

SEMTECH CORP
Form 10-Q
June 04, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended April 26, 2009

or

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

Commission file number 1-6395

SEMTECH CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

incorporation or organization)

200 Flynn Road, Camarillo, California, 93012-8790

(Address of principal executive offices, Zip Code)

95-2119684
(I.R.S. Employer

Identification No.)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Number of shares of Common Stock, \$0.01 par value per share, outstanding at May 29, 2009: 61,075,929

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SEMTECH CORPORATION

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

(in thousands, except per share data)

	Three Months Ended	
	April 26, 2009	April 27, 2008
Net Sales	\$ 60,077	\$ 74,444
Cost of Sales	27,345	33,653
Gross Profit	32,732	40,791
Operating costs and expenses:		
Selling, general & administrative	17,267	18,621
Product development & engineering	10,085	11,073
Acquisition related items	303	273
Restructuring charges	188	2,169
Total operating costs and expenses	27,843	32,136
Operating income	4,889	8,655
Interest and other income, net	1,290	1,740
Income before taxes	6,179	10,395
Provision for taxes	1,236	2,318
NET INCOME	\$ 4,943	\$ 8,077
Earnings per share:		
Basic	\$ 0.08	\$ 0.13
Diluted	\$ 0.08	\$ 0.13
Weighted average number of shares used in computing earnings per share:		
Basic	60,321	61,352
Diluted	60,593	62,104

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

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SEMTECH CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands, except share data)

	April 26, 2009	January 25, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 162,541	\$ 147,666
Temporary investments	86,066	98,735
Receivables, less allowances of \$808 at April 26, 2009 and \$843 at January 25, 2009	24,396	27,467
Inventories	26,149	27,986
Deferred income taxes	3,972	4,287
Other current assets	7,927	7,561
Total current assets	311,051	313,702
Non-current assets		
Property, plant and equipment, net of accumulated depreciation of \$68,738 at April 26, 2009 and \$68,387 at January 25, 2009	31,528	31,786
Investments, maturities in excess of 1 year	21,874	12,414
Deferred income taxes	25,291	25,544
Goodwill	25,540	25,540
Other intangibles, net	4,088	2,091
Other assets	9,413	9,718
Total non-current assets	117,734	107,093
TOTAL ASSETS	\$ 428,785	\$ 420,795
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 13,353	\$ 10,653
Accrued liabilities	11,762	15,915
Income taxes payable	2,653	2,108
Deferred revenue	2,714	2,808
Accrued taxes	727	727
Deferred income taxes	1,571	1,604
Total current liabilities	32,780	33,815
Non-current liabilities:		
Deferred income taxes	150	101
Accrued taxes	3,604	3,563
Other long-term liabilities	5,905	5,296
Commitments and contingencies		
Stockholders equity:		
Common stock, \$0.01 par value, 250,000,000 shares authorized, 78,136,144 issued and 60,356,753 outstanding on April 26, 2009 and 78,136,144 issued and 60,287,427 outstanding on January 25, 2009	784	784
Treasury stock, at cost, 17,085,297 shares as of April 26, 2009 and 17,061,911 shares as of January 25, 2009	(294,378)	(295,844)
Additional paid-in capital	340,600	338,603
Retained earnings	338,690	333,747

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Accumulated other comprehensive income	650	730
Total stockholders' equity	386,346	378,020
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 428,785	\$ 420,795

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

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

(in thousands)

	April 26, 2009	April 27, 2008
Cash flows from operating activities:		
Net income	\$ 4,943	\$ 8,077
<i>Adjustments to reconcile net income to net cash provided by operations:</i>		
Depreciation and amortization	1,934	2,073
Deferred income taxes	(362)	(333)
Stock-based compensation	4,767	4,822
Tax benefit on stock based compensation	385	1,424
Excess tax benefits on stock based compensation	(20)	(1,205)
Loss on disposition of property, plant and equipment	8	93
<i>Changes in assets and liabilities:</i>		
Receivables, net	3,071	(1,715)
Inventories	1,842	(3,791)
Prepaid expenses and other assets	(616)	4,815
Accounts payable	2,700	2,738
Accrued liabilities	(4,153)	(3,152)
Deferred revenue	(94)	212
Income taxes payable (prepaid)	1,125	(5)
Other liabilities	246	28
Net cash provided by operations	15,776	14,081
Cash flows from investing activities:		
Purchase of available-for-sale investments	(62,702)	(15,238)
Proceeds from sales and maturities of available-for-sale investments	65,818	16,314
Proceeds from sale of property, plant and equipment	4	
Purchases of property, plant and equipment	(1,404)	(2,076)
Purchases of intangibles	(2,300)	
Net cash used in investing activities	(584)	(1,000)
Cash flows from financing activities:		
Excess tax benefits on stock based compensation	20	1,205
Exercise of stock options	1,360	2,800
Repurchase of outstanding common stock	(1,694)	(30)
Net cash provided by (used in) financing activities	(314)	3,975
Effect of exchange rate changes on cash and cash equivalents	(3)	7
Net increase in cash and cash equivalents	14,875	17,063
Cash and cash equivalents at beginning of period	147,666	172,889
Cash and cash equivalents at end of period	\$ 162,541	\$ 189,952

