

SEMTECH CORP
Form 10-Q
September 06, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended July 28, 2013

or
 Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____
Commission File Number 1-6395

SEMTECH CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Number of shares of Common Stock, \$0.01 par value per share, outstanding at August 30, 2013: 68,053,222

SEMTECH CORPORATION
INDEX TO FORM 10-Q
FOR THE QUARTER ENDED JULY 28, 2013

<u>PART I - FINANCIAL INFORMATION</u>	<u>3</u>
<u>ITEM 1. Financial Statements</u>	<u>3</u>
<u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operation</u>	<u>23</u>
<u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>33</u>
<u>ITEM 4. Controls and Procedures</u>	<u>34</u>
<u>PART II – OTHER INFORMATION</u>	<u>35</u>
<u>ITEM 1. Legal Proceedings</u>	<u>35</u>
<u>ITEM 1A. Risk Factors</u>	<u>35</u>
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>36</u>
<u>ITEM 3. Defaults Upon Senior Securities</u>	<u>36</u>
<u>ITEM 4. Mine Safety Disclosures</u>	<u>36</u>
<u>ITEM 5. Other Information</u>	<u>36</u>
<u>ITEM 6. Exhibits</u>	<u>37</u>

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		Six Months Ended	
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
Net sales	\$165,010	\$150,704	\$327,417	\$267,346
Cost of sales	64,302	76,179	129,422	137,484
Gross profit	100,708	74,525	197,995	129,862
Operating costs and expenses:				
Selling, general and administrative	33,315	31,220	68,109	76,038
Product development and engineering	33,125	32,613	67,684	56,696
Intangible amortization and impairments	9,811	7,977	17,667	13,555
Total operating costs and expenses	76,251	71,810	153,460	146,289
Operating income (loss)	24,457	2,715	44,535	(16,427)
Interest expense	(10,584)	(3,442)	(14,644)	(4,955)
Interest income and other (expense), net	(198)	(590)	(1,005)	(706)
Income (loss) before taxes	13,675	(1,317)	28,886	(22,088)
Benefit for taxes	(5,437)	(11,339)	(5,003)	(34,319)
Net income	\$19,112	\$10,022	\$33,889	\$12,231
Earnings per share:				
Basic	\$0.28	\$0.15	\$0.50	\$0.19
Diluted	\$0.28	\$0.15	\$0.49	\$0.18
Weighted average number of shares used in computing earnings per share:				
Basic	67,614	65,587	67,285	65,435
Diluted	69,090	67,165	68,812	67,207

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

SEMTECH CORPORATION AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF
 COMPREHENSIVE INCOME

(in thousands)

	Three Months Ended		Six Months Ended	
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
Net income	\$19,112	\$10,022	\$33,889	\$12,231
Other comprehensive income (loss), before tax:				
Change in unrealized holding loss on available-for-sale investments	(7	) (9	) (8	) (33
Change in unrealized income (loss) on interest rate cap	288	(305	) 47	(305
Less: Reclassification adjustments for losses on interest rate cap included in interest expense	(10	) —	(19) —
Change in cumulative translation adjustment	—	(257	) —	119
Other comprehensive income (loss), before tax	291	(571	) 58	(219
(Benefit) provision for taxes related to items of other comprehensive income (loss)	(106	) 113	(21	) 117
Other comprehensive income (loss), net of tax	185	(458	) 37	(102
Total comprehensive income, net of tax	\$19,297	\$9,564	\$33,926	\$12,129

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

SEMTECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands, except share data)

	July 28, 2013 (unaudited)	January 27, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$237,060	\$223,192
Temporary investments	—	4,973
Accounts receivable, less allowances of \$4,389 at July 28, 2013 and \$4,917 at January 27, 2013	80,595	69,160
Inventories	78,214	74,878
Deferred tax assets	7,334	7,473
Prepaid taxes	7,073	7,794
Other current assets	19,214	18,523
Total current assets	429,490	405,993
Non-current assets:		
Property, plant and equipment, net of accumulated depreciation of \$111,944 at July 28, 2013 and \$101,766 at January 27, 2013	113,314	101,837
Long-term investments	4,923	7,907
Deferred tax assets	40,828	33,563
Goodwill	393,584	393,584
Other intangible assets, net	187,916	206,058
Other assets	19,595	22,071
TOTAL ASSETS	\$1,189,650	\$1,171,013
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$50,404	\$51,991
Accrued liabilities	36,866	49,276
Deferred revenue	5,398	3,745
Current portion - long term debt	18,385	48,449
Deferred tax liabilities	3,245	4,221
Total current liabilities	114,298	157,682
Non-current liabilities:		
Deferred tax liabilities	3,636	2,042
Long term debt, less current portion	282,157	282,286
Other long-term liabilities	39,073	34,177
Stockholders' equity:		
Common stock, \$0.01 par value, 250,000,000 shares authorized, 78,136,144 issued and 67,785,261 outstanding on July 28, 2013 and 78,136,144 issued and 66,607,347 outstanding on January 27, 2013		785
Treasury stock, at cost, 10,350,883 shares as of July 28, 2013 and 11,528,797 shares as of January 27, 2013	(180,321)	(200,604)
Additional paid-in capital	357,441	355,990
Retained earnings	572,191	538,302
Accumulated other comprehensive income	390	353
Total stockholders' equity	750,486	694,826
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,189,650	\$1,171,013

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

5

SEMTECH CORPORATION AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
 (in thousands)

	Six Months Ended	
	July 28, 2013	July 29, 2012
Cash flows from operating activities:		
Net income	\$33,889	\$12,231
Adjustments to reconcile net income to net cash provided by operating activities, net of effects of acquisitions:		
Depreciation, amortization and impairments	28,937	22,545
Effect of acquisition fair value adjustments	2,529	28,600
Accretion of deferred financing costs and debt discount	1,010	1,081
Write-off of deferred financing costs and debt discount	8,773	—
Deferred income taxes	(6,529)	(12,425)
Stock-based compensation	14,782	10,245
Excess tax benefits on stock based compensation	—	(2,913)
(Gain) loss on disposition of property, plant and equipment	(27)	85
Changes in assets and liabilities:		
Accounts receivable, net	(11,435)	(13,079)
Inventories	(5,659)	3,426
Prepaid expenses and other assets	46	6,301
Accounts payable	(2,479)	(2,344)
Accrued liabilities	(10,140)	(19,764)
Deferred revenue	1,532	1,314
Income taxes payable and prepaid taxes	(1,389)	(24,757)
Other liabilities	4,605	1,325
Net cash provided by operating activities	58,445	11,871
Cash flows from investing activities:		
Purchases of available-for-sale investments	(1,050)	(10,106)
Proceeds from sales and maturities of available-for-sale investments	8,998	103,199
Proceeds from sales of property, plant and equipment	57	—
Purchase of property, plant and equipment	(23,565)	(10,715)
Purchase of intangible assets	(2,583)	—
Acquisitions, net of cash acquired	—	(491,717)
Net cash used in investing activities	(18,143)	(409,339)
Cash flows from financing activities:		
Proceeds from debt issuance, net of discount	326,448	347,000
Deferred financing cost	(2,085)	(8,962)
Payment on interest rate cap	—	(1,100)
Excess tax benefits on stock based compensation	—	2,913
Proceeds from exercises of stock options	8,328	2,413
Repurchase of outstanding common stock	—	(269)
Payment of long term debt	(359,125)	(5,625)
Net cash (used in) provided by financing activities	(26,434)	336,370
Effect of exchange rate increase on cash and cash equivalents	—	(66)
Net increase (decrease) in cash and cash equivalents	13,868	(61,164)
Cash and cash equivalents at beginning of period	223,192	227,022
Cash and cash equivalents at end of period	\$237,060	\$165,858

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

6

SEMTECH CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 1: Organization and Basis of Presentation

Semtech Corporation (together with its subsidiaries, the “Company” or “Semtech”) is a global supplier of analog and mixed-signal semiconductor products. The end-customers for the Company’s products are primarily original equipment manufacturers (“OEM’s”) 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 enterprise computing, communications, high-end consumer and industrial end-markets.

Enterprise Computing: datacenters, passive optical networks, optical receiver and transceiver, desktops, notebooks, servers, graphic boards, monitors, printers and other computer peripherals.

Communications: base stations, backplane, optical networks, carrier networks, switches and routers, cable modems, signal conditioners, wireless LAN and other communication infrastructure equipment.

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

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

Fiscal Year

The Company reports results on the basis of 52 and 53 week periods and ends its fiscal year on the last Sunday in January. The other quarters generally end on the last Sunday of April, July and October. All quarters consist of 13 weeks except for one 14-week period in 53-week years. The second quarter of fiscal years 2014 and 2013 each consisted of 13 weeks.

Principles of Consolidation

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

These interim unaudited consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended January 27, 2013. The results reported in these interim unaudited consolidated condensed financial statements should not be regarded as indicative of results that may be expected for any subsequent period or for the entire year.

Segment Information

The Company operates and accounts for its results in one reportable segment. The Company identified five operating segments which aggregate into 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 U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2: Earnings per Share

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

(in thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
Net income	\$19,112	\$10,022	\$33,889	\$12,231
Weighted average common shares outstanding - basic	67,614	65,587	67,285	65,435
Dilutive effect of employee equity incentive plans	1,476	1,578	1,527	1,772
Weighted average common shares outstanding - diluted	69,090	67,165	68,812	67,207
Basic earnings per common share	\$0.28	\$0.15	\$0.50	\$0.19
Diluted earnings per common share	\$0.28	\$0.15	\$0.49	\$0.18

Anti-dilutive shares not included in the above calculations	352	1,472	392	1,190
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Basic earnings per common share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock 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.

Note 3: 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 reasonably assured. Recovery of costs associated with product design and engineering services are recognized during the period in which services are performed. The product design and engineering recovery, when recognized, will be reported as a reduction to product development and engineering expense. Historically, these recoveries have not exceeded the cost of the related development efforts.

The Company includes revenue related to granted technology licenses as part of "Net sales." Historically, revenue from these arrangements has not been significant though it is part of the Company's recurring ordinary business.

