

SEMTECH CORP
Form 10-Q
March 29, 2007

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 October 29, 2006

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
incorporation or organization)

200 Flynn Road, Camarillo, California, 93012-8790

(Address of principal executive offices, Zip Code)

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

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

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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 is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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 March 13, 2007: 72,304,877

EXPLANATORY NOTE

Concurrently with the filing of this Form 10-Q, we are filing Amendment No. 1 (Amendment No. 1 or Form 10-K/A) to our Annual Report on Form 10-K for the fiscal year ended January 29, 2006 as filed on April 14, 2006 (the Original Report) to reflect

- (1) \$91.0 million of additional pre-tax non-cash stock-based compensation expense (net of \$30,000 capitalized into inventory), and related income tax effects, resulting from stock options granted or modified primarily during fiscal years 1996 to 2003 that were incorrectly accounted for under U.S. generally accepted accounting principles (GAAP) (Restatement Adjustments). The effect of the Restatement Adjustments extends back to fiscal year 1996 and the cumulative non-cash stock-based compensation expense, including the related income tax impacts, as of the beginning of fiscal year 2002 is recognized as a net decrease to retained earnings in fiscal year 2002. The amount related to this incorrect stock option accounting that impacts fiscal year 2007 and future years is immaterial.
- (2) \$60,000 increase to income, net of related tax effects, of miscellaneous audit adjustments (Audit Adjustments) that were excluded from the fiscal year 2006 financial statements presented in the Original Report based on materiality. The Audit Adjustments are reflected in the financial statements for the fourth quarter of fiscal year 2006.

We did not amend any of our previously filed Quarterly Reports on Form 10-Q to reflect the Restatement Adjustments. This Form 10-Q restates our consolidated condensed financial statements as of and for the three months and nine months ended October 30, 2005 to reflect the effect of the Restatement Adjustments.

References in this report to the restatement are references to the restatement required due to stock option matters (item 1 above) and not to the Audit Adjustments. For more information about the restatement and related matters, see Notes 1A, 5 and 11 of the Notes to Consolidated Condensed Financial Statements in this report and the discussion in this report under Part 1, Item 2 *Managements Discussion and Analysis of Financial Conditions and Results of Operations*. Also see Form 10-K/A, especially Notes 1A and 19 of the Notes to Consolidated Financial Statements and the discussions in the Form 10-K/A under *Restatement of Consolidated Financial Statements Based on Review of Stock Option Practices* in Item 7 and under Item 9A *Controls and Procedures*. Information about the Audit Adjustments may be found in Note 20 of the Notes to Consolidated Financial Statements included in the Form 10-K/A.

Quarterly Reports on Form 10-Q for the quarterly periods ended April 30, 2006 (First Quarter Form 10-Q), July 30, 2006 (Second Quarter Form 10-Q), and October 29, 2006 (Third Quarter Form 10-Q) are being filed concurrently with the Form 10-K/A. The First Quarter Form 10-Q, the Second Quarter Form 10-Q, and the Third Quarter Form 10-Q are together referred to as the FY2007 Form 10-Qs . This report should be read in conjunction with the Form 10-K/A, the other FY2007 Form 10-Qs, as well as any Current Reports on Form 8-K filed subsequent to the date the Original Report was filed.

We have not amended and do not anticipate amending our Annual Reports on Form 10-K for any years prior to fiscal year 2006, nor will we be amending any of our previously filed Quarterly Reports on Form 10-Q. The financial statements and other information that have been previously filed or otherwise reported for these periods should no longer be relied upon; all such prior information is superseded by the information in the Form 10-K/A, this report, and the other FY2007 Form 10-Qs.

SEMTECH CORPORATION

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FOR THE QUARTER ENDED OCTOBER 29, 2006

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PART I FINANCIAL INFORMATIONITEM 1. FINANCIAL STATEMENTS**SEMTECH CORPORATION AND SUBSIDIARIES****CONSOLIDATED CONDENSED STATEMENTS OF INCOME**

(in thousands, except per share data)

(Unaudited)