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

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SEMTECH CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Basis of Presentation

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

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

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

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 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. The accounting estimates requiring management's most significant and subjective judgments include:

The recognition and measurement of current and deferred income tax assets and liabilities;

The valuation of inventory; and

The valuation and recognition of share-based compensation

Note 2: Fiscal Year

The Company reports on the basis of 52 and 53 week periods and ends its fiscal year on the last Sunday in January. The other quarters generally end on the last Sunday of April, July, and October. All quarters consist of 13 weeks except for one 14-week quarter in 53-week years. The first quarter of fiscal years 2010 and 2009 each consisted of 13 weeks. Fiscal year 2010 is a 53-week year. The fourth quarter of fiscal year 2010 will consist of 14-weeks.

Note 3: Recent Accounting Pronouncements

In the first quarter of fiscal year 2010, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 141(R), Business Combinations (SFAS 141R), which replaces SFAS No. 141, Business Combinations (SFAS 141). SFAS 141R applies to all transactions and other events in which one entity obtains control over one or more other businesses. The standard requires the fair value of the purchase price, including the issuance of equity securities, to be determined on the acquisition date. SFAS 141R requires an acquiror to recognize the assets acquired, the liabilities assumed, and any noncontrolling interests in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the statement. SFAS 141R requires acquisition costs to be expensed as incurred and restructuring costs to be expensed in periods after the acquisition date. Earn-outs and other forms of contingent consideration are to be recorded at fair value on the acquisition date. Changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period will be recognized in earnings rather than as an adjustment to the cost of the acquisition. SFAS 141R

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generally applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 with early adoption prohibited. Except as discussed in Notes 12 and 18, the implementation of SFAS 141R did not have any material impact on our consolidated financial position, results of operations or cash flows.

In April 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142. FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The implementation of this standard did not have a material impact on our consolidated financial position, results of operations or cash flows.

In April 2009, FASB issued FSP FAS 157-4, Determining Whether a Market Is Not Active and a Transaction is Not Distressed (FSP FAS 157-4). FSP FAS 157-4 provides guidance for determining fair value in markets that are not active. The implementation of this standard did not have a material impact on our consolidated financial position, results of operations or cash flows.

In April 2009, FASB issued FSP FAS 115-2, FAS 124-2 and EITF 99-20-2, Recognition and Presentation of Other-Than-Temporary Impairments, which provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. This standard is effective for periods ending after June 15, 2009. We do not anticipate that this guidance will have any significant impact on our consolidated financial position, results of operations or cash flows.

In April 2009, FASB issued FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments which amend SFAS No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments in interim as well as annual financial statements. This standard is effective for periods ending after June 15, 2009. The implementation of this standard is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

In December 2007, FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). SFAS 160 requires non-controlling interests or minority interests to be treated as a separate component of equity, not as a liability or other item outside of permanent equity. Upon a loss of control, the interest sold, as well as any interest retained, is required to be measured at fair value, with any gain or loss recognized in earnings. Based on SFAS 160, assets and liabilities will not change for subsequent purchase or sale transactions with non-controlling interests as long as control is maintained. Differences between the fair value of consideration paid or received and the carrying value of noncontrolling interests are to be recognized as an adjustment to the parent interest's equity. SFAS 160 is effective for fiscal year beginning on or after December 15, 2008. Earlier adoption is prohibited. The implementation of this standard did not impact our consolidated financial position, results of operations or cash flows.