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 Company estimates 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 standard costs which is expected to approximate actual costs at the date of sale. The estimated deferred gross margins on these sales, where there are no outstanding receivables, are recorded on the unaudited consolidated condensed balance sheets under the heading of "Deferred revenue."

The Company records a provision for estimated sales returns in the same period as the related revenues are recorded. The Company bases these estimates on historical sales returns and other known factors. Actual returns could be different from Company estimates and current provisions for sales returns and allowances, resulting in future charges to earnings. There were no significant impairments of deferred cost of sales in the second quarter of fiscal year 2014 or fiscal year 2013.

Note 4: Acquisitions

Gennum Corporation (“Gennum”)

On March 20, 2012, the Company, through its wholly-owned subsidiary Semtech Canada Inc., completed the acquisition of all outstanding equity interests of Gennum (TSX: GND), a leading supplier of high speed analog and mixed-signal semiconductors for the optical communications and video broadcast markets.

Upon consummation of the business acquisition, which constituted a change in control of Gennum, Gennum’s stock option awards and restricted shares became fully vested. Semtech acquired 100% of the outstanding shares and vested stock options, restricted shares, and deferred share units of Gennum for CDN \$13.55 per share for a total purchase price of \$506.5 million. The acquisition was financed with a combination of cash from Semtech’s international cash reserves and \$347.0 million of five-year secured term loans, net of original issuance debt discount of \$3.0 million (see Note 10).

The Gennum assets acquired and liabilities assumed are recorded at their acquisition-date fair values.

Acquisition-related transaction costs are not included as a component of consideration transferred, but are accounted for as an expense in the period in which the costs are incurred. Any excess of the acquisition consideration over the fair value of assets acquired and liabilities assumed is allocated to goodwill. The goodwill resulted from expected synergies from the transaction, including complementary products that will enhance the Company’s overall product portfolio, and opportunities within new markets, and is not deductible for tax purposes. The acquired in-process research and development is recorded at fair value as an indefinite-lived intangible asset at the acquisition date until the completion or abandonment of the associated research and development efforts.

In connection with the acquisition, certain Gennum employees became entitled to payments upon a change in control and their subsequent termination. These payments, which totaled approximately \$9.6 million, have been recognized as a post-acquisition compensation expense and included in the unaudited consolidated condensed statements of income for the six months ended July 29, 2012 under “Selling, general and administrative.”

The Company’s allocation of the total purchase price as of March 20, 2012 is summarized below:

(in thousands)	At March 20, 2012
Cash	\$ 19,664
Accounts receivable, less allowances	14,032
Inventories	62,941
Prepaid expenses	3,832
Income taxes receivable	1,467
Deferred tax assets - current	8,590
Other current assets	7,804
Property, plant and equipment	25,702
Amortizable intangible assets	129,863
In-process research and development	29,100
Goodwill	261,891
Deferred tax assets - non-current	31,235
Other non-current assets	8
Deferred tax liabilities	(47,077)
Accounts payable	(18,232)
Accrued liabilities	(24,274)
Total acquisition consideration	\$ 506,546

(in thousands)	At March 20, 2012
Amortizable intangible assets:	
Developed technology	\$ 95,100
Customer relationships	28,000

Other intangible assets	6,763
Total amortizable intangible assets	\$ 129,863

The Company completed the purchase price allocation for its acquisition of Gennum in fiscal year 2013.

The Company recorded the following transaction and integration related costs in the three and six months ended July 28, 2013 and July 29, 2012:

(in thousands)	Three Months Ended		Six Months Ended	
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
Transaction and integration related costs	\$386	\$1,763	\$987	\$20,389

These costs are included in the unaudited consolidated condensed statements of income for the respective periods under "Selling, general and administrative."

For the three and six months ended July 28, 2013 and July 29, 2012 (for the period after acquisition), the Company recognized the following net revenues and corresponding net income (loss) attributable to Gennum:

(in thousands)	Three Months Ended		Six Months Ended	
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
Net revenue - Gennum	\$47,376	\$35,346	\$87,657	\$47,340
Net income (loss) - Gennum	5,130	(22,741)	4,320	(51,274)

Pro Forma Financial Information

The results of operations of Gennum have been included in the Company's consolidated statements of income since the acquisition date of March 20, 2012. The following table reflects the unaudited consolidated pro forma information as if the acquisition had been completed on January 29, 2011, after giving effect to certain adjustments including the following for the three and six months ended July 29, 2012:

• decrease in cost of goods sold associated with fair value adjustment related to acquired inventory of \$17.7 million and \$30.6 million for the three and six months ended July 29, 2012, respectively;

• increase in operating expense as a result of the settlement of two pre-acquisition contingencies related to legal matters of \$4.2 million for the six months ended July 29, 2012;

• decrease in amortization expense as a result of acquired intangible assets of \$1.2 million for the three months ended July 29, 2012 and increase of \$0.8 million for the six months ended July 29, 2012;

• decrease in tax benefit of \$23.4 million associated with the releasing of prior accrued taxes on foreign earnings for the six months ended July 29, 2012;

• decrease in interest expense of \$0.2 million associated with the \$350 million term loans entered into to finance the acquisition for the three months ended July 29, 2012 and increase of \$2.0 million for the six months ended July 29, 2012; and

• the related tax effects.

Unaudited Consolidated Pro forma Information:

(in thousands)	Three Months Ended	Six Months Ended
	July 29, 2012	July 29, 2012
	(unaudited)	(unaudited)
Revenue	\$150,704	\$291,586
Net income	\$26,020	\$16,637

The unaudited pro forma information presented does not purport to be indicative of the results that would have been achieved had the acquisition been consummated on January 29, 2011 nor of the results which may occur in the future. The pro forma adjustments are based upon available information and certain assumptions that the Company believes are reasonable. The unaudited pro forma information does not include any adjustments for any restructuring activities, operating efficiencies or cost savings.

Cycleo SAS ("Cycleo")

On March 7, 2012, the Company completed the acquisition of Cycleo, a privately held company based in France that develops intellectual property ("IP") for wireless long-range semiconductor products used in smart metering and other industrial and consumer markets. Under the terms of the agreement, Semtech paid the stockholders of Cycleo \$5.0 million in cash at closing.

Total acquisition consideration is allocated to the acquired tangible and intangible assets and assumed liabilities of Cycleo based on their respective estimated fair values as of the acquisition date. Any excess of the acquisition consideration over the fair value of assets acquired and liabilities assumed is allocated to goodwill. The Company expects that all such goodwill will not be deductible for tax purposes.

The Company completed the purchase price allocation for its acquisition of Cycleo in fiscal year 2013.

Additionally, pursuant to the earn-out arrangement with Cycleo stockholders, the Company potentially may make payments totaling up to approximately \$16.0 million based on the achievement of a combination of certain revenue and operating income milestones by Cycleo over the period of four years beginning on April 30, 2012. For certain of the Cycleo stockholders, payment of the earn-out liability is contingent upon employment on the payout date and is accounted for as post-acquisition compensation expense over the service period. The portion of the earn-out liability that is not dependent on continued employment is included in the purchase price allocation at March 7, 2012.

As of July 28, 2013, the Company does not expect to make any earn-out payments related to the year 1 and year 2 milestones. The potential earn-out payments for the year 1 and year 2 milestones were \$1.8 million and \$3.0 million, respectively.

Net revenues and earnings attributable to Cycleo since the acquisition date were not material. Pro forma results of operations have not been presented as the acquisition was not material to the Company's consolidated financial statements.

Note 5: Stock-Based Compensation

Financial Statement Effects and Presentation. The following table shows total pre-tax, stock-based compensation expense included in the unaudited consolidated condensed statements of income for the three and six months ended July 28, 2013 and July 29, 2012.

(in thousands)	Three Months Ended		Six Months Ended	
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
Cost of sales	\$405	\$297	\$733	\$528
Selling, general and administrative	3,548	2,657	8,430	5,881
Product development and engineering	2,203	1,965	5,619	3,836
Stock-based compensation, pre-tax	\$6,156	\$4,919	\$14,782	\$10,245
Net change in stock-based compensation capitalized into inventory	\$8	\$16	\$85	\$82

Share-based Payment Arrangements

The Company has various equity award plans that provide for granting stock-based awards to employees and non-employee directors of the Company. The plans provide for the granting of several available forms of stock compensation. As of July 28, 2013, the Company has granted options and restricted stock under the plans and has also issued some stock-based compensation outside of the plans, including options and restricted stock issued as inducements to join the Company.

Grant Date Fair Values and Underlying Assumptions; Contractual Terms

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

The following table summarizes the assumptions used in the Black-Scholes model to determine the fair value of options granted in the three and six months ended July 28, 2013 and July 29, 2012:

	Three Months Ended		Six Months Ended	
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
Expected lives, in years	4.7	4.4 - 4.6	4.2 - 4.7	4.4 - 4.6
Estimated volatility	33%	40%	33% - 35%	40% - 41%
Dividend yield	—	—	—	—
Risk-free interest rate	1.3%	0.70%	0.65% - 1.3%	0.70%
Weighted average fair value on grant date	\$10.59	\$8.31	\$9.33	\$9.68

The estimated fair value of restricted stock awards was calculated based on the market price of the Company's common stock on the date of grant. Some of the restricted stock units awarded in the second quarter of fiscal year 2014 and prior years are classified as liabilities rather than equity. For awards classified as liabilities, the value of these awards is re-measured at the end of each quarter.

Stock Option Awards. The Company has historically granted stock option awards to both employees and non-employee directors. The grant date for these awards is equal to the measurement date. These awards were valued as of the measurement date and are amortized over the requisite vesting period (typically 3-4 years).

A summary of the activity for stock option awards during the first six months of fiscal year 2014 is presented below:

(in thousands, except for per share amounts)	Number of Shares	Weighted Average Exercise Price (per share)	Aggregate Intrinsic Value	Aggregate Unrecognized Compensation	Number of Shares Exercisable	Weighted Average Contractual Term (in years)
Balance at January 27, 2013	2,579	\$18.29	\$29,789	\$ 3,817	1,937	
Options granted	240	32.04				
Options exercised	(790)	16.71	13,982			
Options cancelled/forfeited	(12)	23.56				
Balance at July 28, 2013	2,017	\$20.28	\$22,092	\$ 4,651	1,370	
Exercisable at July 28, 2013	1,370	\$17.28	\$19,262			2.4

Restricted Stock. The Company has not granted any restricted stock to employees since fiscal year 2009. There is no outstanding and unvested restricted stock as of July 28, 2013.