	Three Months Ended October 30 2005		Nine Months Ended October 30 2005	
	October 29 2006	(As restated) (1)	October 29 2006	(As restated) (1)
Net sales	\$ 63,711	\$ 60,870	\$ 194,575	\$ 175,033
Cost of sales	29,188	26,648	86,778	77,159
Gross profit	34,523	34,222	107,797	97,874
Operating costs and expenses:				
Selling, general and administrative	19,952	11,738	52,588	33,825
Product development and engineering	9,628	10,204	30,519	28,479
Acquisition related items	276	409	916	4,545
Insurance related legal expenses / (settlements)	32	502	298	(630)
Total operating costs and expenses	29,888	22,853	84,321	66,219
Operating income	4,635	11,369	23,476	31,655
Interest and other income, net	3,509	1,929	9,592	5,266
Income before taxes	8,144	13,298	33,068	36,921
Provision for taxes	1,798	2,026	6,535	8,235
Net income	\$ 6,436	\$ 11,272	\$ 26,533	\$ 28,686
Earnings per share:				
Basic	\$ 0.09	\$ 0.15	\$ 0.37	\$ 0.39
Diluted	\$ 0.09	\$ 0.15	\$ 0.36	\$ 0.38
Weighted-average number of shares:				
Basic	72,298	73,239	72,388	73,633
Diluted	73,718	75,564	74,095	76,252

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

(1). See Note 1A, Restatement of Consolidated Financial Statements of the Notes to Consolidated Condensed Financial Statements.

SEMTECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands, except share data)

	October 29 2006 (Unaudited)	January 29 2006 (As restated) (1)
Assets		
Current assets:		
Cash and cash equivalents	\$ 110,060	\$ 65,543
Temporary investments	154,667	130,185
Receivables, less allowances	25,867	27,141
Inventories	25,252	23,595
Deferred income taxes	10,056	6,361
Other current assets	7,079	8,757
Total current assets	332,981	261,582
Property, plant and equipment, net	50,402	56,957
Investments, maturities in excess of 1 year	61,647	82,458
Deferred income taxes	21,297	22,578
Goodwill	32,748	33,132
Other intangibles, net	4,559	5,476
Other assets	11,092	10,763
Total Assets	\$ 514,726	\$ 472,946
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 11,807	\$ 12,325
Accrued liabilities	14,680	11,064
Income taxes payable	1,856	701
Deferred revenue	2,058	1,360
Deferred income taxes	1,452	562
Other current liabilities	96	96
Total current liabilities	31,949	26,108
Deferred income taxes	2,650	3,707
Other long-term liabilities	7,122	5,478
Commitments and Contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value, 250,000,000 shares authorized, 77,061,426 issued and 72,304,877 outstanding on October 29, 2006 and 76,773,473 issued and 72,693,804 outstanding on January 29, 2006	774	770
Treasury stock, at cost, 4,756,549 shares as of October 29, 2006 and 4,079,669 shares as of January 29, 2006	(85,955)	(73,963)
Additional paid-in capital	312,576	290,932
Retained earnings	245,923	220,758
Accumulated other comprehensive income	(313)	(844)
Total stockholders' equity	473,005	437,653
Total Liabilities and Stockholders' Equity	\$ 514,726	\$ 472,946

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

(1). See Note 1A, *Restatement of Consolidated Financial Statements of the Notes to Consolidated Condensed Financial Statements.*

SEMTECH CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Nine Months Ended	
	October 29 2006	October 30, 2005 (As restated) (1)
Cash flows from operating activities:		
Net income	\$ 26,533	\$ 28,686
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,711	8,677
Deferred income taxes	(2,581)	4,430
Stock-based compensation	12,212	1,399
Tax benefit on stock based compensation	7,041	1,879
Excess tax benefits	(1,529)	
In process research and development write-off		4,000
Loss on disposition of property, plant and equipment	85	216
Changes in assets and liabilities:		
Accounts receivable	1,380	(1,790)
Inventories	(1,657)	1,119
Other assets	1,351	1,195
Accounts payable and accrued liabilities	3,099	(4,126)
Deferred revenue	698	(905)
Income taxes payable	1,155	(1,649)
Other liabilities	1,644	2,441
Other	75	
Net cash provided by operating activities	58,217	45,572
Cash flows from investing activities:		
Purchase of available-for-sale investments	(24,322)	(55,818)
Proceeds from sales and maturities of available-for-sale investments	21,331	65,540
Proceeds on sale of assets	1,197	(269)
Purchase of XEMICS, net of cash acquired		(42,444)
Additions to property, plant and equipment	(2,343)	(9,640)
Net cash provided by (used in) investing activities	(4,137)	(42,631)
Cash flows from financing activities:		
Repayment of notes payable to bank		(873)
Excess tax benefit received on stock options	1,529	
Exercise of stock options	2,240	5,464
Repurchase of treasury stock	(14,240)	(33,016)
Reissuance of treasury stock	906	1,293
Net cash used in financing activities	(9,565)	(27,132)
Effect of exchange rate changes on cash and cash equivalents	2	(155)
Net increase (decrease) in cash and cash equivalents	44,517	(24,346)
Cash and cash equivalents at beginning of period	65,543	82,154
Cash and cash equivalents at end of period	\$ 110,060	\$ 57,808

