher revenue was attributed to the addition of military revenues resulting from the SMI acquisition in our Microwave and High-Reliability product group and strengthening industrial/medical and automated test equipment demand in the Advanced Communications & Sensing product group.

**Gross Profit.** Gross profit was \$268.3 million and \$156.0 million for fiscal years 2011 and 2010, respectively. Our gross margin was 59.0% for fiscal year 2011, up from 54.5% in fiscal year 2010. Gross profit margins for fiscal year 2011 were positively impacted by product revenue mix attributed to the higher mix of communications and industrial revenues and a lower mix of high-end consumer and computing revenues relative to fiscal year 2010. The contribution of new product revenue from our Power Management product line also helped fiscal year 2011 gross margins.

**Operating Costs and Expenses.**

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

**Selling, General & Administrative Expenses**

Selling, general and administrative expenses for fiscal year 2011 increased by \$32.5 million or 42% driven by a full year of costs associated with SMI operations, increased costs associated with the matters related to our historical stock option practices and higher levels of stock based compensation expense. Approximately \$4.0 million of transaction and integration expenses attributed to the acquisition of SMI were recorded in fiscal year 2010.

Selling, general and administrative expenses for fiscal years 2011 and 2010 include approximately \$13.6 million and \$3.3 million (net of insurance recoveries of \$10.0 million), respectively, for legal and other professional services incurred in connection with matters related to our historical stock option practices, including the government inquiries, the related litigation, and other associated matters. On December 5, 2010, we entered into an agreement in principle to settle the class action lawsuit for \$20.0 million. As a result of this agreement we recorded an additional charge of \$10.0 million in fiscal 2011 to increase our total accrued liability for this matter to \$20.0 million. See Notes 11 and 14 to our consolidated financial statements included in Item 8 of this report for additional information regarding expenses related to the class action lawsuit and historical stock option matters.

Stock-based compensation expense was \$19.3 million and \$13.6 million in fiscal years 2011 and 2010, respectively. The year over year increase in equity compensation was principally driven by the impact of inducement and replacement awards issued to employees that joined the Company as a result of the SMI acquisition, higher levels of anticipated vesting for performance awards and the impact of a higher stock price on awards accounted for as liabilities.

**Product Development and Engineering Expenses**



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

**Table of Contents****Intangible Amortization**

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

**Interest and Other Income, Net.** Interest and other income, net was \$574,000 for fiscal year 2011, down from \$3.1 million in fiscal year 2010. For fiscal years 2011 and 2010, the primary source of income was interest from investments and secondarily, gain (loss) from foreign currency transactions, gain/(loss) on sale of assets, and insurance proceeds recorded as other income.

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

**Provision for Taxes.** The provision for income taxes was \$6.8 million for fiscal year 2011 compared to \$33.0 million for fiscal year 2010. The effective tax rates for fiscal year 2011 and fiscal year 2010 were 8.5% and 97%, respectively. The rate for fiscal year 2011 reflects the impact of favorable trends in our regional mix of income. In addition to favorable trends in regional revenue distribution, other key drivers for our favorable regional mix of income in fiscal year 2011 were high levels of expense related to the class action lawsuit, including the additional \$10.0 million of expense that was recorded in the fourth quarter of fiscal year 2011 (to reflect the agreement in principle to settle the class action lawsuit) and higher levels of equity compensation expense. We expect our regional income trends to remain favorable. However, certain items which occurred in fiscal year 2011, including the expense activity related to the agreement to settle the class action lawsuit, are not expected to recur in fiscal year 2012.

In fiscal year 2011, our tax provision benefited from a net reduction to our valuation allowance of \$1.4 million. This net reduction was primarily the result of changes to tax law enacted by the State of California in the third quarter of fiscal year 2011. The benefit of this reduction to our valuation allowance was partially offset by a \$627,000 reduction to certain deferred tax assets to reflect lower anticipated future benefits as a result of these California tax law changes.

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

In the second quarter of fiscal year 2011, an \$868,000 adjustment was recorded to reflect higher expected tax benefits from stock-based compensation. See Notes 9 and 10 to our consolidated financial statements included in Item 8 of this report for additional information.

***Fiscal Year 2010 Compared With Fiscal Year 2009***

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

(fiscal years, in thousands)	January 31, 2010		January 25, 2009		Change
	Net Sales	% total	Net Sales	% total	
Computer	\$ 40,875	14%	\$ 52,860	18%	(23)%
Communications	66,038	23%	52,479	18%	26%
High-End Consumer	113,240	40%	111,341	37%	2%
Industrial/Other	66,407	23%	78,140	27%	(15)%
Net sales	\$ 286,560	100%	\$ 294,820	100%	(3)%

**Net Sales.** Net sales for fiscal year 2010 were \$286.6 million, a decrease of 3% from \$294.8 million for fiscal year 2009. While fiscal year 2010 revenue decreased modestly, revenue during the first half of fiscal year 2010 was \$126.4 million, down 17% when compared to the first half of fiscal year 2009. Deteriorating global economic conditions resulted in reduced demand for our customer's end products, which caused a severe reduction in orders of our component products during the first half of fiscal year 2010. Demand and orders increased during the second half of

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fiscal year 2010 as business conditions began to improve. Revenues in the fourth quarter of fiscal year 2010 also benefited from an extra week in the fiscal quarter and from \$6.1 million of revenue attributable to the acquisition of SMI which was generated during the period December 10, 2009 through January 31, 2010.