Performance Units. The Company grants performance-based vesting restricted stock units to select employees. These awards have a performance condition in addition to a service condition. The performance condition generally relates to the Company's revenue and operating income measured against internal goals. Under the terms of these awards, assuming the highest performance level of 200% with no cancellations due to forfeitures, the maximum number of shares that can be earned would be 412,500 shares and 402,500 shares settled in cash. The Company would have a liability accrued in the unaudited consolidated condensed balance sheet equal to the value of 402,500 shares on the settlement date, which would be settled in cash. Only cash performance unit awards are classified as liabilities and the value of these awards is re-measured at each reporting date. At July 28, 2013, the performance metrics associated with the outstanding awards issued in fiscal years 2014, 2013 and 2012 are expected to be met at a level which would result in a grant at 100%, 80%, and 97% of target, respectively.

The following table summarizes the activity for performance units for the first six months of fiscal year 2014:

(in thousands, except for per share amounts)	Total Units	Subject to Share Settlement Units	Subject to Cash Settlement Units	Recorded Liability	Weighted Average Grant Fair Value (per share)	Aggregate Unrecognized Compensation	Period Over Which Expected to be Recognized (in years)
Balance at January 27, 2013	353	181	172	\$4,422	\$ 23.50	\$ 4,754	1.1
Performance units granted	186	93	93		30.82		
Performance units vested	(114)	(57)	(57)		16.68		
Performance units cancelled/forfeited	(13)	(7)	(6)		25.70		
Change in liability				(2,405)			
Balance at July 28, 2013	412	210	202	\$2,017	\$ 28.62	\$ 7,646	1.8

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

The following table summarizes the stock unit award activity for the first six months of fiscal year 2014:

(in thousands, except per share amount)	Number of Units	Weighted Average Grant Date Fair Value (per unit)	Aggregate Intrinsic Value (1)	Aggregate Unrecognized Compensation	Weighted Average Period Over Which Expected to be Recognized (in years)
Balance at January 27, 2013	2,558	\$ 23.41		\$ 49,374	2.5
Stock units granted	308	32.50			
Stock units vested	(504)	22.59	\$16,317		
Stock units forfeited	(97)	24.60			
Balance at July 28, 2013	2,265	\$ 24.78		\$ 45,996	2.3

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

Stock Units, Non-Employee Directors. The Company grants stock unit awards to non-employee directors. These restricted stock units are accounted for as liabilities and accrued in the unaudited consolidated condensed balance sheets because they are cash settled. These awards are vested after 1 year of service. However, because these awards are not typically settled until a non-employee director's separation from service, the value of these awards is re-measured at the end of each reporting period until settlement. The following table summarizes the activity for stock unit awards for the first six months of fiscal year 2014:

(in thousands, except per share amount)	Number of Units	Recorded Liability	Weighted Average Grant Date Fair Value (per unit)	Aggregate Unrecognized Compensation	Period Over Which Expected to be Recognized (in years)
Balance at January 27, 2013	20	\$4,557	\$ 24.46	\$253	0.4
Stock units granted	18		35.17		
Stock units vested	(20)		24.46		
Stock units forfeited	—		—		
Change in liability		537			
Balance at July 28, 2013	18	\$5,094	\$ 35.17	\$518	0.9

As of July 28, 2013, the total number of vested but unsettled stock units for Non-Employee Directors is 161,182 units which are included in the recorded liability.

Note 6: Investments

Investments that have original maturities of three months or less are accounted for as cash equivalents. This includes money market funds, time deposits and U.S. government obligations. Temporary and long-term investments consist of government, bank and corporate obligations, and bank time deposits with original maturity dates in excess of three months. Temporary investments have original maturities in excess of three months, but mature within twelve months of the balance sheet date. Long-term investments have original maturities in excess of twelve months. The Company determines the cost of securities sold based on the specific identification method. Realized gains or losses are reported in "Interest income and other expense, net" on the unaudited consolidated condensed statements of income.

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

The following table summarizes the Company's available for sale investments:

(in thousands)	July 28, 2013			January 27, 2013		
	Market Value	Adjusted Cost	Gross Unrealized Loss	Market Value	Adjusted Cost	Gross Unrealized Gain
Agency securities	\$4,923	\$4,924	\$(1)	\$7,907	\$7,900	\$7
Bank time deposits	—	—	—	4,973	4,973	—
Total investments	\$4,923	\$4,924	\$(1)	\$12,880	\$12,873	\$7

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

The following table summarizes the maturities of the Company's available for sale investments:

(in thousands)	July 28, 2013		January 27, 2013	
	Market Value	Adjusted Cost	Market Value	Adjusted Cost
Within 1 year	\$—	\$—	\$4,973	\$4,973
After 1 year through 5 years	4,923	4,924	7,907	7,900
Total investments	\$4,923	\$4,924	\$12,880	\$12,873

Unrealized gains and losses are the result of fluctuations in the market value of the Company's available for sale investments and are included in "Accumulated other comprehensive income" on the unaudited consolidated condensed balance sheets. The following table summarizes net unrealized losses arising in the periods presented in addition to the tax associated with these comprehensive income items:

(in thousands)	Three Months Ended		Six Months Ended	
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
Unrealized loss, net of tax	\$(4)	\$(7)	\$(5)	\$(27)
Decrease to deferred tax liability	(3)	(2)	(3)	(6)

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

(in thousands)	Three Months Ended		Six Months Ended	
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
Interest income	\$91	\$60	\$191	\$252

During the third quarter of fiscal year 2013, the Company acquired an investment in a privately traded company for total cash consideration of \$2.5 million. The Company accounts for the investment in equity interests under the cost method of accounting since it does not have the ability to exercise significant influence over the investee. The investment in equity interests is included in “Other assets” on the unaudited consolidated condensed balance sheet as of July 28, 2013.

Note 7: Fair Value Measurements

Instruments Measured at Fair Value on a Recurring Basis

Financial assets measured and recorded at fair value on a recurring basis consisted of the following types of instruments:

(in thousands)	Fair Value as of July 28, 2013				Fair Value as of January 27, 2013			
	Total	(Level 1)	(Level 2)	(Level 3)	Total	(Level 1)	(Level 2)	(Level 3)
Agency securities	\$4,923	\$—	\$4,923	\$—	\$7,907	\$—	\$7,907	\$—
Bank time deposits	—	—	—	—	4,973	—	4,973	—
Total available-for-sale securities	4,923	—	4,923	—	12,880	—	12,880	—
Interest rate cap	591	—	591	—	544	—	544	—
Total financial assets	\$5,514	\$—	\$5,514	\$—	\$13,424	\$—	\$13,424	\$—

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

The fair value of the interest rate cap at July 28, 2013 is estimated as described in Note 11 and is included in “Other assets” on the unaudited consolidated condensed balance sheet.

Financial assets measured and recorded at fair value on a recurring basis were presented on the Company’s unaudited consolidated condensed balance sheets as follows:

(in thousands)	Fair Value as of July 28, 2013				Fair Value as of January 27, 2013			
	Total	(Level 1)	(Level 2)	(Level 3)	Total	(Level 1)	(Level 2)	(Level 3)
Temporary investments	\$—	\$—	\$—	\$—	\$4,973	\$—	\$4,973	\$—
Long-term investments	4,923	—	4,923	—	7,907	—	7,907	—
Other assets	591	—	591	—	544	—	544	—
Total financial assets	\$5,514	\$—	\$5,514	\$—	\$13,424	\$—	\$13,424	\$—

During the six months ended July 28, 2013, the Company had no transfers of financial assets or liabilities between Level 1, Level 2 or Level 3. As of July 28, 2013 and January 27, 2013, the Company had not elected the fair value option for any financial assets and liabilities for which such an election would have been permitted.

Instruments Not Recorded at Fair Value on a Recurring Basis

Some of the Company’s financial instruments are not measured at fair value on a recurring basis but are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such financial assets and financial liabilities include: cash and cash equivalents, receivables, net, certain other assets, accounts payable and accrued expenses, accrued personnel costs, and other current liabilities.

The Company’s long-term debt is not recorded at fair value on a recurring basis, but is measured at fair value for disclosure purposes. The fair value of the Company’s Term Loans (as defined herein) of \$123.3 million and Revolving Commitments (as defined herein) of \$177.2 million at July 28, 2013 approximate their carrying amounts based on the variable nature of the rates and their proximity to the May 2, 2013 issuance date. See Note 10 for details.

Assets and Liabilities Recorded at Fair Value on a Non-Recurring Basis

The Company reduces the carrying amounts of its goodwill, intangible assets, long-lived assets and non-marketable equity security to fair value when held for sale or determined to be impaired.

For its investment in equity interests, the Company has not identified events or changes in circumstances that may have a significant adverse effect on the fair value of its cost method investment during the first six months of fiscal year 2014.

Note 8: Inventories

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

(in thousands)	July 28, 2013	January 27, 2013
Raw materials	\$4,393	\$1,970
Work in progress	55,986	52,669
Finished goods	17,835	20,239
Inventories	\$78,214	\$74,878

Note 9: Goodwill and Intangible Assets

Goodwill – There were no changes to goodwill during the first six months of fiscal year 2014.

Goodwill is not amortized, but is tested for impairment using a two-step method on an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The recoverability of goodwill is measured at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair market value of the reporting unit.

The fair value of goodwill is tested for impairment on a non-recurring basis in the accompanying unaudited consolidated condensed financial statements using Level 3 inputs. The Company concluded that there were no indicators of impairment as of July 28, 2013.

