SEMTECH CORP
Form 10-Q
September 03, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

or

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

Commission file number 1-6395

SEMTECH CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**95-2119684**
(State or other jurisdiction of incorporation or organization)	**(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 x 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 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 x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨

(Do not check if a smaller reporting company)
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes ¨ No x

Number of shares of Common Stock, $0.01 par value per share, outstanding at August 28, 2009: 61,440,100

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SEMTECH CORPORATION

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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 26, 2009	**July 27, 2008**	**July 26, 2009**	**July 27, 2008**
Net Sales	**$ 66,317**	$ 77,960	**$ 126,394**	$ 152,404
Cost of Sales	**30,165**	35,165	**57,510**	68,818
Gross Profit	**36,152**	42,795	**68,884**	83,586
Operating costs and expenses:				
Selling, general and administrative	**16,741**	18,927	**34,196**	39,718
Product development and engineering	**10,893**	10,707	**21,280**	22,051
Total operating costs and expenses	**27,634**	29,634	**55,476**	61,769
Operating income	**8,518**	13,161	**13,408**	21,817
Interest and other income, net	**282**	1,241	**1,572**	2,980
Income before taxes	**8,800**	14,402	**14,980**	24,797
Provision for taxes	**1,380**	2,738	**2,616**	5,056
NET INCOME	**$ 7,420**	$ 11,664	**$ 12,364**	$ 19,741
Earnings per share:				
Basic	**$ 0.12**	$ 0.19	**$ 0.20**	$ 0.32
Diluted	**$ 0.12**	$ 0.19	**$ 0.20**	$ 0.32
Weighted average number of shares used in computing earnings per share:				
Basic	**60,493**	61,839	**60,429**	61,278
Diluted	**61,044**	62,584	**60,885**	62,135

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

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SEMTECH CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands, except share data)

	July 26, 2009	January 25, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 115,910	$ 147,666
Temporary investments	151,628	98,735
Receivables, less allowances of $820 at July 26, 2009 and $843 at January 25, 2009	25,581	27,467
Inventories	26,644	27,986
Deferred income taxes	4,344	4,287
Other current assets	8,979	7,561
Total current assets	333,086	313,702
Non-current assets		
Property, plant and equipment, net of accumulated depreciation of $70,295 at July 26, 2009 and $68,387 at January 25, 2009	32,083	31,786
Investments, maturities in excess of 1 year	23,513	12,414
Deferred income taxes	25,701	25,544
Goodwill	25,540	25,540
Other intangibles, net	3,785	2,091
Other assets	9,507	9,718
Total non-current assets	120,129	107,093
TOTAL ASSETS	**$ 453,215**	**$ 420,795**
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 19,000	$ 10,653
Accrued liabilities	14,712	15,915
Income taxes payable	2,226	2,108
Deferred revenue	2,597	2,808
Accrued taxes	727	727
Deferred income taxes	1,537	1,604
Total current liabilities	40,799	33,815
Non-current liabilities:		
Deferred income taxes	702	101
Accrued taxes	3,645	3,563
Other long-term liabilities	6,792	5,296
Commitments and contingencies		
Stockholders equity:		
Common stock, $0.01 par value, 250,000,000 shares authorized, 78,136,144 issued and 60,775,991 outstanding on July 26, 2009 and 78,136,144 issued and 60,287,427 outstanding on January 25, 2009	784	784
Treasury stock, at cost, 17,341,403 shares as of July 26, 2009 and 17,817,688 shares as of January 25, 2009	(287,965)	(295,844)
Additional paid-in capital	341,635	338,603
Retained earnings	346,109	333,747
Accumulated other comprehensive income	714	730

Total stockholders equity	401,277	378,020
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 453,215**	**$ 420,795**

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

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SEMTECH CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