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

**Gross Profit.** Gross profit was \$156.0 million and \$159.6 million for fiscal years 2010 and 2009, respectively. Gross profit for fiscal year 2010 was negatively impacted by a 3% decrease in net sales. Our gross margin was 54.5% for fiscal year 2010, up from 54.1% in fiscal year 2009. Gross profit margins for fiscal year 2010 were positively impacted by product revenue mix with higher communications and high-end consumer activity and lower computing activity. The contribution of new product revenue from our Power Management product line also helped fiscal year 2010 gross margins.

***Operating Costs and Expenses.*****Operating Costs & Expenses**

(fiscal years, in thousands)	January 31, 2010		January 25, 2009		Change
	Costs/Exp.	% sales	Costs/Exp.	% sales	
Selling, general and administrative	\$ 77,934	27%	\$ 75,200	26%	4%
Product development and engineering	44,847	16%	41,405	14%	8%
Intangible Amortization	2,348	1%	1,091	0%	115%
Total operating costs and expenses	\$ 125,129	44%	\$ 117,696	40%	6%

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses for fiscal year 2010 increased by \$2.7 million or 4%. Stock-based compensation expense was \$13.6 million and \$10.4 million in fiscal years 2010 and 2009, respectively. The year over year increase in equity compensation was principally driven by the impact of inducement and replacement awards issued to employees that joined the Company as a result of the SMI acquisition. This was partially offset by a reduction in stock-based compensation in fiscal year 2009 which benefited from the reversal of \$1.7 million of expense attributable to performance grants that are not expected to vest. Selling, general and administrative expenses for fiscal year 2010 includes approximately \$4.0 million of transaction and integration expenses attributed to the acquisition of SMI. Selling, general administrative expenses were partially offset by an insurance recovery in the amount of approximately \$1.4 million related to the fire at our Reynosa, Mexico manufacturing facility in fiscal year 2009. These expenses were partially offset by reduced selling and marketing expenses.

Selling, general and administrative expenses for fiscal years 2010 and 2009 include approximately \$3.3 million (net of insurance recoveries of \$10.0 million) and \$2.5 million, respectively, for legal, accounting, tax and other professional services in connection with matters related to our historical stock option practices, including the government inquiries, the related litigation, and other associated matters. Included in the fiscal year 2010 expense is a \$10.0 million charge related to a settlement offer that was extended to the plaintiffs in the class action lawsuit. These expenses also include claims for advancement of legal expenses to current and former directors, officers and employees.

**Product Development and Engineering Expenses**

Product development and engineering expenses for fiscal years 2010 and 2009 were \$44.8 million and \$41.4 million, respectively or an increase of 8%. The increase in fiscal year 2010 is principally driven by the impact of the additional product development and engineering expenses resulting from the acquisition of SMI and a \$1.3 million increase in stock-based compensation expense (which includes the impact of inducement and replacement awards issued to employees that joined the company as a result of the SMI acquisition).

**Intangible Amortization**

Intangible Amortization, which reflects amortization costs associated with acquired intangibles, increased by \$1.3 million in fiscal year 2010 compared to fiscal year 2009 as a result of the amortization of intangibles associated with our acquisition of SMI in the fourth quarter of fiscal year 2010.



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**Interest and Other Income, Net.** Interest and other income, net was \$3.1 million for fiscal year 2010, down from \$4.3 million in fiscal year 2009. For fiscal years 2010 and 2009, the primary source of income was interest from investments and secondarily, gain (loss) from foreign currency transactions, gain/(loss) on sale of assets, and insurance proceeds recorded as other income.

Interest income decreased in fiscal year 2010 as a result of the continued environment of low interest rates and the focus on protecting principal by limiting the investment of new and maturing funds to the higher quality yet lower yielding investments.

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

**Provision for Taxes.** The provision for income taxes was \$33.0 million for fiscal year 2010 compared to \$8.7 million for fiscal year 2009. The effective tax rates for fiscal year 2010 and fiscal year 2009 were 97% and 19%, respectively. The dramatic increase in the effective tax rate in fiscal year 2010 resulted from the change in management's assertions regarding the amount of foreign subsidiary earnings that are considered to be permanently reinvested offshore, in connection with the then pending acquisition of SMI.

**Liquidity and Capital Resources**

Our capital requirements depend on a variety of factors, including but not limited to, the rate of increase or decrease in our existing business base; the success, timing and amount of investment required to bring new products to market; revenue growth or decline; and potential acquisitions. We believe that we have the financial resources necessary to meet business requirements for the next 12 months, including funds needed for working capital requirements.