In May 2008, FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. SFAS 162 is scheduled to become effective on July 1, 2009. The implementation of this standard is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

Note 4: Stock Repurchase Program; Treasury Shares

In the first quarter of fiscal year 2009, the Company announced that the Board of Directors authorized the repurchase of up to \$50 million of the Company's common stock from time to time through negotiated or open market transactions (the 2008 Program). The 2008 Program does not have an expiration date. In the first quarter of fiscal year 2010, the Company repurchased 104,528 shares under this program for \$1.4 million.

In addition to the above repurchase activity, 25,609 and 2,235 shares were withheld from vested restricted stock in the first quarter of fiscal years 2010 and 2009, respectively, for employee payroll and income tax withholding liabilities and are being held as treasury shares. The value of the withheld shares was \$0.3 million and \$30,000 in the first quarter of fiscal years 2010 and 2009, respectively.

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The Company currently intends to hold the repurchased shares as treasury stock. The Company typically reissues treasury shares as a result of stock option exercises.

Note 5: Comprehensive Income

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

(in thousands)	Three Months Ended	
	April 26, 2009	April 27, 2008
Net income	\$ 4,943	\$ 8,077
Change in net unrealized holding gain (loss) on available-for-sale investments	(98)	(110)
Gain (loss) for translation adjustment	10	7
Total comprehensive income	\$ 4,855	\$ 7,974

Note 6: 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. A provision for estimated sales returns is recorded in the same period as the related revenues are recorded. This estimate is based 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.

The Company defers revenue recognition on shipment of products to certain customers, principally distributors, where return privileges exist, until these products are sold through to end-users or the rights lapse. Given the uncertainties associated with the levels of returns, the Company has concluded that sales to customers with return privileges are not fixed and determinable at the date of the sale.

Note 7: Earnings Per Share

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

(In thousands, except per share amounts)	Three Months Ended	
	April 26, 2009	April 27, 2008
Net income	\$ 4,943	\$ 8,077
Weighted average common shares outstanding basic	60,321	61,352
Dilutive effect of employee equity incentive plans	272	752
Weighted average common shares outstanding diluted	60,593	62,104
Basic earnings per common share	\$ 0.08	\$ 0.13
Diluted earnings per common share	\$ 0.08	\$ 0.13

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

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Options to purchase approximately 9.5 million shares for the first quarter of fiscal years 2010 and 2009, respectively, were not included in the computation of diluted net income per share because the options were considered anti-dilutive.

Note 8: Stock Based Compensation

Share-based Payment Arrangements. The Company has various equity award plans (the Plans) that provide for granting stock based awards to employees and non-employee directors of the Company. The Plans provide for the granting of several available forms of stock compensation. As of April 26, 2009, the Company has granted stock option awards (Options), restricted stock awards (RSAs), and restricted stock unit awards (RSUs) 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.

Grant Date Fair Values and Underlying Assumptions: Contractual Terms. The Company uses the Black-Scholes pricing model to value Options. For awards classified as equity, stock-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized as an expense over the employee's or director's requisite service period. For awards classified as liabilities, stock based compensation cost is measured at fair value at each reporting date until the date of settlement, and is recognized as an expense over the employee or director's requisite service period. Expected volatilities are based on historical volatility using daily and monthly stock price observations.

Assumptions in Determining Fair Value of Options

	Three Months Ended	
	April 26, 2009	April 27, 2008
Expected lives, in years	5.0	5.0
Estimated volatility	40%	40%
Dividend yield		
Risk-free interest rate	1.9%	2.7%
Weighted-average fair value on grant date of options granted	\$ 4.22	\$ 5.09

The estimated fair value of restricted stock awards (RSAs and RSUs) was calculated based on the market price of the Company's common stock on the date of grant. Some RSU awards made in fiscal year 2010 are classified as liabilities rather than equity. For awards classified as liabilities, the value of these awards was re-measured on April 26, 2009.

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Financial Statement Effects and Presentation. The following table shows total pre-tax, stock-based compensation expense included in the consolidated condensed statements of income for the first quarter of fiscal years 2010 and 2009, respectively.