	July 26, 2009	July 27, 2008
Cash flows from operating activities:		
Net income	$ 12,364	$ 19,741
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	3,724	4,157
Deferred income taxes	(1,756)	(359)
Stock-based compensation	9,718	9,253
Tax benefit on stock based compensation	1,482	3,021
Excess tax benefits on stock based compensation	(226)	(1,467)
Loss on disposition of property, plant and equipment	29	1,175
Changes in assets and liabilities:		
Receivables, net	1,886	(4,617)
Inventories	1,306	(6,378)
Prepaid expenses and other assets	(2,133)	5,718
Accounts payable	8,347	7,467
Accrued liabilities	(1,203)	(2,401)
Deferred revenue	(211)	547
Income taxes payable (prepaid)	1,031	(22)
Other liabilities	649	(508)
Net cash provided by operations	35,007	35,327
Cash flows from investing activities:		
Purchase of available-for-sale investments	(158,821)	(25,958)
Proceeds from sales and maturities of available-for-sale investments	94,814	27,601
Proceeds from sale of property, plant and equipment	4	
Purchases of property, plant and equipment	(3,449)	(5,016)
Purchases of intangibles	(2,300)	
Net cash used in investing activities	(69,752)	(3,373)
Cash flows from financing activities:		
Excess tax benefits on stock based compensation	226	1,467
Exercise of stock options	5,472	5,984
Repurchase of outstanding common stock	(2,705)	(11,161)
Net cash provided by (used in) financing activities	2,993	(3,710)
Effect of exchange rate changes on cash and cash equivalents	(4)	4
Net increase (decrease) in cash and cash equivalents	(31,756)	28,248
Cash and cash equivalents at beginning of period	147,666	172,889
Cash and cash equivalents at end of period	$ 115,910	$ 201,137

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

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SEMTECH CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Basis of Presentation

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

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

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

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

- The recognition and measurement of current and deferred income tax assets and liabilities;
- The valuation of inventory; and
- The valuation and recognition of share-based compensation

Note 2: Fiscal Year

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

Note 3: Recent Accounting Pronouncements

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

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

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

In May 2009, FASB issued SFAS 165, Subsequent Events (SFAS 165). SFAS 165 sets forth: 1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; 2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and 3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The implementation of this standard did not have a material impact on our consolidated financial position, results of operations or cash flows.

In June 2009, FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (SFAS 168). SFAS 168 eliminates the GAAP hierarchy contained in SFAS No. 162 and establishes one level of authoritative GAAP. All other literature is considered un-authoritative. This Statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company will adopt SFAS 168 in the quarter ending October 25, 2009. The implementation of this standard is not expected to result in any changes to our Consolidated Financial Statements.

Note 4: Stock Repurchase Program; Treasury Shares

In the first quarter of fiscal year 2009, the Company announced that its Board of Directors authorized the repurchase of up to $50 million of the Company s common stock from time to time through negotiated or open market transactions (the 2008 Program). The 2008 Program does not have an expiration date.

In addition to repurchase activity under the 2008 Program, the Company typically withholds shares from vested restricted stock to pay employee payroll and income tax withholding liabilities.

Summary of Repurchase and Withholding Activity

	Three Months Ended				Six Months Ended			
	July 26, 2009		July 27, 2008		July 26, 2009		July 27, 2008	
(in thousands, except share data)	Shares	Value	Shares	Value	Shares	Value	Shares	Value
Repurchases under the 2008 Program			684,892	$ 9,939	104,528	$ 1,390	684,892	$ 9,939
Shares withheld from vested restricted shares	62,800	$ 1,011	65,556	$ 1,192	87,422	$ 1,316	67,791	$ 1,222

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.

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Note 5: Comprehensive Income

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

(in thousands)	Three Months Ended July 26, 2009	Three Months Ended July 27, 2008	Six Months Ended July 26, 2009	Six Months Ended July 27, 2008
Net income	$ 7,420	$ 11,664	$ 12,364	$ 19,741
Change in net unrealized holding gain (loss) on available-for-sale investments	60	(47)	(28)	(157)
Gain (loss) for translation adjustment	4	(2)	12	5
Total comprehensive income	$ 7,484	$ 11,615	$ 12,348	$ 19,589

Note 6: Revenue Recognition

The Company recognizes product revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is probable. A provision for estimated sales returns is recorded in the same period as the related revenues are recorded. This estimate is based on historical sales returns and other known factors. Actual returns could be different from our estimates and current provisions for sales returns and allowances, resulting in future charges to earnings.

The Company defers revenue recognition on shipment of products to certain customers, principally distributors, 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.