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

(1). See Note 1A, *Restatement of Consolidated Financial Statements of the Notes to Consolidated Condensed Financial Statements.*

SEMTECH CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated condensed financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the included disclosures are adequate to make the information presented not misleading. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's latest annual report on Form 10-K/A. Certain amounts for prior periods have been reclassified to conform to the current presentation.

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

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 as of October 29, 2006, the results of their operations for the third quarter and first nine months then ended, and their cash flows for the first nine months then ended. As discussed in Note 1A below, the accompanying financial statements for the quarter and nine months ended October 30, 2005 are restated.

The results reported in these consolidated condensed financial statements should not be regarded as necessarily indicative of results that may be expected for any subsequent period or for the entire year.

Fiscal Year

The Company reports on the basis of 52 and 53 week periods and ends its fiscal year on the last Sunday in January. The other quarters generally end on the last Sunday of April, July, and October. All quarters consist of 13 weeks except for one 14-week quarter in 53-week years. The third quarters and first nine months of fiscal year 2007 and fiscal year 2006 each consisted of 13 weeks and 39 weeks, respectively.

Earnings Per Share

Basic earnings per common share are computed using the weighted-average number of common shares outstanding during the respective reporting period. Diluted earnings per common share incorporate the incremental shares issuable, calculated using the treasury stock method, upon the assumed exercise of stock options and the vesting of restricted stock. The weighted-average number of shares used to compute basic earnings per share in the third quarters of fiscal years 2007 and 2006 was approximately 72,298,000 and 73,239,000, respectively. The weighted-average number of shares used to compute diluted earnings per share in the third quarters of fiscal years 2007 and 2006 was approximately 73,718,000 and 75,564,000, respectively. The weighted-average number of shares used to compute basic earnings per share in the first nine months of fiscal years 2007 and 2006 was approximately 72,388,000 and 73,633,000, respectively. The weighted-average number of shares used to compute diluted earnings per share in the first nine months of fiscal years 2007 and 2006 was approximately 74,095,000 and 76,252,000, respectively.

Options to purchase approximately 10.2 million shares and 6.3 million shares, respectively, were not included in the computation of the third quarters of fiscal years 2007 and 2006 diluted net income per share because such options were considered anti-dilutive. Options to purchase approximately 8.0 million shares and 4.7 million shares, respectively, were not included in the computation of the first nine months of fiscal years 2007 and 2006 diluted net income per share because such options were considered anti-dilutive.

Stock-Based Compensation

The Company has various stock option plans that provide for granting options to purchase shares of the Company's common stock to employees and directors of the Company. The plans provide for the granting of options which meet the Internal Revenue Code qualifications to be incentive stock options, as well as nonstatutory options and other equity-based awards. Historically, most options granted by the Company expire within ten years from the date of grant and vest in equal annual increments over three to four years from the date of grant. In the first quarter of fiscal year 2007, the Company decided that most future grants would have six year lives, except for those to employees in certain countries where longer lives are required or desirable for tax purposes. The Company has also issued some stock-based compensation outside of any plan, including options and restricted stock awarded as inducements to join the Company.

In the third quarter of fiscal year 2007, no stock options were granted or exercised and approximately 247,000 options were canceled. As of October 29, 2006, options to purchase approximately 13.7 million shares were outstanding at a weighted-average exercise price of \$14.69 per share, including options granted outside of the Company's stock option plans. As of the same date, there were also outstanding 100,000 shares of restricted stock that were granted as an inducement award outside of the Company's stock option plans. As of October 29, 2006, the Company had approximately 6.9 million shares available under its plans for future grant of options, restricted stock, or other equity-based awards.

In fiscal years 1997 through 2006, the Company accounted for stock options under the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees, and related interpretations, and had adopted the disclosure-only provisions of SFAS No. 123, Accounting for Stock-Based Compensation as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an amendment of FASB Statement No. 123.

Beginning in the first quarter of fiscal year 2007, the Company began accounting for stock-based compensation in accordance with Financial Accounting Standards Board Statement (FASB) No. 123(R) (SFAS 123(R)), Share-Based Payme