As of January 30, 2011, our total shareholders' equity was \$528.6 million. At that date we also had approximately \$231.3 million in cash and short-term investments, as well as \$27 million in long-term investments. We have no outstanding debt.

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

(in millions)	Fiscal Years Ended		
	January 30, 2011	January 31, 2010	January 25, 2009
<b>Sources of Cash</b>			
Operating activities, including working capital changes	\$ 93.8	\$ 83.3	\$ 78.0
Proceeds from exercise of compensatory stock plans, including tax benefits	30.7	11.7	11.4
<b>Total sources of cash</b>	<b>\$ 124.5</b>	<b>\$ 95.0</b>	<b>\$ 89.4</b>
<b>Uses of Cash</b>			
Capital expenditures, net of sale proceeds (excluding land sale)	\$ (25.5)	\$ (8.6)	\$ (9.0)
Net (increase) decrease in investments	(57.8)	29.9	(70.5)
Acquisition, net of cash acquired		(178.1)	
Stock repurchases	(2.8)	(2.9)	(35.1)
Repayment of long-term debt		(2.4)	
<b>Total uses of cash</b>	<b>\$ (86.1)</b>	<b>\$ (162.1)</b>	<b>\$ (114.6)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ 38.4</b>	<b>\$ (67.1)</b>	<b>\$ (25.2)</b>

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

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A meaningful portion of our capital resources, and the liquidity they represent, are held by our foreign subsidiaries. As of January 30, 2011, our foreign subsidiaries held approximately \$165.7 million of cash, cash equivalents, and short-term investments compared to \$108.0 million at January 31, 2010. If we needed these funds for investment in domestic operations, any repatriation, such as that which occurred in fiscal year 2010 to partially fund the acquisition of SMI, could result in increased tax liabilities.

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

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

### **Operating Activities**

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

Depreciation and amortization expense was \$16.4 million and \$8.4 million during fiscal years 2011 and 2010, respectively. The increase is primarily attributable to the increase in intangible assets resulting from the acquisition of SMI and the significant increase in capital expenditures that were made in fiscal year 2011 to support the growth of the business.

Stock based compensation was \$29.0 million and \$19.9 million in fiscal years 2011 and 2010, respectively. The \$9.1 million increase is attributable to mark-to-market adjustments for awards accounted for as liabilities, higher expected vesting levels for awards with performance vesting conditions and a full year of expense for inducement and replacement awards issued to employees that joined the Company as a result of the acquisition of SMI.

Changes in operating assets and liabilities used cash on a net basis in fiscal year 2011, driven primarily by the following:

Accounts receivable increased by \$19.4 million due to higher revenue

Inventory increased by \$14.0 million to support increases in demand

Prepaid expenses and other assets increased by \$11.7 million primarily as a result of the payment of income taxes related to the integration of SMI into our operating structure

Accrued liabilities increased by \$13.4 million primarily due to a \$10.0 million supplemental accrual related to the agreement in principle to settle the stock option litigation and an increase in the Company's annual bonus program accrual due to higher headcount levels and higher achievement of performance goals

Accounts payable increased by \$6.0 million due to higher operating expenses and capital expenditures required to support the overall increase in revenue and related business activities

As discussed further in Note 15 to our consolidated financial statements included in Item 8 of this report, the Company entered into an agreement in principle to settle all claims asserted against all defendants in the putative class action concerning the Company's historical stock option accounting practices. We expect to make a \$20.0 million payment related to this matter in the first or second quarter of fiscal year 2012. The \$20 million payment will be paid from domestic cash reserves. We do not expect this payment to impair our ability to meet business requirements during the next 12 months.

### **Investing Activities**

Cash provided used in investing activities is primarily attributable to capital expenditures, purchases of investments, and proceeds from the sales/maturities of investments.

Capital expenditures were \$25.5 million for fiscal year 2011 compared to \$8.7 million for fiscal year 2010. The increase in capital expenditures reflects our efforts to enhance and expand our test capacity, support engineering and manufacturing functions, and renovate our facilities. In fiscal year 2012, we expect capital expenditures to increase to approximately \$30.0 million to further enhance and expand our test and



production capacity and engineering development efforts.

Financing Activities

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

For fiscal year 2011, cash collected directly from grantee exercises of stock options was \$29.8 million compared with \$11.3 million in fiscal year 2010. We do not directly control the timing of the exercise of vested stock options by our grantees. Such exercises are decisions made by those grantees and are influenced most directly by the level of our stock price and, indirectly, by other considerations of those grantees. Such proceeds are difficult to forecast. While the level of such cash inflow to us is subject to several factors which are not within our control, we believe that such proceeds will remain an important secondary source of cash after cash flow from operations.

We currently have in effect a stock repurchase program. This program represents one of our principal efforts to return value to our shareholders. In fiscal year 2011, we repurchased 75,000 shares under this program for \$1.3 million. In addition to the direct

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repurchase activity, 90,000 shares valued at \$1.6 million were withheld in connection with the vesting of restricted stock to cover statutory tax withholding obligations.