Note 7: Earnings Per Share

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

(In thousands, except per share amounts)	Three Months Ended July 26, 2009	Three Months Ended July 27, 2008	Six Months Ended July 26, 2009	Six Months Ended July 27, 2008
Net income	$ 7,420	$ 11,664	$ 12,364	$ 19,741
Weighted average common shares outstanding basic	60,493	61,839	60,429	61,278
Dilutive effect of employee equity incentive plans	551	745	456	857
Weighted average common shares outstanding diluted	61,044	62,584	60,885	62,135
Basic earnings per common share	$ 0.12	$ 0.19	$ 0.20	$ 0.32
Diluted earnings per common share	$ 0.12	$ 0.19	$ 0.20	$ 0.32

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

For the second quarter of fiscal years 2010 and 2009, options to purchase approximately 6.6 million and 7.6 million shares, respectively, were not included in the computation of diluted net income per share because the options were considered anti-dilutive. For the first six months of fiscal years 2010 and 2009, options to purchase approximately 8.6 million shares were not included in the computation of diluted net income per share because the options were considered anti-dilutive.

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Note 8: Stock Based Compensation

Share-based Payment Arrangements. The Company has various equity award plans (the Plans) that provide for granting stock based awards to employees and non-employee directors of the Company. The Plans provide for the granting of several available forms of stock compensation. As of July 26, 2009, the Company has granted stock options (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 each reporting date until the date of settlement, and is recognized as an expense over the employee or director s requisite service period. Expected volatilities are based on historical volatility using daily and monthly stock price observations.

Assumptions in Determining Fair Value of Options

	Three Months Ended		Six Months Ended	
(period average, except fair value on grant date)	**July 26, 2009**	**July 27, 2008**	**July 26, 2009**	**July 27, 2008**
Expected lives, in years	5.0	5.0	5.0	5.0
Estimated volatility	40%	39%	40%	41%
Dividend yield				
Risk-free interest rate	2.0%	3.1%	2.0%	3.0%
Weighted-average fair value on grant date	$ 5.82	$ 6.46	$ 4.55	$ 5.50

The estimated fair value of restricted stock was calculated based on the market price of the Company s common stock on the date of grant. Some of the restricted stock awarded in fiscal year 2010 and prior years are classified as liabilities rather than equity. For awards classified as liabilities, the value of these awards was re-measured on July 26, 2009.

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

Allocation of Stock-based Compensation

(in thousands)	Three Months Ended July 26, 2009	Three Months Ended July 27, 2008	Six Months Ended July 26, 2009	Six Months Ended July 27, 2008
Cost of sales	$ 344	$ 382	$ 658	$ 786
Selling, general and administrative	3,354	3,010	6,944	6,383
Product development and engineering	1,254	1,039	2,116	2,084
Stock-based compensation, pre-tax	$ 4,952	$ 4,431	$ 9,718	$ 9,253
Net change in stock-based compensation capitalized into inventory	41		36	(22)
Total stock-based compensation	$ 4,993	$ 4,431	$ 9,754	$ 9,231

Impact of Stock-based Compensation

(in thousands)	Three Months Ended July 26, 2009	Three Months Ended July 27, 2008	Six Months Ended July 26, 2009	Six Months Ended July 27, 2008
Stock-based compensation	$ 4,952	$ 4,431	$ 9,718	$ 9,253
Associated tax effect	(1,364)	(1,350)	(2,486)	(2,461)
Net effect on net income	$ 3,588	$ 3,081	$ 7,232	$ 6,792
Effect on earnings per share				
Basic	$ 0.06	$ 0.05	$ 0.12	$ 0.11
Diluted	$ 0.06	$ 0.05	$ 0.12	$ 0.11
Weighted average number of shares				
Basic	60,493	61,839	60,429	61,278
Diluted	61,044	62,584	60,885	62,135

(in thousands)	Three Months Ended July 26, 2009	Three Months Ended July 27, 2008	Six Months Ended July 26, 2009	Six Months Ended July 27, 2008
Tax Benefit Realized from Stock Based Compensation	$ 1,097	$ 1,600	$ 1,482	$ 3,021

Note 9: Investments

Certain investments that mature within three months of the balance sheet date, including money market funds, time deposits and U.S. government obligations, are accounted for as cash equivalents. Temporary and long-term investments consist of government, bank and corporate obligations. Temporary investments have maturities in excess of three months, but mature within twelve months of the balance sheet date. Long-term investments mature in excess of one year from the balance sheet date. We determine the cost of securities sold based on the specific identification method. Realized gains or losses are reported in Interest and other income, net on the 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 are intended to limit risks and provide liquidity by restricting the Company s investments to high quality debt instruments with relatively short-term maturities.