Purchased Intangibles – The following table sets forth the Company's finite-lived intangible assets resulting from business acquisitions and technology licenses purchased, which continue to be amortized:

(in thousands)	Estimated Useful Life	July 28, 2013			January 27, 2013		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core technologies	2-10 years	\$ 178,724	\$ (52,292)	\$ 126,432	\$ 173,724	\$ (40,867)	\$ 132,857
Customer relationships	7-10 years	40,130	(10,415)	29,715	40,130	(7,736)	32,394
Technology licenses (1)	5-10 years	8,496	(1,864)	6,632	8,164	(1,056)	7,108
Other intangibles assets	1-5 years	6,600	(5,563)	1,037	6,600	(4,601)	1,999
Total finite-lived intangible assets		\$ 233,950	\$ (70,134)	\$ 163,816	\$ 228,618	\$ (54,260)	\$ 174,358

Technology licenses relate to licensing agreements entered into by the Company. Amortization expense related to (1) technology licenses is reported as "Product development and engineering" in the unaudited consolidated condensed statements of income.

During the first six months of fiscal year 2014, acquired finite-lived intangible assets increased by approximately \$5.3 million primarily due to the transfer from indefinite-lived intangible assets to core technologies upon the completion of an in-process research and development project from the Gennum acquisition in March 2012.

For the three months ended July 28, 2013 and July 29, 2012, amortization expense related to acquired finite-lived intangible assets was \$7.2 million and \$8.0 million, respectively. For the six months ended July 28, 2013 and July 29, 2012, amortization expense related to finite-lived intangible assets was \$15.1 million and \$12.9 million, respectively. Amortization expense related to acquired finite-lived intangible assets is reported as "Intangible amortization and impairments" in the unaudited consolidated condensed statements of income.

The estimated annual amount of future amortization expense for all finite-lived intangible assets will be as follows:

(in thousands)	Technology license	Sierra Monolithics	Gennum	Cycleo	Total
To be recognized in:					
Remainder of fiscal year 2014	\$ 843	\$ 4,434	\$ 9,483	\$ 504	\$ 15,264
Fiscal year 2015	1,512	8,870	18,965	1,007	30,354
Fiscal year 2016	1,501	8,870	18,419	1,007	29,797
Fiscal year 2017	1,251	8,870	18,332	1,007	29,460
Fiscal year 2018	842	8,160	18,332	1,007	28,341
Thereafter	683	8,490	21,345	82	30,600
Total expected amortization expense	\$ 6,632	\$ 47,694	\$ 104,876	\$ 4,614	\$ 163,816

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

(in thousands)	July 28, 2013			January 27, 2013		
	Gross Carrying Amount	Accumulated Impairment Loss	Net Carrying Amount	Gross Carrying Amount	Accumulated Impairment Loss	Net Carrying Amount
In-process research and development	\$29,870	\$(5,770)	\$24,100	\$34,870	\$(3,170)	\$31,700
Total indefinite-lived intangible assets	\$29,870	\$(5,770)	\$24,100	\$34,870	\$(3,170)	\$31,700

During the first six months of fiscal year 2014, acquired indefinite-lived intangible assets decreased by approximately \$5.0 million due to the transfer from indefinite-lived intangible assets to core technologies upon the completion of an in-process research and development project ("IPR&D") from the Gennum acquisition in March 2012.

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

The fair value of indefinite-lived intangible assets is tested for impairment on a non-recurring basis in the accompanying unaudited consolidated condensed financial statements using Level 3 inputs. During the three month period ending July 28, 2013, the Company made the strategic decision to discontinue development of microwave products which resulted in the Company recording a \$2.6 million impairment to IPR&D from the acquisition of Sierra Monolithics, Inc ("SMI"). Other than this impairment charge, the Company concluded that the fair value of all the continuing acquired in-process research and developments exceeded the carrying value and no impairment existed as of July 28, 2013.

Note 10: Credit Facilities

On March 20, 2012, the Company entered into a credit agreement with certain lenders (the “Prior Lenders”) and Jefferies Finance LLC, as administrative and collateral agent (the “Prior Credit Agreement”). Pursuant to the Prior Credit Agreement, the Prior Lenders provided the Company with senior secured first lien credit facilities in an aggregate principal amount of \$350.0 million (the “Prior Credit Facilities”), consisting of term A loans in an aggregate principal amount of \$100.0 million (the “Term A Loans”) and term B loans in an aggregate principal amount of \$250.0 million (the “Term B Loans”). The initial carrying amounts totaled \$99.5 million (net of original issue discount of \$0.5 million) for the Term A Loans and \$247.5 million (net of original issue discount of \$2.5 million) for the Term B Loans.

On May 2, 2013 (the “Closing Date”), the Company, with each of its domestic subsidiaries as guarantors (the “Guarantors”), entered into a new Credit Agreement (the “New Credit Agreement”) with the lenders referred to therein (the “Lenders”) and HSBC Bank USA, National Association, as administrative agent and as swing line lender and letter of credit issuer. Pursuant to the New Credit Agreement, the Lenders provided Semtech with senior secured first lien credit facilities in an aggregate principal amount of \$400.0 million (the “New Facilities”), consisting of term loans in an aggregate principal amount of \$150.0 million (the “Term Loans”) and revolving commitments in an aggregate principal amount of \$250.0 million (the “Revolving Commitments”). Up to \$40.0 million of the Revolving Commitments may be used to obtain letters of credit; up to \$25.0 million of the Revolving Commitments may be used to obtain swing line loans (as defined below); and up to \$40.0 million of the Revolving Commitments may be used to obtain revolving loans and letters of credit in certain currencies other than U.S. Dollars (“Alternative Currencies”). Swing line loans are base rate loans made in immediately available funds denominated in dollars by a swing line lender in its sole and absolute discretion. As of July 28, 2013, there were no amounts outstanding under the letters of credit, swing line loans, and multi-currency subfacility.

At the Closing Date, \$326.5 million of borrowings were outstanding under the New Facilities consisting of \$149.3 million of Term Loans and \$177.2 million of Revolving Commitments, net of \$1.5 million of debt discounts resulting from amounts paid to the Lenders. The debt discounts are amortized using the effective interest method and is included in “Interest expense” in the unaudited consolidated condensed statements of income. The proceeds from the New Facilities were used to repay in full the outstanding obligations of \$327.5 million under the Prior Credit Facilities. The Prior Credit Facilities were terminated and accounted for as a debt extinguishment.

Debt issuance costs incurred in connection with the New Facilities totaled approximately \$2.0 million and are being amortized using the effective interest method over five year terms of the loans, and are included in “Interest expense” in the unaudited consolidated condensed statements of income.

As a result of the debt refinancing, the Company expensed approximately \$8.8 million of unamortized deferred financing costs and original issue discount associated with the Prior Credit Facilities. The expense is included in “Interest expense” in the unaudited consolidated condensed statements of income for the three and six months ended July 28, 2013.

The New Credit Agreement provides that, subject to certain conditions, Semtech may request, at any time and from time to time, the establishment of one or more additional term loan facilities and/or increases to the Revolving Commitments in an aggregate principal amount not to exceed \$100.0 million, the proceeds of which may be used for working capital and general corporate purposes.

Interest on loans made under the New Credit Agreement in U.S. Dollars accrues, at Semtech’s option, at a rate per annum equal to (1) the Base Rate (as defined below) plus a margin ranging from 0.25% to 1.25% depending upon Semtech’s consolidated leverage ratio or (2) LIBOR (determined with respect to deposits in U.S. Dollars) for an interest period to be selected by Semtech plus a margin ranging from 1.25% to 2.25% depending upon Semtech’s consolidated leverage ratio. The “Base Rate” is equal to a fluctuating rate equal to the highest of (a) the prime rate, (b) ½ of 1% above the federal funds effective rate or (c) one-month LIBOR (determined with respect to deposits in U.S. Dollars) plus 1%. The New Credit Agreement includes a multi-currency subfacility where interest on loans made in Alternative Currencies (other than Canadian Dollars) accrues at a rate per annum equal to LIBOR (determined with respect to deposits in the applicable Alternative Currency) for an interest period to be selected by Semtech plus a margin ranging from 1.25% to 2.25% depending upon Semtech’s consolidated leverage ratio. Interest on loans made

under the New Credit Agreement in Canadian Dollars accrues at a rate per annum equal to the CDOR Rate (as defined below) for an interest period to be selected by Semtech plus a margin ranging from 1.25% to 2.25% depending upon Semtech's consolidated leverage ratio. The "CDOR Rate" for any interest period is the rate equal to the sum of: (a) the rate determined by Administrative Agent with reference to the arithmetic average of the discount rate quotations of all institutions listed for CAD Dollar-denominated bankers' acceptances displayed and identified on the "Reuters Screen CDOR Page" and (b) 0.10% per annum. CDOR Commitment fees on the unused portion of the Revolving Commitments accrue at a rate per annum ranging from 0.20% to 0.45% depending upon Semtech's consolidated leverage ratio. Interest is paid monthly for a base rate loan and swing line loan and quarterly for a Euro dollar rate loan. Interest is payable on the revolving credit maturity date in the case of Revolving Commitments and the additional term maturity date in the case of additional term loans,

respectively. As of July 28, 2013, the interest rates payable on both the Term Loans and the Revolving Commitments was 1.95%.

Quarterly principal payments for Term Loans are due beginning on the last day of the Company's fiscal quarter-end months, beginning on October 27, 2013 and ending on April 30, 2018. The quarterly principal payments related to the term loans are due as follows: \$9.4 million in fiscal year 2014; \$18.8 million in fiscal year 2015; \$18.8 million in fiscal year 2016; \$18.8 million in fiscal year 2017; \$24.4 million in fiscal year 2018. The final remaining principal payment is due on the maturity date of May 1, 2018.

There are no scheduled principal payments for the Revolving Commitments. The Company may, upon notice to the administrative agent, at any time or from time to time voluntarily prepay the Term Loans or Revolving Commitments in whole or in part without premium or penalty. On June 3, 2013, the Company made an early prepayment of \$26.0 million against the Term Loans.

All obligations of Semtech under the New Facilities are unconditionally guaranteed by each of the Guarantors. The obligations of Semtech and the Guarantors in respect to the New Facilities are secured by a first priority security interest in substantially all of the assets of Semtech and the Guarantors, subject to certain customary exceptions.