Allocation of Stock-based Compensation

(in thousands)	Three Months Ended	
	April 26, 2009	April 27, 2008
Cost of sales	\$ 314	\$ 404
Selling, general and administrative	3,590	3,373
Product development and engineering	863	1,045
Stock-based compensation, pre-tax	\$ 4,767	\$ 4,822
Net change in stock-based compensation capitalized into inventory	(5)	(22)
Total stock-based compensation	\$ 4,762	\$ 4,800

Impact of Stock-based Compensation

(in thousands)	Three Months Ended	
	April 26, 2009	April 27, 2008
Stock-based compensation	\$ 4,767	\$ 4,822
Associated tax effect	(1,122)	(1,111)
Net effect on net income	\$ 3,645	\$ 3,711
Effect on earnings per share		
Basic	\$ 0.06	\$ 0.06
Diluted	\$ 0.06	\$ 0.06
Weighted average number of shares		
Basic	60,321	61,352
Diluted	60,593	62,104

For the first quarter of fiscal years 2010 and 2009, the tax benefit realized from option exercises was \$0.4 million and \$1.4 million, respectively.

Note 9: Investments

Temporary and long-term investments consist of government, bank and corporate obligations. Temporary investments have original maturities in excess of three months, but mature within twelve months of the balance sheet date. Long-term investments have maturities in excess of one year from the balance sheet date. Certain short-term, highly liquid investments are accounted for as cash and cash equivalents.

The Company classifies its investments as available for sale because it expects to possibly sell some securities prior to maturity. The Company's investments are subject to market risk, primarily interest rate and credit risk. The Company's investments are managed by a limited number of outside professional managers within investment guidelines set by the Company. Such guidelines include security type, credit quality and maturity and are intended to limit market risk by restricting the Company's investments to high quality debt instruments with relatively short-term maturities.

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The following table summarizes the Company's investments as of April 26, 2009 and January 25, 2009:

	April 26, 2009			January 25, 2009		
	Market Value	Cost Basis	Unrealized Gain	Market Value	Cost Basis	Unrealized Gain (Loss)
U.S. government issues	\$ 85,069	\$ 84,907	\$ 162	\$ 89,598	\$ 89,222	\$ 376
Corporate issues	11,967	11,927	40	16,485	16,501	(16)
Other	10,904	10,878	26	5,066	5,100	(34)
Investments	\$ 107,940	\$ 107,712	\$ 228	\$ 111,149	\$ 110,823	\$ 326

The following table summarizes the maturities of the Company's investments at April 26, 2009 and January 25, 2009:

Investment maturities (in thousands)

	April 26, 2009		January 25, 2009	
	Market Value	Cost Basis	Market Value	Cost Basis
Within 1 year	\$ 86,066	\$ 85,947	\$ 98,735	\$ 98,424
After 1 year through 5 years	21,874	21,765	12,414	12,399
	\$ 107,940	\$ 107,712	\$ 111,149	\$ 110,823

The Company did not hold any auction rate securities or structured investment vehicles as of April 26, 2009.

In the first quarter of fiscal years 2010 and 2009, the Company incurred \$98,000 and \$110,000 of unrealized loss, respectively (net of tax), on investments. These unrealized losses are the result of fluctuations in the market value of our investments and are included in the accumulated other comprehensive income portion of the consolidated condensed balance sheets. The tax associated with these comprehensive income items for the first quarter of fiscal years 2010 and 2009 was a reduction to the deferred tax liability of \$3,000 and \$72,000, respectively.

Investments and cash and cash equivalents generated interest income of \$0.7 million and \$1.8 million in the first quarter of fiscal years 2010 and 2009, respectively.

Note 10: Fair Value

SFAS 157 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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. SFAS 157 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. SFAS 157 establishes three levels of inputs that may be used to measure fair value:

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.

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

All items recorded or measured at fair value on a recurring basis in the accompanying consolidated condensed financial statements were based on the use of Level 1 inputs and consisted of the following items as of April 26, 2009:

(in thousands)	Total	Quoted Prices in Active Markets for Identical Instruments (Level 1)
Assets		
Temporary investments	\$ 86,066	\$ 86,066
Investments, maturities in excess of 1 year	21,874	21,874
Other investments-deferred compensation	4,460	4,460
	\$ 112,400	\$ 112,400
Liabilities		
Deferred compensation	\$ (5,584)	\$ (5,584)
	\$ (5,584)	\$ (5,584)

Note 11: Inventories

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

<u>Inventories (in thousands):</u>	April 26, 2009	January 25, 2009
Raw materials	\$ 2,015	\$ 2,076
Work in process	16,851	17,670
Finished goods	7,283	8,240
	\$ 26,149	\$ 27,986

Note 12: Intangible Assets

Goodwill is deemed to have an indefinite life and is not amortized, but it is subject to an annual impairment test. Goodwill is tested for impairment at the reporting unit level. As of April 26, 2009, all of the reported goodwill is allocated to the Standard Semiconductor Products segment.