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

	July 26, 2009			January 25, 2009		
	Market Value	Cost Basis	Unrealized Gain	Market Value	Cost Basis	Unrealized Gain(Loss)
U.S. government issues	$ 150,367	$ 150,221	$ 146	$ 89,598	$ 89,222	$ 376
Corporate issues	22,752	22,603	149	16,485	16,501	(16)
Other	2,022	2,015	7	5,066	5,100	(34)
Investments	$ 175,141	$ 174,839	$ 302	$ 111,149	$ 110,823	$ 326

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

Investment maturities

	July 26, 2009		January 25, 2009	
(in thousands)	Market Value	Cost Basis	Market Value	Cost Basis
Within 1 year	$ 151,628	$ 151,491	$ 98,735	$ 98,424
After 1 year through 5 years	23,513	23,348	12,414	12,399
	$ 175,141	$ 174,839	$ 111,149	$ 110,823

In the second quarter of fiscal years 2010 and 2009, the Company incurred $74,000 of unrealized gain and $48,000 of unrealized loss, respectively (net of tax), on investments. In the first six months of fiscal years 2010 and 2009, the Company incurred $24,000 and $157,000 of unrealized loss, respectively (net of tax), on investments. These unrealized gains and losses are the result of fluctuations in the market value of our investments and are included in Accumulated other comprehensive income on the consolidated condensed balance sheets. The tax associated with these comprehensive income items for the second quarter of fiscal years 2010 and 2009 was an increase to the deferred tax liability of $13,000 and a reduction to the deferred tax liability of $30,000, respectively. The tax associated with these comprehensive income items for the first six months of fiscal years 2010 and 2009 was an increase to the deferred tax liability of $10,000 and a reduction to the deferred tax liability of $102,000, respectively.

Investments and cash and cash equivalents generated interest income of $0.5 million and $1.4 million in the second quarter of fiscal years 2010 and 2009, respectively. For the first six months of fiscal years 2010 and 2009, investments and cash and cash equivalents generated interest income of $1.2 million and $3.2 million, respectively.

Note 10: Fair Value

SFAS 157 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance. SFAS 157 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. SFAS 157 establishes three levels of inputs that may be used to measure fair value:

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

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

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

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

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

(in thousands)	Total	Quoted Prices in Active Markets for Identical Instruments (Level 1)
Assets		
Temporary investments	$ 151,628	$ 151,628
Investments, maturities in excess of 1 year	23,513	23,513
Other investments-deferred compensation	4,865	4,865
	$ 180,006	$ 180,006
Liabilities		
Deferred compensation	$ (6,349)	$ (6,349)
	$ (6,349)	$ (6,349)

Note 11: Inventories

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

Inventories:

(in thousands)	July 26, 2009	January 25, 2009
Raw materials	$ 1,702	$ 2,076
Work in process	15,797	17,670
Finished goods	9,145	8,240
	$ 26,644	$ 27,986

Note 12: Intangible Assets

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

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

(in thousands)	Balance as of January 25, 2009	Adjustments	Balance as of July 26, 2009

Goodwill	$	25,540	$	$ 25,540

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 Company concluded that there were no indicators of impairment as of July 26, 2009.

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Intangible assets consist of the following:

(in thousands)	Gross Carrying Amount July 26, 2009	Gross Carrying Amount January 25, 2009	Accumulated Amortization July 26, 2009	Accumulated Amortization January 25, 2009	Net Book Value July 26, 2009	Net Book Value January 25, 2009
Core technologies	$ 6,000	$ 6,000	$ (4,455)	$ (3,909)	$ 1,545	$ 2,091
In-process research and development	2,070				2,070	
Other Intangibles	230	30	(60)	(30)	170	
Other Intangibles	$ 8,300	$ 6,030	$ (4,515)	$ (3,939)	$ 3,785	$ 2,091

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

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

Amortization expense related to intangible assets was approximately $302,000 and $273,000, respectively, for the second quarter of fiscal years 2010 and 2009. During the first six months of fiscal years 2010 and 2009, amortization expense related to intangible assets was approximately $605,000 and $545,000, respectively. No significant residual value is expected. There are no significant tax-related benefits from these acquisition related costs.