The Company was subject to customary covenants, including the maintenance of a minimum interest ratio of 3.50:1.00 as of July 28, 2013 and a maximum total consolidated leverage ratio of 3.00:1.00 as of July 28, 2013. The Company was in compliance with such financial covenants as of July 28, 2013.

The New Facilities also contain customary events of default. If any event of default occurs, the principal, interest and any other monetary obligations on all the then outstanding amounts under the New Facilities may become due and payable immediately.

Note 11: Interest Rate Derivative Agreement

In June 2012, in connection with the Prior Credit Agreement, the Company entered into an interest rate cap agreement (“Cap Agreement”) with a \$175.0 million notional amount and an upfront payment of \$1.1 million. The Cap Agreement matures on February 22, 2016 and caps interest rates on one-month LIBOR at 1.00%. The Company did not have any interest rate derivative agreements outstanding prior to June 2012.

The purpose of the Cap Agreement is to hedge the Company’s exposure to fluctuations in LIBOR-indexed interest payments. Although the Prior Credit Agreement was terminated on May 2, 2013, the New Credit Agreement, in an aggregate principal amount of \$400.0 million (see Note 10), permits the Company to elect LIBOR or Base Rate loans. Since the Company intends to make interest payments based on one-month LIBOR-indexed rates and will not elect interest rates based on alternative indices during the term of the Cap Agreement, the Cap Agreement was re-designated as a hedge of one month LIBOR-indexed interest payments associated with the New Credit Agreement. The effectiveness of the interest rate cap was assessed and the Cap Agreement continues to be an effective cash flow hedge of interest rate risk for the Company. No ineffectiveness was recorded during the six months ended July 28, 2013.

The Cap Agreement is recorded at estimated fair value at the end of each reporting period. The fair value of the Cap Agreement at July 28, 2013 was determined using level 2 inputs, including observable market-based inputs such as interest rate curves and implied volatilities for similar instruments with similar contractual terms.

The Company has determined that the Cap Agreement is highly effective in offsetting future variable interest payments associated with the hedged portion of the Company’s New Credit Agreement. Gains or losses associated with the value of the Cap Agreement are initially reported in other comprehensive income or loss and amortized as an increase to interest expense through the maturity of the Cap Agreement. The amount of unrealized losses on the Cap Agreement recorded in other comprehensive loss at July 28, 2013 that is expected to be reclassified into interest expense in the next twelve months, if interest rates remain unchanged, is approximately \$139,000.

Note 12: Income Taxes

The Company’s effective tax rate differs from the statutory federal income tax rate of 35% due primarily to certain undistributed foreign earnings for which no U.S. taxes are provided because such earnings are intended to be indefinitely reinvested outside of the U.S.

The gross unrecognized tax benefit (before federal impact of state items) was \$13.1 million at July 28, 2013 and January 27, 2013. Included in the balance of unrecognized tax benefits at July 28, 2013 and January 27, 2013, is \$11.1 million of net tax benefit (after federal impact of state items), respectively, that, if recognized, would impact the effective tax rate. The liability for uncertain tax positions is reflected on the unaudited consolidated condensed balance sheets as follows:

(in thousands)	July 28, 2013	January 27, 2013
Accrued liabilities	\$188	\$188
Other long-term liabilities	10,887	10,887
Total accrued taxes	\$11,075	\$11,075

The Company’s policy is to include net interest and penalties related to unrecognized tax benefits within the provision (benefit) for taxes on the unaudited consolidated condensed statements of income. The Company had approximately \$293,000 of net interest and penalties accrued at July 28, 2013 and January 27, 2013.

Tax years prior to 2009 (the Company’s fiscal year 2010) are generally not subject to examination by the Internal Revenue Service (“IRS”) except for items involving tax attributes that have been carried forward to tax years whose statute of limitations remains open. The Company is currently under IRS audit for fiscal year 2010 and fiscal year 2011. The Company is also currently under audit by the Canadian Revenue Agency for fiscal years 2010, 2011 and the year ended March 19, 2012. For state returns, the Company is generally not subject to income tax examinations for years prior to 2008 (the Company’s fiscal year 2009). The Company has a primary significant tax presence in Switzerland for which Swiss tax filings have been examined through fiscal year 2010. The Company is also subject to routine examinations by various foreign tax jurisdictions in which it operates.

Note 13: Commitments and Contingencies

Legal Matters

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

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

Because litigation outcomes are inherently unpredictable, the Company's evaluation of legal proceedings often involves a series of complex assessments by management about future events and can rely heavily on estimates and assumptions. While the consequences of certain unresolved proceedings are not presently determinable, and an estimate of the probable and reasonably possible loss or range of loss in excess of amounts accrued for such proceedings cannot be reasonably made, an adverse outcome from such proceedings could have a material adverse effect on the Company's earnings in any given reporting period. However, in the opinion of management, after consulting with legal counsel, and taking into account insurance coverage, any ultimate liability related to current outstanding claims and lawsuits, individually or in the aggregate, is not expected to have a material adverse effect on the Company's consolidated financial statements, as a whole.

The Company's currently pending legal matters of note are discussed below:

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

The Company has used an environmental firm, specializing in hydrogeology, to perform monitoring of the groundwater at the Company's former facility in Newbury Park, California that was leased for approximately forty years. The Company vacated the building in May 2002. Certain contaminants have been found in the local groundwater and site soils. Groundwater monitoring results to date over a number of years indicate that the majority of groundwater contaminants are believed to come, in full or in material part, from adjacent facilities. Responsibility for soil contamination remains under investigation. The location of key soil contamination (and some related groundwater impact) is concentrated in an area of an underground storage tank that the Company believes to have been installed and used in the early 1960s by a former tenant at the site who preceded the Company's tenancy. There are no claims pending with respect to environmental matters at the Newbury Park site. The applicable regulatory agency having authority over the site issued joint instructions in November 2008, ordering the Company and the current owner of the site to perform additional assessments and surveys, and to create ongoing groundwater monitoring plans before any final regulatory action for "no further action" may be approved. In September 2009, the regulatory agency issued supplemental instructions to the Company and the current site owner regarding previously ordered site assessments, surveys and groundwater monitoring. In November 2012, the regulatory agency added two more potentially responsible parties to the matter, based on historical evidence of past occupancy or operations at the site dating to the 1960s. In addition, the regulatory agency's November 2012 action included a draft cleanup and abatement order to all the parties. Responses to the draft orders were submitted in a timely manner by all the parties in January 2013. Further action and response from the regulatory agency is pending. The parties are expected to work

cooperatively in responding to and determining the appropriate scope and extent of additional site investigative and categorization work, as well as in relation to any ultimate proposed clean up and abatement work.

The Company has accrued liabilities where it is probable that a loss will be incurred and the cost or amount of loss can be reasonably estimated. Based upon, and in anticipation of the likely outcome associated with the November 2012 draft cleanup and abatement order, the Company engaged an environmental firm to assist in an assessment of this site consistent with the direction and scope of the draft cleanup and abatement order. Based on the Company's preliminary assessment, it has determined a likely range of probable loss between \$2.5 million and \$5.7 million. Given the early nature of the draft clean up and abatement order and uncertainties associated with environmental assessment and the remediation activities, the Company is unable to determine a best estimate within the range of loss. Therefore, the Company recorded the minimum amount of \$2.5 million under "Accrued liabilities" on the unaudited consolidated condensed balance sheets, and included in the consolidated condensed statement of income under "Selling, general and administrative" in the third quarter of fiscal year 2013. These estimates could change as a result of changes in planned remedial actions, further actions from the regulatory agency, remediation technology, and other factors.

Commercial Disputes

The Company periodically is involved in disputes arising in the normal course of business regarding products or services provided to the Company by vendors or service providers. Historically, the cost of commercial disputes has been immaterial to the Company's consolidated financial statements.

Indemnification

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

Product Warranties

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

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

Note 14: Geographic Information and Concentration of Risk

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

Net sales activity by geographic region is as follows:

	Three Months Ended		Six Months Ended		
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012	
North America	17	% 18	% 16	% 19	%
Asia-Pacific	72	% 69	% 73	% 67	%
Europe	11	% 13	% 11	% 14	%
	100	% 100	% 100	% 100	%

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

(percentage of total sales)	Three Months Ended		Six Months Ended		
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012	
United States	15	% 17	% 15	% 17	%
China (including Hong Kong)	32	% 37	% 33	% 37	%
Japan	13	% 10	% 12	% 10	%
South Korea	11	% 6	% 11	% 7	%

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

(in thousands)	Three Months Ended		Six Months Ended		
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012	
Domestic	\$(11,831	) \$(8,887	) \$(18,245	) \$(17,725)
Foreign	25,506	7,570	47,131	(4,363)
Total	\$13,675	\$(1,317	) \$28,886	\$(22,088)

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

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

(percentage of net sales)	Three Months Ended		Six Months Ended		
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012	
Samsung Electronics (and affiliates)	11	% 10	% 13	% 12	%
Huawei Technologies (and affiliates)	9	% 11	% 9	% 11	%

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

(percentage of net accounts receivable)	Balance as of		
	July 28, 2013	January 27, 2013	
Samsung Electronics (and affiliates)	12	% 12	%
Huawei Technologies (and affiliates)	11	% 14	%
Outside Subcontractors and Suppliers			

The Company relies on a limited number of outside subcontractors and suppliers for the production of silicon wafers, packaging and certain other tasks. Disruption or termination of supply sources or subcontractors, due to natural disasters such as an earthquake 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, Germany, Poland, United Kingdom and Israel. The Company's largest source of silicon wafers is an outside foundry located in China and a significant amount of the Company's assembly and test operations are conducted by third-party contractors in China, Malaysia, Taiwan, Thailand, Korea and the Philippines.

Note 15: Stock Repurchase Program and Shares Withheld from Vested Restricted Shares

The Company has conducted stock repurchasing programs with authorized purchasing amounts going back to March 2008. All stock repurchasing activity has been conducted under authorization from the Board of Directors. The most recent authorization was approved by the Board of Directors in November 2011, under which the Company was authorized to repurchase up to \$50.0 million of the Company's common stock from time to time through negotiated or open market transactions (the "2011 Program"). On August 21, 2013, the Company announced an additional \$50.0 million expansion of the 2011 Program.