There were no changes to goodwill during the first quarter of fiscal year 2010.

(in thousands)	Balance as of January 25, 2009	Adjustments	Balance as of April 26, 2009
Goodwill	\$ 25,540	\$	\$ 25,540

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Intangible assets consist of the following:

(in thousands)	Gross Carrying Amount		Accumulated Amortization		Net	
	April 26, 2009	January 25, 2009	April 26, 2009	January 25, 2009	April 26, 2009	January 25, 2009
Core technologies	\$ 6,000	\$ 6,000	\$ (4,182)	\$ (3,909)	\$ 1,818	\$ 2,091
In-process research and development	2,070				2,070	
Other Intangibles	230	30	(30)	(30)	200	
Other Intangibles	\$ 8,300	\$ 6,030	\$ (4,212)	\$ (3,939)	\$ 4,088	\$ 2,091

As discussed further in Note 18, the Company acquired a business line from Leadis Technology Inc. in the first quarter of fiscal year 2010. The purchase price has been allocated, based on fair value, to in-process research and development and other intangibles.

In general, intangibles are amortized on a straight-line basis over their estimated useful lives. In-process research and development acquired after the Company's adoption of FAS 141R, which the Company adopted in the first quarter of fiscal year 2010, is accounted for as an indefinite-lived intangible asset until the completion or abandonment of the associated effort.

Amortization expense related to intangible assets was approximately \$303,000 and \$273,000, respectively, for the first quarter of fiscal years 2010 and 2009. No significant residual value is expected. There are no significant tax-related benefits from these acquisition related costs.

Note 13: Commitments and Contingencies**Retirement Plans**

In the first quarter of fiscal year 2010, the Company suspended all matching contributions to the 401(k) retirement plan maintained for its employees. The Company contributed approximately \$262,000 to this plan in the first quarter of fiscal year 2009. In addition, the Company contributed approximately \$172,000 and \$185,000, in the first quarter of fiscal years 2010 and 2009, respectively, to a defined contribution plan for Swiss employees.

Legal Matters

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

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

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

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

Refer to the discussion in Note 10 to the financial statements in Item 8 of the Company's Form 10-K for the year ended January 25, 2009. All proceedings discussed in the Form 10-K remain outstanding.

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

The gross unrecognized tax benefits (before federal impact of state items) at April 26, 2009 and January 25, 2009, are \$12.6 million and \$12.5 million, respectively. Included in the balance of unrecognized tax benefits at April 26, 2009 and January 25, 2009, are \$11.1 million and \$11.0 million, respectively, of net tax benefits (after federal impact of state items) that, if recognized, would impact the effective tax rate. The liability for uncertain tax positions was \$4.3 million as of April 26, 2009 and January 25, 2009. This liability is reflected on the consolidated condensed balance sheets as Accrued taxes. The Company's policy is to include net interest and penalties related to unrecognized tax benefits within the provision for taxes. A net increase of \$2,000 was recognized in the consolidated condensed statements of income in the first quarter of fiscal years 2010 and 2009. The Company had approximately \$36,000 and \$28,000 of net interest and penalties accrued at April 26, 2009 and January 25, 2009, respectively.

Tax years prior to 2006 (fiscal year 2007) are generally not subject to examination by the Internal Revenue Service (IRS) except for items with tax attributes that could impact open tax years. The IRS completed an examination of tax years 2004 (fiscal year 2005) through 2005 (fiscal year 2006) in fiscal year 2009.

For state returns, the Company is generally not subject to income tax examinations for years prior to 2004 (fiscal year 2005). Our significant foreign tax presence is in Switzerland. Our material Swiss tax filings have been examined through fiscal year 2008. The Company is also subject to routine examinations by various foreign tax jurisdictions in which it operates.

As of April 26, 2009, the Company is not aware of any tax positions for which it was reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within twelve months, other than an uncertain tax position related to determination of available loss carryforwards in a foreign jurisdiction. This loss carryforward determination is expected to be reviewed by local tax authorities within the next year. The audit resolution of this issue or eventual closure of the statute of limitations will result in a decrease in the liability for uncertain tax positions and a \$727,000 tax payment if the position is not sustained or a decrease in the liability for uncertain tax positions and a \$727,000 reduction to the tax provision if the tax position is sustained.