**Off-Balance Sheet Arrangements**

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

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

Noted below under Contractual Obligations are various commitments we have associated with our business, such as lease commitments and open purchase obligations, which are not recorded as liabilities on our balance sheet because we have not yet received the related goods or services as of January 30, 2011.

**Contractual Obligations**

Presented below is a summary of our contractual obligations as of January 30, 2011.

(in thousands)	Payments due by period				Total
	Less than 1 year	1-3 years	4-5 years	After 5 years	
Operating leases	\$ 4,621	\$ 7,364	\$ 1,710	\$ 461	\$ 14,156
Open capital purchase commitments	3,527				3,527
Other open purchase commitments	31,838				31,838
Other vendor commitments	4,350	2,400	300		7,050
Deferred compensation	339	615	380	8,843	10,177
Other long-term liabilities		5,997			5,997
<b>Total contractual cash obligations</b>	<b>\$ 44,675</b>	<b>\$ 16,376</b>	<b>\$ 2,390</b>	<b>\$ 9,304</b>	<b>\$ 72,745</b>

Capital purchase commitments, other open purchase commitments and other vendor commitments are for the purchase of plant, equipment, raw material, supplies and services. They are not recorded as liabilities on our balance sheet as of January 30, 2011, as we have not yet received the related goods or taken title to the property.

We maintain a deferred compensation plan for certain officers and key executives that allows participants to defer a portion of their compensation for future distribution at various times permitted by the plan. Our liability for deferred compensation under this plan was \$10.2 million as of January 30, 2011 and \$7.1 million as of January 31, 2010, and is included in accrued liabilities and other long-term liabilities on the balance sheet and in the table above. The plan provides for a discretionary Company match up to a defined portion of the employee's deferral, with any match subject to a vesting period.

We have purchased whole life insurance on the lives of some of our current and former deferred compensation plan participants. This Company-owned life insurance is held in a grantor trust and is intended to cover a majority of our costs of the deferred compensation plan. The cash surrender value of our Company-owned life insurance was \$6.1 million as of January 30, 2011 and \$5.5 million as of January 31, 2010, and is included in other assets.

We have \$17.0 million of accrued taxes for uncertain tax positions. We believe that it is reasonably possible that the amount of unrecognized tax benefits will decrease by approximately \$3.7 million within twelve months as a result of expiring statutes.

**Inflation**

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

### **Critical Accounting Policies and Estimates**

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles ( GAAP ). In connection with the preparation of our financial statements, we are required to make assumptions and estimates about future events, and apply judgments that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. On a regular basis, management reviews

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the accounting policies, assumptions, estimates and judgments to ensure that our financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

Our significant accounting policies are discussed in Note 1 to our consolidated financial statements, included in Item 8, of this report on Form 10-K. We believe that the following accounting estimates are the most critical to aid in fully understanding and evaluating our reported financial results, and they require our most difficult, subjective or complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain. We have reviewed these critical accounting estimates and related disclosures with the Audit Committee of our Board of Directors.

### **Accounting for Temporary and Long-Term Investments**

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

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

### **Allowance for Doubtful Accounts**

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

### **Revenue and Cost of Sales**

We recognize product revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is probable. Product design and engineering revenue is recognized during the period in which services are performed. We record a provision for estimated sales returns in the same period as the related revenues are recorded. We base these estimates on historical sales returns and other known factors. Actual returns could be different from our estimates and current provisions for sales returns and allowances, resulting in future charges to earnings.

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

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The following table summarizes the deferred net revenue balance:

Deferred revenue

(in thousands)	January 30, 2011	January 31, 2010
Deferred revenue	\$ 6,369	\$ 4,099
Deferred cost of revenue	1,560	1,771
Deferred revenue, net	\$ 4,809	\$ 2,328
Deferred product design and engineering revenue	211	948
Total deferred revenue	\$ 5,020	\$ 3,276

**Inventory Valuation**

Our inventories are stated at lower of cost or market and consist of materials, labor and overhead. We determine the cost of inventory by the first-in, first-out method. At each balance sheet date, we evaluate our ending inventories for excess quantities and obsolescence. This evaluation includes analyses of sales levels by product and projections of future demand. In order to state our inventory at lower of cost or market, we maintain specific reserves against our inventory which serve to write-down our inventories to a new cost basis. If future demand or market conditions are less favorable than our projections, a write-down of inventory may be required, and would be reflected in cost of goods sold in the period the revision is made.

**Contingencies and Litigation**

We are involved in various disputes and litigation matters as a claimant and as defendant. We record any amounts recovered in these matters when collection is certain. We record liabilities for claims against us when the losses are probable and reasonably estimable. Any amounts recorded are based on reviews by outside counsel, in-house counsel and management. Actual results may differ from estimates.