In addition to repurchase activity under the 2011 Program, the Company typically withholds shares from vested restricted stock to pay employee payroll and income tax withholding liabilities.

The following table summarizes the stock repurchase activities and shares withheld from vested restricted shares during the periods indicated:

	Three Months Ended				Six Months Ended			
	July 28, 2013		July 29, 2012		July 28, 2013		July 29, 2012	
(in thousands, except number of shares)	Shares	Value	Shares	Value	Shares	Value	Shares	Value
Shares repurchased under the 2008 Program	—	\$—	—	\$—	—	\$—	—	\$—
Shares withheld from vested restricted shares	—	—	3,513	87	—	—	9,696	269
Total treasury shares activities	—	\$—	3,513	\$87	—	\$—	9,696	\$269

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

Note 16: Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board ("FASB") issued an accounting standards update allowing companies to designate the Federal Funds Effective Swap Rate (or Overnight Index Swap Rate) as a benchmark interest rate for hedge accounting purpose. This update is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The Company does not expect the adoption of this guidance to have a material impact on its financial condition, results of operations, cash flows, or disclosures.

In July 2013, the FASB issued an accounting standards update requiring companies to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to deferred tax assets in the financial statements for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company does not expect the adoption of this guidance to have a material impact on its financial condition, results of operations, cash flows, or disclosures.

Protection Products. We design, develop and market high performance protection devices, which are often referred to as transient voltage suppressors (“TVS”). TVS devices provide protection for electronic systems where voltage spikes (called transients), such as electrostatic discharge or secondary lightning surge energy can permanently damage voltage sensitive complementary metal–oxide–semiconductor (“CMOS”) integrated circuits (“ICs”). Our portfolio includes filter and termination devices that are integrated in with the transient voltage suppressor (“TVS”) devices. Our protection products feature low capacitance, providing robust protection while preserving signal integrity in high-speed networking and video

interfaces. These products also operate at very low voltage needed for today's low voltage ICs. Our protection products can be found in a broad range of applications including smart phones, LCD TVs, set-top boxes, tablet computers, notebooks, base stations, routers, and industrial instruments.

Advanced Communications Products. We design, develop and market a portfolio of proprietary advanced wired communication, ultra-high speed Serializer/Deserializer ("SerDes") and modulator driver products for transport communication. These ICs perform transmission and amplification functions used in high-speed networks, at 40Gbps and 100Gbps. Our advanced communications products also feature a leading integrated timing solution for packet based communication networks. Our advanced communications products are used in a variety of communications and industrial applications.

Genum Products. We design, develop and market a portfolio of optical communications, broadcast video, active cable transceiver and backplane products used in a wide variety of enterprise computing, industrial, communications and high-end consumer applications. Our broadcast video products offer advanced solutions for next generation video formats, ever increasing data rates and evolving I/O (input/output) and distance requirements. Our security and surveillance products for HDcctv enable upgrade of analog cctv installations to full digital HD, leveraging the installed base of cabling, and our fully integrated transmit and receive products enable the highest performance, longest reach HDcctv standards-compliant designs. Our comprehensive portfolio of IC's for optical transceivers, backplane applications and consumer high-speed interfaces ranges from 100Mbps to 100Gbps and supports key industry standards such as Fibre Channel, Infiniband, Ethernet, PON, SONET and PCI Express.

Power Management and High-Reliability Products. Power management products control, alter, regulate and condition the power supplies within electronic systems. The highest volume product types within the power management product line are switching voltage regulators, combination switching and linear regulators, smart regulators and charge pumps. Our power management products feature highly integrated devices for the telecom industry and low-power, small form factor and high-efficiency products for mobile phones, notebook computers, computer peripherals and other portable devices. The primary application for these products is power regulation for computer, communications, high-end consumer and industrial systems. Our high-reliability discrete semiconductor products comprised of rectifiers, assemblies (packaged discrete rectifiers) and other products are typically used to convert alternating currents ("AC") into direct currents ("DC") and to protect circuits against very high voltage spikes or high current surges. Our high-reliability products can be found in a broad range of applications including industrial, military, medical, aerospace and defense systems, including satellite communications.

Wireless and Sensing Products. We design, develop and market a portfolio of specialized radio frequency ("RF") functions used in a wide variety of industrial, medical and networking applications, and specialized sensing functions used in industrial and consumer applications. Our wireless and sensing products feature industry leading and longest range industrial, scientific and medical ("ISM") radio, enabling low cost of ownership and increased reliability in all environments. Our unique sensing interface platforms can interface to any sensor and output digital data in any form. Our wireless and sensing products can be found in a broad range of applications in the industrial, medical and consumer markets.

Most of our sales to customers are made on the basis of individual customer purchase orders. Many customers include cancellation provisions in their purchase orders. Trends within the industry toward shorter lead-times and "just-in-time" deliveries have resulted in our reduced ability to predict future shipments. As a result, we rely on orders received and shipped within the same quarter for a significant portion of our sales. Orders received and shipped in the second quarter of fiscal years 2014 and 2013 represented 45% and 40% of net sales, respectively. Sales made directly to customers during the second quarter of fiscal years 2014 and 2013 were 56% and 59% of net sales, respectively. The remaining 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, Germany, Poland, United Kingdom and Israel. For the second quarter of fiscal year 2014, approximately 35% of our silicon, in terms of cost of wafers purchased, was manufactured in China. Foreign sales during the second quarter of fiscal year 2014 constituted approximately 85% of our net sales. Approximately 84% of foreign sales during the second quarter of fiscal year 2014 were to customers located in the Asia-Pacific region. The remaining foreign sales were primarily to customers in Europe, Canada, and Mexico.

Critical Accounting Policies and Estimates

In addition to the discussion below, you should refer to the disclosures regarding our critical accounting policies in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Item 7 of our Annual Report on Form 10-K for the fiscal year ended January 27, 2013 filed with the SEC on March 28, 2013.

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 reasonably assured. Product design and engineering recoveries are recognized during the period in which services are performed. We include revenue related to granted technology licenses as part of “Net sales.” Historically, revenue from these arrangements has not been significant though it is part of our recurring ordinary business.

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 which is expected to approximate actual costs at the date of sale. 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 2013 or the first six months of fiscal year 2014. The following table summarizes the deferred net revenue balance:

(in thousands)	July 28, 2013	January 27, 2013
Deferred revenue	\$5,817	\$4,467
Deferred cost of revenue	1,306	1,099
Deferred revenue, net	4,511	3,368
Deferred product design and engineering recoveries	887	377
Total deferred revenue	\$5,398	\$3,745

Gross Profit

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

Operating Costs

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

Results of Operations

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

	Three Months Ended		Six Months Ended		
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012	
Net sales	100.0	% 100.0	% 100.0	% 100.0	%
Cost of sales	39.0	% 50.5	% 39.5	% 51.4	%
Gross Profit	61.0	% 49.5	% 60.5	% 48.6	%
Operating costs and expenses:					
Selling, general and administrative	20.2	% 20.7	% 20.8	% 28.4	%
Product development and engineering	20.1	% 21.6	% 20.7	% 21.2	%
Intangible amortization and impairments	5.9	% 5.3	% 5.4	% 5.1	%
Total operating costs and expenses	46.2	% 47.6	% 46.9	% 54.7	%
Operating income (loss)	14.8	% 1.9	% 13.6	% (6.1))%
Interest expense	(6.4)	)% (2.3)	)% (4.5)	)% (1.9))%
Interest income and other (expense), net	(0.1)	)% (0.4)	)% (0.3)	)% (0.3))%
Income (loss) before taxes	8.3	% (0.8)	)% 8.8	% (8.3))%
Benefit for taxes	(3.3)	)% (7.5)	)% (1.5)	)% (12.8))%
Net income	11.6	% 6.7	% 10.3	% 4.5	%

Percentages may not add precisely due to rounding.

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

(in thousands)	Three Months Ended		Six Months Ended	
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
Domestic	\$(11,831	) \$(8,887	) \$(18,245	) \$(17,725
Foreign	25,506	7,570	47,131	(4,363
Total	\$13,675	\$(1,317	) \$28,886	\$(22,088

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

Comparison of the Three Months Ended July 28, 2013 and July 29, 2012

We report results on the basis of 52 and 53 week periods and end our 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 second quarter of fiscal years 2014 and 2013 each consisted of 13 weeks.

Our sales by major end-market are detailed below:

(in thousands, except percentages)	Three Months Ended		July 29, 2012		
	July 28, 2013				
Enterprise Computing	\$31,427	19	% \$25,090	17	%
Communications	47,300	29	% 53,006	35	%
High-end Consumer (1)	45,219	27	% 39,156	26	%
Industrial and Other	41,064	25	% 33,452	22	%
Total	\$165,010	100	% \$150,704	100	%

Approximately \$10.6 million and \$5.5 million of our total sales to Samsung Electronics (and affiliates), one of our significant customers, in the second quarter of fiscal years 2014 and 2013, respectively, were for products that target the handheld market (which includes mobile phones). This activity is included in the high-end consumer end-market category.

Net Sales Net sales for the second quarter of fiscal year 2014 were \$165.0 million, an increase of 9% compared to \$150.7 million for the second quarter of fiscal year 2013.

Revenue in the second quarter of fiscal year 2014 benefited from strength in demand for products that support the smart phone, surveillance and optical transceivers markets.

We expect revenue to decline in the third quarter of fiscal year 2014, as compared to the second quarter of fiscal year 2014. The main drivers for this expected decline include softness in the smart phone market as key customers seek to reduce inventory levels, seasonal softness in industrial applications and delays in China infrastructure orders.

Gross Profit During the second quarter of fiscal year 2014, gross profit increased to \$100.7 million from \$74.5 million in the second quarter of fiscal year 2013. Gross profit margins increased to 61.0% in the second quarter of fiscal year 2014 from 49.5% in the second quarter of fiscal year 2013. The increase in gross profit margin was driven by the amortization of acquired inventory, which was fully amortized in the first quarter of fiscal year 2014. The improvement of gross profit in the second quarter of fiscal year 2014 was driven by higher volumes, higher levels of IP revenue and the previously recognized full amortization of the fair value adjustment for acquired inventory. These benefits were partially offset by an unfavorable product mix toward higher sales of lower margin products. In the third quarter of fiscal year 2014, we expect gross profit margin to decline as a result of unfavorable product mix, lower volumes and lower levels of IP revenue.