Note 15: Restructuring Costs

During the first quarter of fiscal year 2009, the Company initiated a restructuring plan within the Standard Semiconductor Products segment to reorganize certain Company operations, consolidate research and development activities and reduce its workforce. The reorganization and consolidation were completed in the second quarter of fiscal year 2009. During the first quarter of fiscal year 2010, the Company recorded costs of \$0.2 million for additional lease termination costs. Restructuring charges are presented separately in operating costs and expenses on the consolidated condensed statements of income.

The following table summarizes the restructuring charge and liability balance included in accrued liabilities and other long-term liabilities on the consolidated condensed balance sheet as of April 26, 2009.

(in thousands)	Restructuring at January 25, 2009	Additional Restructuring	Cash Payments	Restructuring at April 26, 2009
Lease termination costs	\$ 435	\$ 188	\$ (156)	\$ 467

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The outstanding liability for restructuring costs is classified on the Company's consolidated condensed balance sheet as of April 26, 2009 as follows:

(in thousands)	
Accrued liabilities	\$ 213
Other long-term liabilities	254
	\$ 467

Note 16: Business Segment and Concentration of Risk

The Company operates in two reportable segments: Standard Semiconductor Products and Rectifier, Assembly and Other Products.

The Standard Semiconductor Products segment makes up the vast majority of overall sales and includes the power management, protection, advanced communication and sensing product lines. The Rectifier, Assembly and Other Products segment includes the Company's line of assembly and rectifier devices, which are the remaining products from its original founding as a supplier into the military, aerospace and industrial equipment markets.

The accounting policies of the segments are the same as those described above and in the Company's Form 10-K for the year ended January 25, 2009 in the summary of significant accounting policies. The Company evaluates segment performance based on the net sales and operating income of each segment. Management does not track segment data or evaluate segment performance on additional financial information. As such, there are no separately identifiable segment assets nor are there any separately identifiable statements of income data below operating income.

The Company does not track or assign assets to individual reportable segments. Accordingly, depreciation expense and capital additions are not tracked by reportable segments.

Net Sales

	Three Months Ended	
	April 26, 2009	April 27, 2008
(in thousands)		
Standard Semiconductor Products	\$ 52,141	\$ 66,272
Rectifier, Assembly and Other Products	7,936	8,172
Net Sales	\$ 60,077	\$ 74,444

Operating Income

	Three Months Ended	
	April 26, 2009	April 27, 2008
(in thousands)		
Standard Semiconductor Products	\$ 1,102	\$ 4,702
Rectifier, Assembly and Other Products	3,787	3,953
Total Operating Income	\$ 4,889	\$ 8,655

Certain corporate level expenses not directly attributable to a reportable segment are allocated to the segments based on percentage of sales. These include expenses associated with matters related to the Company's historical stock option practices, including the on-going government inquiries and class action litigation.

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The Company does not track customer sales by region for each individual reporting segment. Sales are assigned to regions based on the ship-to address. A summary of sales by region follows.

Table of Contents**Sales by Region**

(percentage of net sales)	Three Months Ended	
	April 26, 2009	April 27, 2008
North America	27%	25%
Asia-Pacific	51%	60%
Europe	22%	15%
Total	100%	100%

Sales into the United States and South Korea each represented approximately 22% of sales. Sales into Hong Kong represented approximately 20% of sales. No other country represented more than 10% of sales.

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

Concentration of Net Sales - Key Customers

(percentage of net sales)	Three Months Ended	
	April 26, 2009	April 27, 2008
Samsung Electronics (and affiliates)	20%	13%
Frontek Technology Corp	10%	14%

Concentration of Accounts Receivable - Key Customers

(percentage of accounts receivable)	Three Months Ended	
	April 26, 2009	April 27, 2008
Samsung Electronics (and affiliates)	16%	11%
Frontek Technology Corp	7%	12%

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

Note 17: Matters Related to Historical Stock Option Practices

Since May 2006, the Company has incurred substantial expenses for legal, accounting, tax and other professional services in connection with matters associated with or stemming from its historical stock option practices. In the first quarter of fiscal years 2010 and 2009, respectively, approximately \$409,000 and \$55,000 of these expenses were charged to Selling, general and administrative. The Company expects to continue to incur significant expense in connection with these on-going matters. These expenses include claims for advancement of legal expenses to current and former directors, officers and executives under pre-existing indemnification agreements and to other current and former employees under the California Labor Code and a resolution of the Board authorizing such advances.