**Stock-Based Compensation**

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

**Impairment of Goodwill and Other Intangible Assets**

We test goodwill for impairment in the fourth quarter of each fiscal year or more frequently if we believe indicators of impairment exist. The value of our intangible assets, including goodwill, could be impacted by future adverse changes such as: (i) any future declines in our operating results, (ii) a decline in the valuation of technology company stocks, including the valuation of our common stock, (iii) a significant slowdown in the worldwide economy and the semiconductor industry or (iv) any failure to meet the performance projections included in our forecasts of future operating results. Our goodwill is assigned to the Advanced Communication and Sensing Products reporting unit. For our annual impairment review, we primarily use a multi-period excess earnings approach methodology of valuation that includes the discounted cash flow method as well as other generally accepted valuation methodologies to determine the fair value of the assets. Our assumptions incorporate judgments as to the price received to sell a reporting unit as a whole in an orderly transaction between market participants at the measurement date. Considering the integration of our operations, we have assumed that the highest and best use of a reporting unit follows an in-use valuation premise. Significant management judgment is required in the forecasts of future operating results that are used in the discounted cash flow method of valuation. The estimates we have used are consistent with the plans and estimates that we use to manage our business. It is possible, however, that the plans and estimates used may be incorrect. If our actual results, or the plans and estimates used in future impairment analysis, are lower than the original estimates used to assess the recoverability of these assets, we could incur impairment charges in a future period. Upon completing Step 1 of our impairment test for goodwill, prepared in the fourth quarter of fiscal year 2011, we concluded that the fair value of the reporting unit was significantly above its carrying value. Our analysis included sensitivity analysis of key assumptions such as a 10% increase in the weighted-average cost of capital, a 10% increase in the effective tax rate or a 5% decline in our compound annual growth rate noting the fair

value of the reporting unit would pass Step 1.

We record impairment losses on long-lived assets used in operations when indicators of impairment, such as reductions in demand or significant economic slowdowns in the semiconductor industry, are present. Reviews are performed to determine whether the carrying value of an asset is impaired, based on comparisons to undiscounted expected future cash flows. If this comparison indicates that there is impairment, the impaired asset is written down to fair value, which is typically calculated using:

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(i) quoted market prices and/or (ii) discounted expected future cash flows utilizing a discount rate. Impairment is based on the excess of the carrying amount over the fair value of those assets.

**Accounting for Income Taxes**

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

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

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

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

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

In general, the amount of taxes we pay will differ from our reported tax provision as a result of differences between accounting for income under US GAAP and accounting for taxable income. Typical book-tax differences include expense related to equity compensation, deemed dividends, depreciation, litigation expense and amortization of intangible assets. As a result of these book-tax differences, our tax payments are expected to exceed our tax provision during the next three years.

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

**New Accounting Standards**

FASB Accounting Standards Update (ASU) No. 2010-17, Revenue Recognition (Topic 605) Milestone Method of Revenue Recognition a consensus of the FASB Emerging Issues Task Force. This ASU provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. This ASU will be effective on a prospective basis for milestones achieved beginning in our second quarter of fiscal year 2012. We do not expect the adoption of this ASU to have a significant effect to our consolidated financial statements.





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

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

#### **Market Conditions**

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

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

#### **Commodity Risk**

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

#### **Foreign Currency Risk**

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

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

All of our foreign sales, which amounted to \$350.8 million in fiscal year 2011, are denominated in United States dollars. Currency exchange rate fluctuations in foreign countries where we do business could harm our business by resulting in pricing that is not competitive with prices denominated in local currencies.

For fiscal year 2011, we spent approximately \$4.8 million in British Pound Sterling, \$16.4 million in Swiss Francs, \$4.5 million in Euros and \$6.7 million in Mexican Pesos for operating expenses.

In general, we purchase foreign currencies on a spot basis as needed to fund local operations. As of January 30, 2011, we did not hold a significant amount of foreign currency. If rates of these foreign currencies were to strengthen or weaken relative to the U.S. dollar, we would realize gains or losses in converting these funds back into U.S. dollars.

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

As of January 30, 2011, we had no long-term debt outstanding. We do not currently hedge any potential interest rate exposure.

Interest rates affect our return on excess cash and investments. As of January 30, 2011, we had \$119.0 million of cash and cash equivalents and \$139.3 million of temporary and long-term investments. A majority of our cash and cash equivalents and investments generate interest income based on prevailing interest rates. Investments and cash and cash equivalents generated interest income of \$1.0 million in fiscal year 2011. A significant change in interest rates would impact the amount of interest income generated from our cash and investments. It would also impact the market value of our investments.