Note 13: Commitments and Contingencies

Retirement Plans

In the first quarter of fiscal year 2010, the Company suspended all matching contributions to the 401(k) retirement plan maintained for its employees. The Company contributed approximately $178,000 to this plan in the second quarter of fiscal year 2009 and $440,000 in the first six months of fiscal year 2009.

The Company contributed approximately $178,000 and $180,000 in the second quarter of fiscal years 2010 and 2009, respectively, to a defined contribution plan for Swiss employees. For the first six months of fiscal years 2010 and 2009, respectively, the Company contributed approximately $349,000 and $365,000 to this plan.

Legal Matters

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

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

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

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

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Refer to the discussion in Note 10 to the financial statements in Item 8 of the Company s Form 10-K for the year ended January 25, 2009. With the exception of the matter noted as the Shareholder Derivative Lawsuit , which is now fully resolved and closed, all proceedings discussed in the Form 10-K remain outstanding.

Note 14: Taxes

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

The gross unrecognized tax benefits (before federal impact of state items) at July 26, 2009 and January 25, 2009, are $12.8 million and $12.5 million, respectively. Included in the balance of unrecognized tax benefits at July 26, 2009 and January 25, 2009, are $11.3 million and $11.0 million, respectively, of net tax benefits (after federal impact of state items) that, if recognized, would impact the effective tax rate. The liability for uncertain tax positions was $4.4 million and $4.3 million, respectively, as of July 26, 2009 and January 25, 2009. This liability is reflected on the consolidated condensed balance sheets as Accrued taxes. The Company s policy is to include net interest and penalties related to unrecognized tax benefits within the provision for taxes. A net increase of $3,000 and $4,000, respectively, was recognized in the consolidated condensed statements of income in the first six months of fiscal years 2010 and 2009. The Company had approximately $37,000 and $34,000 of net interest and penalties accrued at July 26, 2009 and January 25, 2009, respectively.

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

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

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

Note 15: Restructuring Costs

During the first quarter of fiscal year 2009, the Company initiated a restructuring plan within the Standard Semiconductor Products segment to reorganize certain Company operations, consolidate research and development activities and reduce its workforce. The reorganization and consolidation were completed in the second quarter of fiscal year 2009. During the second quarter of fiscal year 2010, the Company recorded costs of approximately $160,000 for additional lease termination costs. Restructuring charges are included in Selling, general and administrative costs on the consolidated condensed statements of income.

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

(in thousands)	Restructuring at January 25, 2009	Additional Restructuring	Cash Payments/ Other	Restructuring at July 26, 2009
Lease termination costs	$ 435	$ 348	$ (160)	$ 623

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

(in thousands)	
Accrued liabilities	$ 397
Other long-term liabilities	226
	$ 623

Note 16: Business Segment and Concentration of Risk

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

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

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

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

Net Sales

	Three Months Ended		Six Months Ended	
(in thousands)	July 26, 2009	July 27, 2008	July 26, 2009	July 27, 2008
Standard Semiconductor Products	$ 59,007	$ 69,731	$ 111,148	$ 136,003
Rectifier, Assembly and Other Products	7,310	8,229	15,246	16,401
Net Sales	$ 66,317	$ 77,960	$ 126,394	$ 152,404

Operating Income

	Three Months Ended		Six Months Ended	
(in thousands)	July 26, 2009	July 27, 2008	July 26, 2009	July 27, 2008
Standard Semiconductor Products	$ 5,144	$ 9,500	$ 6,245	$ 14,203
Rectifier, Assembly and Other Products	3,374	3,661	7,163	7,614
Total Operating Income	$ 8,518	$ 13,161	$ 13,408	$ 21,817

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

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

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Sales by Region

(percentage of net sales)	Three Months Ended July 26, 2009	Three Months Ended July 27, 2008	Six Months Ended July 26, 2009	Six Months Ended July 27, 2008
North America	25%	27%	26%	26%
Asia-Pacific	60%	59%	56%	60%
Europe	15%	14%	18%	14%
Total	100%	100%	100%	100%

Sales into the United States, Hong Kong and South Korea represented approximately 20%, 22%, and 23% of sales, respectively, for the first six months of fiscal year 2010. No other country represented more than 10% of sales.