Operating Costs and Expenses

(in thousands, except percentages)	Three Months Ended				Change	
	July 28, 2013		July 29, 2012			
Selling, general and administrative	\$33,315	44	% \$31,220	44	% 7	%
Product development and engineering	33,125	43	% 32,613	45	% 2	%
Intangible amortization and impairments	9,811	13	% 7,977	11	% 23	%
Total operating costs and expenses	\$76,251	100	% \$71,810	100	% 6	%

Selling, General and Administrative Expenses

Selling, general and administrative (“SG&A”) expenses increased by \$2.1 million in the second quarter of fiscal year 2014 compared to the same quarter of fiscal year 2013 driven primarily by higher stock-based compensation expense and higher marketing and commission expense due to higher sales.

We expect operating costs to decline in the third quarter of fiscal year 2014, as compared to the second quarter of fiscal year 2014. The main drivers for this expected decline include lower variable expenses associated with lower revenue and the impact from cost reduction actions we have taken in response to the softer revenue outlook.

Product Development and Engineering Expenses

Product development and engineering expenses increased by \$0.5 million in the second quarter of fiscal year 2014 compared to the same quarter of fiscal year 2013 driven primarily by higher stock-based compensation expense in the second quarter of fiscal year 2014.

The levels of product development and engineering expenses reported in a fiscal period can be significantly impacted, and therefore experience period over period volatility, by the number of new product tape-outs and by the timing of recoveries from non-recurring engineering services which are typically recorded as a reduction to product development and engineering expense.

Intangible Amortization and Impairments

Intangible amortization and impairments was \$9.8 million and \$8.0 million in the second quarter of fiscal years 2014 and 2013, respectively. The \$1.8 million increase was driven primarily by the impairment charge of \$2.6 million recorded to write-off acquired IPR&D from the SMI acquisition offset by \$0.8 million lower intangible amortization due to service backlog intangible assets from the Gennum acquisition having been fully amortized in the first quarter of fiscal year 2014.

Intangible amortization and impairments is expected to decline in the third quarter of fiscal year 2014, as a result of the discrete write-off of IPR&D in the second quarter of fiscal year 2014.

Interest Expense

Interest expense was \$10.6 million and \$3.4 million in the second quarter of fiscal year 2014 and 2013, respectively. The \$7.2 million increase was due to an \$8.7 million write-off of unamortized original issue discount and debt issuance cost associated with the retired debt offset by \$1.5 million of cost savings resulting from refinancing \$350.0 million of debt in the second quarter of fiscal year 2014.

Interest expense is expected to be approximately \$1.7 million for the third quarter of fiscal year 2014.

Interest Income and Other (Expense) Income, Net

Interest income and other (expense) income, net was \$(0.2) million in the second quarter of fiscal year 2014, compared to \$0.6 million in the second quarter of fiscal year 2013. The decrease is primarily due to the volatility of foreign exchange related to cash holding by the Company in local currencies.

Income Taxes

In the second quarter of fiscal year 2014, we recorded an income tax benefit of approximately \$5.4 million compared to an income tax benefit of \$11.3 million in the second quarter of fiscal year 2013. The effective tax rates for the second quarter of fiscal years 2014 and 2013 were a benefit of 39.8% and 861.0%, respectively. Our effective tax rate in the second quarter of fiscal year 2014 differs from the statutory federal income tax rate of 35% due primarily to certain undistributed foreign earnings for which no U.S taxes are provided because such earnings are indefinitely reinvested outside of the U.S.

As a global organization, we are subject to audit by taxing authorities in various jurisdictions. To the extent that an audit, or the closure of a statute of limitations, results in our adjusting our reserves for uncertain tax positions, our effective tax rate could experience extreme volatility since any adjustment would be recorded as a discrete item in the period of adjustment.

Comparison of the Six Months Ended July 28, 2013 and July 29, 2012

We report results on the basis of 52 and 53 week periods and end our 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 six months of fiscal years 2013 and 2012 each consisted of 26 weeks. Our sales by major end-market are detailed below:

(in thousands, except percentages)	Six Months Ended					
	July 28, 2013		July 29, 2012			
Enterprise Computing	\$57,153	17	%	\$39,055	15	%
Communications	92,044	28	%	94,765	35	%
High-end Consumer (1)	97,205	30	%	77,710	29	%
Industrial and Other	81,015	25	%	55,816	21	%
Total	\$327,417	100	%	\$267,346	100	%

Approximately \$25.2 million and \$10.2 million of our total sales to Samsung Electronics (and affiliates), one of our significant customers, in the first six months of fiscal years 2014 and 2013, respectively, were for products that target the handheld market (which includes mobile phones). This activity is included in the high-end consumer end-market category.

Net Sales Net sales for the first six months of fiscal year 2014 were \$327.4 million, an increase of 22% compared to \$267.3 million for the first six months of fiscal year 2013.

Revenue in the first six months of fiscal year 2014 benefited from a full six months of activity of Gennum sales and strength in demand for products that support the smart phone, surveillance and optical transceivers markets.

Gross Profit During the first six months of fiscal year 2014, gross profit increased to \$198.0 million from \$129.9 million in the first six months of fiscal year 2013. Gross profit margins increased to 60.5% in the first six months of fiscal year 2014 from 48.6% in the first six months of fiscal year 2013.

The improvement of gross profit in the first six months of fiscal year 2014 was driven by higher volumes, higher levels of IP revenue and the previously recognized full amortization of the fair value adjustment for acquired inventory. These benefits were partially offset by unfavorable product mix.

Operating Costs and Expenses

(in thousands, except percentages)	Six Months Ended						Change
	July 28, 2013		July 29, 2012				
Selling, general and administrative	\$68,109	44	%	\$76,038	52	%	(10)%
Product development and engineering	67,684	44	%	56,696	39	%	19%
Intangible amortization and impairments	17,667	12	%	13,555	9	%	30%
Total operating costs and expenses	\$153,460	100	%	\$146,289	100	%	5%

Selling, General and Administrative Expenses

Selling, general and administrative (“SG&A”) expenses decreased by \$7.9 million in the first six months of fiscal year 2014, compared to the first six months of fiscal year 2013 driven primarily by \$20.4 million of transaction and integration expenses related to the acquisitions of Gennum and Cycleo in March 2012 and the impact of two full quarters of Gennum results in the first six months of fiscal year 2014 compared to the inclusion of Gennum results only from March 2012 for the same period of fiscal year 2013.

Product Development and Engineering Expenses

Product development and engineering expenses increased by \$11.0 million in the first six months of fiscal year 2014, compared to the first six months of fiscal year 2013 driven primarily by the impact of two full quarters of Gennum results in the first six months of fiscal year 2014 compared to the inclusion of Gennum results only from March 2012 for the same period of fiscal year 2013.

The levels of product development and engineering expenses reported in a fiscal period can be significantly impacted, and therefore experience period over period volatility, by the number of new product tape-outs and by the timing of recoveries from non-recurring engineering services which are typically recorded as a reduction to product development and engineering expense.

Intangible Amortization and Impairments

Intangible amortization and impairments were \$17.7 million and \$13.6 million in the first six months of fiscal years 2014 and 2013, respectively. The \$4.3 million increase was driven primarily by the impairment charge of \$2.6 million recorded to write-off acquired IPR&D from the SMI acquisition and the impact of two full quarters of Gennum results in the six months of fiscal year 2014 compared to the inclusion of Gennum results only from March 2012 for the same period of fiscal year 2013.

Interest Expense

Interest expense was \$14.6 million and \$5.0 million in the first six months of fiscal year 2014 and 2013, respectively. The increase resulted from an \$8.7 million write-off of unamortized original issue discount and debt issuance cost associated with the retired debt in the second quarter of fiscal year 2014, partially offset by lower interest expense.

Interest Income and Other Expense, Net

Interest income and other expense, net was \$1.0 million in the first six months of fiscal year 2014, compared to \$0.7 million in the first six months of fiscal year 2013. The increase was due primarily to the volatility of foreign exchange related to cash holding by the Company in local currencies.

Income Taxes

In the first six months of fiscal year 2014 we recorded an income tax benefit of approximately \$5.0 million compared to an income tax benefit of \$34.3 million in the first six months of fiscal year 2013. The effective tax rates for the first six months of fiscal years 2014 and 2013 were a benefit of 17.3% and 155.4%, respectively. Our effective tax rate in fiscal year 2014 differs from the statutory federal income tax rate of 35% due primarily to certain undistributed foreign earnings for which no U.S taxes are provided because such earnings are indefinitely reinvested outside of the U.S.

As a global organization, we are subject to audit by taxing authorities in various jurisdictions. To the extent that an audit, or the closure of a statute of limitations, results in our adjusting our reserves for uncertain tax positions, our effective tax rate could experience extreme volatility since any adjustment would be recorded as a discrete item in the period of adjustment.

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 July 28, 2013, our total shareholders' equity was \$750.5 million. At that date we also had approximately \$237.1 million in cash and temporary investments, \$4.9 million in long-term investments, and \$300.5 million of borrowings, net of debt discount.

Our primary sources and uses of cash for the corresponding periods are presented below:

(in millions)	Six Months Ended July 28, 2013	Six Months Ended July 29, 2012
Sources of Cash		
Operating activities	\$58.5	\$11.9
Proceeds from exercise of stock options including tax benefits	8.3	5.3
Proceeds from sale of investments	9.0	103.2
Issuance of debt, net of discount and debt issuance cost	324.4	338.0
	\$400.2	\$458.4
Uses of Cash		
Capital expenditures, net of sale proceeds	\$(23.5)	\$(10.7)
Acquisitions, net of cash acquired	—	(491.7)
Purchases of investments	(1.1)	(10.1)
Payment of long-term debt	(359.1)	(5.6)
Payment for interest rate cap	—	(1.1)
Repurchase of common stock	—	(0.3)
Purchase of intangible assets	(2.6)	—
	\$(386.3)	\$(519.5)
Effect of exchange rate increase on cash and cash equivalents	—	(0.1)
Net increase (decrease) in cash and cash equivalents	\$13.9	\$(61.2)

We incur significant expenditures in order to fund the development, design, and manufacture of new products. We intend to continue to focus on those areas that have shown potential for viable and profitable market opportunities, which may require additional investment in equipment and the hiring of additional design and application engineers 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.