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

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

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

<u>Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting</u>	36
<u>Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements</u>	37
<u>Consolidated Statements of Income</u>	38
<u>Consolidated Balance Sheets</u>	39
<u>Consolidated Statements of Stockholders' Equity</u>	40
<u>Consolidated Statements of Cash Flows</u>	41
<u>Notes to Consolidated Financial Statements</u>	42
<u>Schedule II Valuation and Qualifying Accounts</u>	71

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

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

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of Semtech Corporation

We have audited Semtech Corporation and subsidiaries' internal control over financial reporting as of January 30, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Semtech Corporation and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control Over Financial Reporting set forth in Item 9A of this Form 10-K. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Semtech Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of January 30, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Semtech Corporation and subsidiaries as of January 30, 2011 and January 31, 2010 and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended January 30, 2011 and financial statement schedule of Semtech Corporation and subsidiaries and our report dated March 31, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Westlake Village, California

March 31, 2011

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of Semtech Corporation

We have audited the accompanying consolidated balance sheets of Semtech Corporation and subsidiaries as of January 30, 2011 and January 31, 2010, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended January 30, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Semtech Corporation and subsidiaries at January 30, 2011 and January 31, 2010, and the consolidated results of their operations and their cash flows for each of the three years in the periods ended January 30, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Semtech Corporation and subsidiaries internal control over financial reporting as of January 30, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 31, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Westlake Village, California

March 31, 2011

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

<b>(In thousands, except earnings per share)</b>	<b>January 30 2011</b>	<b>Year Ended January 31 2010</b>	<b>January 25 2009</b>
<b>Net Sales</b>	<b>\$ 454,502</b>	<b>\$ 286,560</b>	<b>\$ 294,820</b>
Cost of Sales	186,196	130,514	135,233
<b>Gross Profit</b>	<b>268,306</b>	<b>156,046</b>	<b>159,587</b>
<b>Operating costs and expenses:</b>			
Selling, general and administrative	110,404	77,934	75,200
Product development & engineering	69,624	44,847	41,405
Intangible amortization	9,520	2,348	1,091
Total operating costs and expenses	189,548	125,129	117,696
<b>Operating income</b>	<b>78,758</b>	<b>30,917</b>	<b>41,891</b>
Interest and other income, net	574	3,054	4,287
Income before taxes	79,332	33,971	46,178
Provision for taxes	6,760	33,014	8,657
<b>NET INCOME</b>	<b>\$ 72,572</b>	<b>\$ 957</b>	<b>\$ 37,521</b>
<b>Earnings per share:</b>			
Basic	\$ 1.16	\$ 0.02	\$ 0.61
Diluted	\$ 1.12	\$ 0.02	\$ 0.61
<b>Weighted average number of shares used in computing earnings per share:</b>			
Basic	62,339	60,779	61,249
Diluted	64,523	61,676	61,999

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

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

AS OF JANUARY 30, 2011 AND JANUARY 31, 2010

(In thousands, except share data)	January 30, 2011	January 31, 2010
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 119,019	\$ 80,598
Short-term investments	112,237	55,462
Receivables, less allowances of \$4,597 at January 30, 2011 and \$2,908 at January 31, 2010	50,610	31,163
Inventories	47,719	33,819
Deferred income taxes	13,369	11,808
Other current assets	10,744	6,616
<b>Total current assets</b>	<b>353,698</b>	<b>219,466</b>
<b>Property, plant and equipment, net</b>	<b>56,778</b>	<b>38,063</b>
<b>Investments, maturities in excess of 1 year</b>	<b>27,086</b>	<b>26,163</b>
<b>Deferred income taxes</b>	<b>7,153</b>	<b>7,153</b>
<b>Goodwill</b>	<b>129,651</b>	<b>129,651</b>
<b>Other intangibles, net</b>	<b>74,823</b>	<b>84,343</b>
<b>Other assets</b>	<b>17,907</b>	<b>9,455</b>
<b>TOTAL ASSETS</b>	<b>\$ 659,943</b>	<b>\$ 514,294</b>
<b>Liabilities and Stockholders Equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 29,629	\$ 23,643
Accrued liabilities	48,723	34,008
Income taxes payable, net	2,928	8,512
Deferred revenue	5,020	3,276
Accrued taxes	4,191	2,609
Deferred income taxes	3,334	1,332
<b>Total current liabilities</b>	<b>93,825</b>	<b>73,380</b>
<b>Deferred income taxes</b>	<b>11,120</b>	<b>16,505</b>
<b>Accrued taxes</b>	<b>10,548</b>	<b>9,497</b>
<b>Other long-term liabilities</b>	<b>15,835</b>	<b>9,171</b>
<b>Commitments and contingencies</b>		
<b>Stockholders equity:</b>		
Common stock, \$0.01 par value, 250,000,000 shares authorized, 78,136,144 issued and 63,927,740 outstanding on January 30, 2011 and 78,136,144 issued and 61,261,015 outstanding on January 31, 2010	785	784
Treasury stock, at cost, 14,208,404 shares as of January 30, 2011 and 16,868,879 shares as of January 31, 2010	(232,267)	(279,306)
Additional paid-in capital	352,078	348,741
Retained earnings	407,276	334,704
Accumulated other comprehensive income	743	818
<b>Total stockholders equity</b>	<b>528,615</b>	<b>405,741</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 659,943</b>	<b>\$ 514,294</b>