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

Concentration of Net Sales - Key Customers

(percentage of net sales)	Three Months Ended July 26, 2009	Three Months Ended July 27, 2008	Six Months Ended July 26, 2009	Six Months Ended July 27, 2008
Samsung Electronics (and affiliates)	18%	15%	18%	13%
Frontek Technology Corp	15%	14%	12%	14%
Arrow Electronics (and affiliates)	10%		10%	

Concentration of Accounts Receivable - Key Customers

(percentage of accounts receivable)	Balance as of July 26, 2009	Balance as of July 27, 2008
Samsung Electronics (and affiliates)	14%	11%
Frontek Technology Corp	13%	12%
Arrow Electronics (and affiliates)	7%	

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

Note 17: Matters Related to Historical Stock Option Practices

Since May 2006, the Company has incurred substantial expenses for legal, accounting, tax and other professional services in connection with matters associated with or stemming from its historical stock option practices. In the second quarter of fiscal years 2010 and 2009, the Company incurred expenses of $960,000 and $435,000, respectively, in support of these matters. Expenses for the second quarter of fiscal year 2010 were offset by an insurance recovery of $1.3 million resulting in a net benefit of $340,000. For the first six months of fiscal years 2010 and 2009, respectively, the Company incurred approximately

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$69,000, net of insurance recovery, and $490,000 of expense. All activity related to these matters is charged to Selling, general and administrative.

The Company expects to continue to incur significant expense in connection with these on-going matters. These expenses include claims for advancement of legal expenses to current and former directors, officers and executives under pre-existing indemnification agreements and to other current and former employees under the California Labor Code and a resolution of the Board authorizing such advances.

Note 18: Acquisition from Leadis Technology Inc.

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

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

(in thousands)	
Cash	$ 2,000
Contingent consideration	300
Total fair value consideration	$ 2,300

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

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

(in thousands)	
In-process research and development	$ 2,070
Convenant not to compete	230
Total allocated fair value	$ 2,300

The Company recognized approximately $75,000 of acquisition related costs that were expensed in the first quarter of fiscal year 2010. These costs are included in the consolidated condensed statements of income for the six month period ended July 26, 2009 under Selling, general and administrative.

Note 19: Subsequent Events

The Company has completed an evaluation of all subsequent events through September 3, 2009, which is the issuance date of these consolidated financial statements, and concluded that no subsequent events occurred that required recognition or disclosure.

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

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

Forward Looking Statements

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

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

Overview

We design, produce and market a broad range of products that are sold principally to customers in the high-end consumer, industrial, computing and communications end-markets. Products for the high-end consumer market include handheld products, set-top boxes, digital televisions, digital video recorders, Bluetooth headsets and other consumer equipment. Products for the industrial customer base include automated meter reading, military and aerospace, medical, automated test equipment, security, automotive, home automation, and other industrial equipment. Computing market products include desktops, servers, notebooks, graphics, printers, and other computer peripherals. Communications market products include base stations, optical networks, switches and routers, wireless LAN, and other communication infrastructure equipment. Our end-customers are primarily original equipment manufacturers and their suppliers, including Alcatel, Apple, Cisco, Compal Electronics, Dell, Hewlett Packard, Intel, LG Electronics, Motorola, Nokia Siemens Networks, Phonak, Quanta Computer, Research In Motion, Samsung, Sanyo, Siemens, and Sony.

We recognize product revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is probable. Product design and engineering revenue is recognized during the period in which services are performed. Gross profit is equal to our net sales less our cost of sales. Our cost of sales includes materials, depreciation on fixed assets used in the manufacturing process, shipping costs, direct labor and overhead. We determine the cost of inventory by the first-in, first-out method. Our operating costs and expenses generally consist of selling, general and administrative, product development and engineering costs, costs associated with acquisitions, and other operating related charges.

Most of our sales to customers are made on the basis of individual customer purchase orders. Many customers include liberal cancellation provisions in their purchase orders. Trends within the industry toward shorter lead-times and just-in-time deliveries have resulted in our reduced ability to predict future shipments. As a result, we rely on orders received and shipped within the same quarter for a significant

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portion of our sales. Sales made directly to customers during the second quarter of fiscal year 2010 were 49% of net sales. The remaining 51% of net sales were made through independent distributors.