A meaningful portion of our capital resources, and the liquidity they represent, are held by our foreign subsidiaries. As of July 28, 2013, our foreign subsidiaries held approximately \$207.2 million of cash and cash equivalents compared to \$180.2 million at January 27, 2013.

One of our primary goals is to improve the cash flows from our existing business activities. Our cash, cash equivalents and investments give us the flexibility to use our free cash flow to pay down debt, return value to shareholders (in the form of stock repurchases) and also pursue business improvement opportunities.

Additionally, we will continue to seek to maintain and improve our existing business performance with capital expenditures and, potentially, acquisitions that meet our rate of return requirements. Acquisitions may 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 for non-cash items plus fluctuations in operating assets and liabilities.

Operating cash flow for the first six months of fiscal year 2014 was impacted by several significant non-cash transaction related items including an \$8.8 million write off of unamortized deferred financing costs and original issue discount associated with the retired debt, \$28.9 million of depreciation, amortization, and impairment expense, \$14.8 million of stock-based compensation expense, and \$1.0 million of accretion of capitalized finance costs.

Investing Activities

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

Capital expenditures were \$23.6 million for the first six months of fiscal year 2014 compared to \$10.7 million for the first six months of fiscal year 2013. The increase in capital expenditures was primarily to maintain and expand our test capacity, support engineering and manufacturing functions, and to develop our new Enterprise Resource Planning (“ERP”) software platform.

Financing Activities

Cash used by financing activities is primarily attributable to cash payment for long-term debt offset by proceeds from debt issuance and the exercise of stock options.

In the first six months of fiscal year 2014, cash proceeds from the exercise of stock options were \$8.3 million compared to \$2.4 million in the first six months of fiscal year 2013.

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

We currently have in effect a stock repurchase program. This program represents one of our principal efforts to return value to our shareholders. No shares were repurchased in the first six months of fiscal years 2014 and 2013.

In addition to the stock repurchase program, shares valued at \$269,000 were withheld in connection with the vesting of restricted stock to cover statutory tax withholding obligations in the first six months of fiscal year 2013. There were no withholdings in the first six months of fiscal year 2014.

In addition to using our cash, we incurred debt of \$347.0 million (net of original issue discount of \$3.0 million) in term loans during the first six months of 2013 to complete the Gennum acquisition. Repayments of long term debt during the first six months of fiscal year 2014 totaled \$359.1 million which includes \$26.0 million early prepayment made for the New Credit Agreement on June 3, 2013. In accordance with the Prior Credit Agreement, we entered into an interest rate cap agreement protecting at least 50% of the variable interest rate exposure on the term loans and made an upfront payment of \$1.1 million in June 2012.

On May 2, 2013, we entered into a New Credit Agreement with the Lenders and HSBC Bank USA, National Association, as administrative agent and as swing line lender and letter of credit issuer. Pursuant to the New Credit Agreement, the Lenders provided Semtech with senior secured first lien credit facilities in an aggregate principal amount of \$400.0 million, consisting of term loans in aggregate principal amount of \$150.0 million and revolving commitments in an aggregate principal amount of \$250.0 million. We have incurred loan fees of \$2.0 million for the New Credit Agreement which will be amortized to interest expense over the five-year loan term commencing in the second quarter of fiscal year 2014.

The New Facilities replace the Prior Credit agreement which was terminated on the closing date of the New Credit Agreement.

Off-Balance Sheet Arrangements

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

We do not have any unconsolidated subsidiaries or affiliated entities. We have no special purpose or limited purpose entities that provide off-balance sheet financing, liquidity or market or credit risk support. 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.

Contractual Obligations

Except as discussed below, there were no material changes in our contractual obligations during the first six months of fiscal year 2014 from those disclosed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Item 7 of our Annual Report on Form 10-K for the fiscal year ended January 27, 2013 filed with the SEC on March 28, 2013.

On May 2, 2013, the Company entered into a New Credit Agreement to replace Semtech’s existing \$350.0 million senior secured first lien term loan credit facilities entered into on March 20, 2012. Refer to Note 10 for more details. Payments under the New Credit Agreement are scheduled to occur in the following periods:

	July 28, 2013
(in thousands)	Long-Term Debt
Less than 1 year	\$ 18,750
1 to 3 years	37,500
After 3 years	245,750
	\$302,000

Inflation

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

Available Information

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

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

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to a variety of market risks, including commodity risk and the risks related to foreign currency, interest rates and market performance that are discussed in Item 7A of our Annual Report on Form 10-K for fiscal year 2013 that ended on January 27, 2013 filed with the SEC on March 28, 2013. Many of the factors that can have an impact on our market risk are external to us, and so we are unable to fully predict them.

On June 18, 2012, we entered into an interest rate cap agreement to fulfill the requirements of our Prior Credit Agreement. The purpose of the Cap Agreement is to hedge the Company’s exposure to fluctuations in LIBOR-indexed interest payments. Although the Prior Credit Agreement was terminated on May 2, 2013, the New Credit Agreement, in an aggregate principal

amount of \$400.0 million (see Note 10), permits the Company to elect LIBOR or Base Rate loans. Since the Company intends to make interest payments based on one-month LIBOR-indexed rates and will not elect interest rates based on alternative indices during the term of the Cap Agreement, the Cap Agreement was re-designated as a hedge of one month LIBOR-indexed interest payments associated with the New Credit Agreement. The effectiveness of the interest rate cap was assessed and the Cap Agreement continues to be an effective cash flow hedge of interest rate risk for the Company.

We do not engage in the trading of derivative financial instruments in the normal course of business. In the event interest rates were to increase 100 basis points and holding all other variables constant, annual net income and cash flows for the following year would decrease by approximately \$1.2 million as a result of the Company's variable-rate debt, including the effect of the interest rate contract. The effect of the 100 basis points increase would decrease the fair value of our new variable-rate debt by approximately \$3.0 million.

ITEM 4. Controls and Procedures

Disclosure Controls

The Company carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures were effective as of such date.

Changes in Internal Controls

During the fiscal quarter ended July 28, 2013, there was no change in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. Legal Proceedings

Information about legal proceedings is set forth in Note 13 to the consolidated condensed financial statements included in Part I, Item 1 of this Quarterly Report.

ITEM 1A. Risk Factors

You should carefully consider and evaluate all of the information in this Quarterly Report and the risk factors set forth in our Annual Report on Form 10-K for the fiscal year ended January 27, 2013 filed with the SEC on March 28, 2013. The risks set forth in our Annual Report on Form 10-K are not the only ones we face. Additional risks not now known to us or that we currently deem immaterial may also impair our business operations. If any of these risks actually occur, our business could be materially harmed. If our business is harmed, the trading price of our common stock could decline.

The risk factors associated with our business have not materially changed, as compared to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended January 27, 2013 filed with the SEC on March 28, 2013. Also see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Quarterly Report for a discussion of certain factors that may affect our future performance.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

Recent Sales of Unregistered Securities

We did not make any sales of unregistered securities during the second quarter of fiscal year 2014.

Issuer Purchase of Equity Securities

This table provides information with respect to purchases by us of shares of our common stock during the second quarter of fiscal year 2014.

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)	
May 2013 (04/29/13-05/26/13)	—	\$ —	—	\$42.5	million
June 2013 (05/27/13-06/23/13)	—	—	—	42.5	million
July 2013 (06/24/13-07/28/13)	—	\$ —	—	\$42.5	million
Total activity	—	—	—		

The Company has conducted stock repurchasing programs with authorized purchasing amounts going back to March, 2008. All stock repurchasing activity has been conducted under authorization from the Board of Directors.

(1) The most recent authorization was approved by the Board of Directors in November, 2011, under which the Company was authorized to repurchase up to \$50 million of the Company's common stock from time to time through negotiated or open market transactions (the "2011 Program"). On August 21, 2013, the Company announced an additional \$50 million expansion of the 2011 Program.

The table does not include shares surrendered to us in connection with the cashless exercise of stock options by (2) employees and directors or shares surrendered to us to cover tax liabilities upon vesting of restricted stock. See Note 15 to our unaudited consolidated condensed financial statements.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

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

Exhibit No.	Description	Location
3.1	Restated Certificate of Incorporation of Semtech Corporation	Exhibit 3.1 to our Quarterly Report on Form 10-Q for the quarterly period ended October 26, 2003
3.2	Bylaws of Semtech Corporation	Exhibit 3.2 to our Annual Report on Form 10-K for the year ended January 27, 2008
10.1	Credit Agreement dated May 2, 2013 entered into among Semtech Corporation, the subsidiary guarantors referred to therein, the lenders referred to therein and HSBC Bank USA, National Association, as administrative agent.	Exhibit 10.1 to our Current Report on Form 8-K filed on May 3, 2013
10.2	Security Agreement dated May 2, 2013 entered into by Semtech Corporation and the subsidiary guarantors referred to therein, in favor of HSBC Bank USA National Association solely in its capacity as administrative agent under that certain Credit Agreement between the parties of the same date.	Exhibit 10.2 to our Current Report on Form 8-K filed on May 3, 2013
10.3	Semtech Corporation 2013 Long-Term Equity Incentive Plan	Exhibit 10.1 to our Current Report on Form 8-K filed on June 24, 2013
31.1	Certification of the Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended	Filed herewith
31.2	Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended	Filed herewith
32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Exhibit 32.1 is being furnished and shall not be deemed "filed")	Filed herewith
32.2	Certification of the Chief Financial Officer Pursuant 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Exhibit 32.2 is being furnished and shall not be deemed "filed")	Filed herewith
101.INS	XBRL Instance Document	Filed herewith

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101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SEMTECH CORPORATION
Registrant

Date: September 6, 2013

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

Date: September 6, 2013

/s/ Emeka N. Chukwu
Emeka N. Chukwu
Senior Vice President and
Chief Financial Officer