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



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

(In thousands, except share amounts)	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Income (Loss)	Stockholders Equity
	Number of Shares	Amount					
<b>Balance at January 27, 2008</b>	<b>61,190,587</b>	<b>\$ 784</b>	<b>\$ 342,736</b>	<b>\$ 296,226</b>	<b>\$ (291,605)</b>	<b>\$ 569</b>	<b>\$ 348,710</b>
Comprehensive income:							
Net income				37,521			37,521
Change in net unrealized holding gain on available-for-sale investments						118	118
Translation adjustment						43	43
Comprehensive income							37,682
Stock-based compensation			15,432				15,432
Repurchase of outstanding common stock	(2,606,098)				(35,063)		(35,063)
Treasury stock reissued	1,677,938		(21,737)		30,824		9,087
Shares issued under equity award plans	25,000						
Tax benefit from stock based compensation			2,172				2,172
<b>Balance at January 25, 2009</b>	<b>60,287,427</b>	<b>\$ 784</b>	<b>\$ 338,603</b>	<b>\$ 333,747</b>	<b>\$ (295,844)</b>	<b>\$ 730</b>	<b>\$ 378,020</b>
Comprehensive income:							
Net income				957			957
Change in net unrealized holding gain on available-for-sale investments						83	83
Translation adjustment						5	5
Comprehensive income							1,045
Acquisition consideration, exchanged options			458				458
Stock-based compensation			18,977				18,977
Repurchase of outstanding common stock	(206,350)				(2,931)		(2,931)
Treasury stock reissued	1,154,938		(8,181)		19,469		11,288
Shares issued under equity award plans	25,000						
Tax benefit from stock based compensation			(1,116)				(1,116)
<b>Balance at January 31, 2010</b>	<b>61,261,015</b>	<b>784</b>	<b>348,741</b>	<b>334,704</b>	<b>(279,306)</b>	<b>818</b>	<b>405,741</b>
Comprehensive income:							
Net income				72,572			72,572
Change in net unrealized holding gain on available-for-sale investments						(76)	(76)
Translation adjustment						1	1
Comprehensive income							72,497
Stock-based compensation			24,204				24,204
Repurchase of outstanding common stock	(164,636)				(2,819)		(2,819)
Treasury stock reissued	2,825,111		(19,169)		49,858		30,689
Shares issued under equity award plans	6,250	1					1
Tax benefit from stock based compensation			(1,698)				(1,698)
<b>Balance at January 30, 2011</b>	<b>63,927,740</b>	<b>\$ 785</b>	<b>\$ 352,078</b>	<b>\$ 407,276</b>	<b>\$ (232,267)</b>	<b>\$ 743</b>	<b>\$ 528,615</b>

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

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

(In thousands)	January 30, 2011	January 31, 2010	January 25, 2009
<b>Cash flows from operating activities:</b>			
Net income	\$ 72,572	\$ 957	\$ 37,521
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation and amortization	16,448	8,357	8,324
Deferred income taxes	3,184	17,427	3,796
Stock-based compensation	29,010	19,935	15,724
Excess tax benefits	(891)	(493)	(2,287)
(Gain) Loss on disposition of property, plant and equipment and available for sale securities	69	(139)	518
Changes in assets and liabilities:			
Receivables	(19,447)	2,665	5,508
Inventories	(14,016)	4,269	848
Insurance recovery			6,500
Prepaid expenses and other assets	(540)	(364)	6,469
Accounts payable	5,986	10,686	(3,269)
Accrued liabilities	13,434	10,194	(2,928)
Deferred revenue	1,744	(180)	1,342
Income taxes payable	(16,702)	8,850	1,829
Other liabilities	2,950	1,160	(1,920)
<b>Net cash provided by operations</b>	<b>93,801</b>	<b>83,324</b>	<b>77,975</b>
<b>Cash flows from investing activities:</b>			
Purchase of available-for-sale investments	(168,802)	(245,187)	(184,639)
Proceeds from sales and maturities of available-for-sale investments	110,987	275,056	114,124
Proceeds from sale of property, plant and equipment	76	108	20
Purchases of property, plant and equipment	(25,537)	(8,682)	(9,057)
Acquisitions, net of cash acquired		(178,061)	
<b>Net cash used in investing activities</b>	<b>(83,276)</b>	<b>(156,766)</b>	<b>(79,552)</b>
<b>Cash flows from financing activities:</b>			
Excess tax benefit received on stock options	891	493	2,287
Exercise of stock options	29,823	11,288	9,087
Repurchase of outstanding common stock	(2,819)	(2,931)	(35,063)
Repayment of debt		(2,450)	
<b>Net cash provided by (used in) financing activities</b>	<b>27,895</b>	<b>6,400</b>	<b>(23,689)</b>
Effect of exchange rate increase (decrease) on cash and cash equivalents	1	(26)	43
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>38,421</b>	<b>(67,068)</b>	<b>(25,223)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>80,598</b>	<b>147,666</b>	<b>172,889</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 119,019</b>	<b>\$ 80,598</b>	<b>\$ 147,666</b>

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

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**SEMTECH CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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

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

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

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

High-end consumer: handheld products, tablet computers, set-top boxes, digital televisions, digital video recorders and other consumer equipment

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

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

**Fiscal Year**

The Company reports results on the basis of fifty-two and fifty-three week periods. The Company's fiscal year ends on the last Sunday of January. The fiscal year ended January 30, 2011 consisted of fifty-two weeks. The fiscal year ended January 31, 2010 consisted of fifty-three weeks with the extra week occurring in the fourth quarter of the year. The fiscal year ended January 25, 2009 consisted of fifty-two weeks.