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

Our business involves reliance on foreign-based entities. Most of our outside subcontractors and suppliers, including third-party foundries that supply silicon wafers, are located in foreign countries, including China, Taiwan, Singapore, Thailand, Malaysia, the Philippines, Germany, Israel and Canada. For the second quarter of fiscal year 2010, approximately 54% of our silicon, in terms of cost of wafers purchased, was manufactured in China. Foreign sales during the first six months of fiscal year 2010 constituted approximately 80% of our net sales. Approximately 60% of sales during the first six months of fiscal year 2010 were to customers located in the Asia-Pacific region. The remaining foreign sales were primarily to customers in Europe, Canada, and Mexico.

Sales into the computing and consumer markets have historically been seasonal and generally experience weaker demand in the first and second fiscal quarters of each year followed by stronger demand in the third and fourth fiscal quarters.

Critical Accounting Policies and Estimates

In addition to the discussion below, you should refer to the disclosures regarding critical accounting policies in Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended January 25, 2009.

Revenue Recognition

We recognize product revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is probable. 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.

Deferred net revenue

(in thousands)	July 26, 2009	January 25, 2009
Deferred revenues	$ 4,845	$ 5,198
Deferred cost of revenues	2,248	2,390
Deferred revenues, net	$ 2,597	$ 2,808

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RESULTS OF OPERATIONS

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

	Three Months Ended		Six Months Ended	
	July 26, 2009	July 27, 2008	July 26, 2009	July 27, 2008
Net Sales	100.0%	100.0%	100.0%	100.0%
Cost of Sales	45.5%	45.1%	45.5%	45.2%
Gross Profit	54.5%	54.9%	54.5%	54.8%
Operating costs and expenses:				
Selling, general & administrative	25.0%	24.1%	26.8%	24.5%
Product development & engineering	16.0%	13.4%	16.4%	14.1%
Acquisition related items	0.5%	0.4%	0.5%	0.4%
Restructuring charges	0.2%	0.2%	0.3%	1.5%
Total operating costs and expenses	41.7%	38.0%	43.9%	40.5%
Operating income	12.8%	16.9%	10.6%	14.3%
Interest and other income, net	0.4%	1.6%	1.2%	2.0%
Income before taxes	13.3%	18.5%	11.9%	16.3%
Provision for taxes	2.1%	3.5%	2.1%	3.3%
Net income	11.2%	15.0%	9.8%	13.0%

Percentages may not add precisely due to rounding.

Comparison of The Three Months Ended July 26, 2009 and July 27, 2008

We report on the basis of 52 and 53 week periods and end our fiscal year on the last Sunday in January. All quarters consist of 13 weeks, except for one 14-week quarter in 53-week years. The second quarter of fiscal years 2010 and 2009 were both 13 week periods.

Net Sales. Net sales for the second quarter of fiscal year 2010 were $66.3 million, a decrease of 15% compared to $78.0 million for the second quarter of fiscal year 2009. Continuing weak global economic conditions resulted in continued weakness in demand for our customer s end products, which resulted in continued weakness in demand for our component products.

Our estimates of sales by major end-markets are detailed below:

End-Market

	Three Months Ended	
(% of net sales)	July 26, 2009	July 27, 2008
Computer	15%	17%
Communications	20%	18%
Consumer	40%	39%
Industrial	25%	26%
Total	100%	100%

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Net sales summarized by reportable segment are detailed below:

Net Sales by Reportable Segment

(in thousands)	Three Months Ended July 26, 2009		Three Months Ended July 27, 2008		Change
Standard Semiconductor Products	$ 59,007	89%	$ 69,731	89%	-15%
Rectifier, Assembly and Other Products	7,310	11%	8,229	11%	-11%
Net sales	$ 66,317	100%	$ 77,960	100%	-15%

The 15% decrease in sales of Standard Semiconductor Products in the second quarter of fiscal year 2010 reflected lower sales across all product lines within this segment resulting from the continuing weak global economic conditions.

Sales of our Rectifier, Assembly and Other Products, which are primarily sold into military and industrial applications, decreased 11% in the second quarter of fiscal year 2010 compared to the second quarter of fiscal year 2009 as a result of softening demand for our rectifier products from military and industrial customers. These products rely on older technology and historically have supported a very limited customer base.