Table of Contents**Note 18: Acquisition from Leadis Technology Inc.**

On February 6, 2009, the Company acquired a business line from Leadis Technology Inc. through an asset acquisition. The acquired business line is in the development stage.

The acquisition date fair value of the consideration transferred was \$2.3 million which consisted of the following:

(in thousands)

Cash	\$ 2,000
Contingent consideration	300
Total fair value consideration	\$ 2,300

The contingent consideration requires the Company to pay \$300,000, less any deduction under an indemnity clause, six months after the acquisition date. The Company does not expect any reduction under the terms of the indemnity clause. Therefore, the fair value of the contingent consideration is \$300,000.

The following table summarizes the estimated fair values of the acquired assets at the acquisition date. No liabilities were assumed.

(in thousands)

In-process research and development	\$ 2,070
Covenant not to compete	230
Total allocated fair value	\$ 2,300

The Company recognized approximately \$75,000 of acquisition related costs that were expensed in the current period. These costs are included in the consolidated condensed statements of income under Selling, general and administrative.

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

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

Forward Looking Statements

This Form 10-Q contains forward-looking statements. Forward-looking statements are statements other than historical information or statements of current condition and relate to matters such as our future financial performance, future operational performance and our plans, objectives and expectations. Some forward-looking statements may be identified by use of terms such as expects, anticipates, intends, estimates, believes, projects, should, will, plans and similar words. In light of the risks and uncertainties inherent in all such projected matters, forward-looking statements should not be regarded as a representation by 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. Results could differ materially from those projected in forward-looking statements, due to factors including, but not limited to, those set forth in the Risk Factors and Quantitative and Qualitative Disclosure About Market Risk sections of this Form 10-Q and the Risk Factors section of our annual report on Form 10-K for the year ended January 25, 2009. We undertake no duty to update any forward-looking statements, whether as a result of new information, future events or otherwise.

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

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Overview

We design, produce and market a broad range of products that are sold principally to customers in the high-end consumer, industrial, computing and communications end-markets. The high-end consumer market includes handheld products, set-top boxes, digital televisions, digital video recorders, Bluetooth headsets and other consumer equipment. Included in the industrial customer base are automated meter reading, military and aerospace, medical, automated test equipment, security, automotive, home automation, and other industrial equipment. The computing market includes desktops, servers, notebooks, graphics, printers, and other computer peripherals. The communications market includes 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, Dell, Hewlett Packard, Intel, LG Electronics, Motorola, Nokia Siemens Networks, Phonak, Quanta Computer, Research In Motion, Samsung, Sanyo, Siemens, and Sony.

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. Gross profit is equal to our net sales less our cost of sales. Our cost of sales includes materials, depreciation on fixed assets used in the manufacturing process, shipping costs, direct labor and overhead. We determine the cost of inventory by the first-in, first-out method. Our operating costs and expenses generally consist of selling, general and administrative (SG&A), product development and engineering costs (R&D), costs associated with acquisitions, and other operating related charges.

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 2010 were 54% of net sales. The remaining 46% of net sales were made through independent distributors.

We divide and operate our business based on two reportable segments: Standard Semiconductor Products and Rectifier, Assembly and Other Products. We evaluate segment performance based on net sales and operating income of each segment. We do not track segment data or evaluate segment performance on additional financial information. We do not track balance sheet items by individual reportable segments. As such, there are no separately identifiable segment assets nor are there any separately identifiable statements of income data (below operating income). The Standard Semiconductor Products segment makes up the vast majority of overall sales and includes our Power Management, Protection, Advanced Communication and Sensing product lines. The Rectifier, Assembly and Other Products segment includes our line of assembly and rectifier devices, which are the remaining products from our founding as a supplier into the military and aerospace market.

Our business involves reliance on foreign-based entities. Most of our outside subcontractors and suppliers, including third-party foundries that supply silicon wafers, are located in foreign countries, including China, Taiwan, Singapore, Thailand, Malaysia, the Philippines, Germany, Israel and Canada. For the first quarter of fiscal year 2010, approximately 47% of our silicon, in terms of cost of wafers purchased, was manufactured in China. Foreign sales during the first quarter of fiscal year 2010 constituted approximately 73% of our net sales. Approximately 51% of foreign sales during the first quarter of fiscal year 2010 were to customers located in the Asia-Pacific region. The remaining forei