**Principles of Consolidation**

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

**Segment Information**

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

**Use of Estimates**

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

**Reclassification**

Certain amounts for prior periods have been reclassified to conform to the current presentation. These reclassifications had no effect on previously reported consolidated operating income, net income, net earnings or stockholder's equity.

**Note 2. Significant Accounting Policies**

*Cash, Cash Equivalents and Investments*

The Company considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents. The Company maintains cash balances and investments in highly qualified financial institutions. At various times such amounts are in excess of insured limits. Investments consist of government and corporate obligations and bank time deposits. The Company s

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investment policy restricts investments to high credit quality investments with limits on the length to maturity and the amount invested with any one issuer. These investments, especially corporate obligations, are subject to default risk. The Company designates its investments as available for sale ( AFS ). Investments designated as AFS are reported at fair value. The Company records the unrealized gains and losses, net of tax, in stockholders' equity as a component of comprehensive income. Realized gains or losses are recorded in Interest and other income, net in the Consolidated Statements of Income.

### Accounts Receivable and Allowance for Doubtful Accounts

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

### Inventories

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

### Property, Plant and Equipment

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

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

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

### Goodwill

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

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

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

step of the impairment test is performed to measure the amount of impairment loss, if any.

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Step two is the measurement of the amount of impairment loss. This involves comparison of the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss would be recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of the goodwill. Once a goodwill impairment loss is recognized, the adjusted carrying amount becomes the accounting basis.

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

In fiscal years 2011, 2010 and 2009, the Company's impairment reviews indicated that no potential impairment existed as of the testing date. See Note 8 for more information.

### Fair Value Measurements

When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance. The Company uses the following three levels of inputs in determining the fair value of the Company's assets and liabilities, focusing on the most observable inputs when available:

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

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

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

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

### Revenue Recognition

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

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

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





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The following table summarizes the deferred revenue balance:

(in thousands)	January 30, 2011	January 31, 2010
Deferred revenues	\$ 6,369	\$ 4,099
Deferred cost of revenues	1,560	1,771
Deferred revenue, net	\$ 4,809	\$ 2,328
Deferred product design and engineering revenue	211	948
Total deferred revenue	\$ 5,020	\$ 3,276

**Cost of Sales**

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

**Sales and Marketing**

The Company expenses sales and marketing costs, which include advertising costs as they are incurred. Advertising costs were \$232,000, \$249,000 and \$1.0 million for fiscal years 2011, 2010 and 2009, respectively.

**Product Development and Engineering**

Product development and engineering costs are charged to expense as incurred. Revenue from nonrecurring engineering services is recorded as an offset to product development expense incurred in support of this effort since these activities do not represent an earnings process core to the Company's business and the Company expects to benefit from this research.

The Company received approximately \$11.7 million, \$2.7 million and \$3.2 million in fiscal years 2011, 2010 and 2009, respectively for nonrecurring engineering services. The Company incurred approximately \$9.7 million, \$3.3 million and \$1.2 million in fiscal years 2011, 2010 and 2009, respectively in product development and engineering expense related to this nonrecurring engineering effort.

**Income Taxes**

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

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

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

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

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for as prepaid taxes. Prepaid taxes are reported in other current assets and other assets in our Consolidated Balance Sheets.

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

(fiscal years, in thousands)	January 30, 2011	January 31, 2010	January 25, 2009
Net income	\$ 72,572	\$ 957	\$ 37,521
Change in net unrealized holding (loss) gain on available-for-sale investments	(76)	83	118
Gain for translation adjustment	1	5	43
Total comprehensive income	\$ 72,497	\$ 1,045	\$ 37,682
Gain realized upon reclassification from Comprehensive income	\$	\$ 217,000	\$

**Translation**

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

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

**Stock-Based Compensation**

The Company has various equity award plans (Plans) that provide for granting stock based awards to employees and non-employee directors of the Company. The Plans provide for the granting of several available forms of stock compensation. As of January 30, 2011, the Company has granted stock option awards (Options), restricted stock awards (RSA), and restricted stock unit awards (RSU) under the Plans and has also issued some stock-based compensation outside of any plan, including options and restricted stock awards issued as inducements to join the Company.

**Earnings per Share**

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

(fiscal years, in thousands, except per share amounts)	January 30, 2011	January 31, 2010	January 25, 2009
Net income	\$ 72,572	\$ 957	\$ 37,521
Weighted average common shares outstanding - basic	62,339	60,779	61,249
Dilutive effect of employee equity incentive plans	2,184	897	&nbsp;