Cost of Sales and Gross Profit. Cost of sales consists primarily of purchased materials and services, labor and overhead associated with product manufacturing. We have experienced long-term price reductions in our manufacturing costs, in part due to our outsourcing of most manufacturing functions. However, declines in the average selling prices of our parts, a trend which is typical in the semiconductor industry, tends to offset much of the manufacturing cost savings. Our gross margin is most impacted by the mix of products used in our customer s particular end-applications. During the second quarter of fiscal year 2010, gross profit decreased to $36.2 million from $42.8 million in the second quarter of fiscal year 2009. This 16% decrease in gross profit reflects the impact of lower sales. Gross profit margins were essentially unchanged at approximately 55%.

Operating Costs and Expenses. Operating costs and expenses were $27.6 million, or 42% of net sales in the second quarter of fiscal year 2010. Operating costs and expenses for the second quarter of fiscal year 2009 were $29.6 million, or 38% of net sales. Operating costs and expenses in the second quarter of fiscal years 2010 and 2009 were impacted by $5.0 million and $4.4 million of stock-based compensation, respectively. In the second quarter of fiscal year 2010, operating costs benefited from approximately $1.5 million of targeted, temporary, cost reduction initiatives and a $1.3 million insurance recovery of previously incurred legal expenses related to historical stock option practices. The benefit from the cost reduction initiatives, which included a mandatory time-off provision, will be lower in the third quarter of fiscal year 2010 as we are not expecting to continue the mandatory time-off program. Stock-based compensation is expected to be approximately $4.6 million in the third quarter of fiscal year 2010.

Operating Costs and Expenses

(in thousands)	Three Months Ended July 26, 2009		Three Months Ended July 27, 2008		Change
Selling, general and administrative	$ 16,581	60%	$ 18,787	63%	-12%
Product development and engineering	10,591	38%	10,434	35%	2%
Acquisition related items	302	1%	273	1%	11%
Restructuring charges	160	1%	140	0%	14%
Total operating costs and expenses	$ 27,634	100%	$ 29,634	100%	-7%

Operating Income. Operating income was $8.5 million in the second quarter of fiscal year 2010, down from $13.2 million in the second quarter of fiscal year 2009. Operating income was unfavorably impacted by a 15% decrease in net sales. The impact of lower sales was partially offset by approximately $1.5 million of targeted cost reduction initiatives and a $1.3 million insurance recovery of previously incurred legal expenses

related to historical stock option practices.

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We evaluate segment performance based on net sales and operating income of each segment. Detailed below is operating income by reportable segment.

Operating Income by Reportable Segment

(in thousands)	Three Months Ended July 26, 2009		Three Months Ended July 27, 2008	
Standard Semiconductor Products	$ 5,144	60%	$ 9,500	72%
Rectifier, Assembly and Other Products	3,374	40%	3,661	28%
Total Operating Income	$ 8,518	100%	$ 13,161	100%

Operating income in the second quarter of fiscal year 2010 compared to the second quarter of fiscal year 2009 for the Standard Semiconductor Products segment decreased as a result of lower net sales. The impact of lower sales in the second quarter of fiscal year 2010 was partially offset by targeted cost reduction initiatives.

Operating income in the second quarter of fiscal year 2010 compared to the second quarter of fiscal year 2009 for the Rectifier, Assembly and Other Products segment decreased as a result of lower production yields and softer demand.

Interest and Other Income, Net. Interest and other income includes interest income from investments and other items. Net interest and other income was $0.3 million in the second quarter of fiscal year 2010 compared to $1.2 million in the second quarter of fiscal year 2009. This decrease is attributable to declining interest rates when compared to the same period last year.

Provision for Taxes. Provision for income taxes was $1.4 million for the second quarter of fiscal year 2010, compared to $2.7 million in the second quarter of fiscal year 2009. The effective tax rate for the second quarter of fiscal years 2010 and 2009 was 16% and 19%, respectively. The decrease in rate is primarily attributable to changes in regional revenue and higher benefits from research and development tax credits.

Comparison of The Six Months Ended July 26, 2009 and July 27, 2008

We report on the basis of 52 and 53 week periods and end our fiscal year on the last Sunday in January. All quarters consist of 13 weeks, except for one 14-week quarter in 53-week years. The first six months of fiscal years 2010 and 2009 were both 26 week periods.

Net Sales. Net sales for the first six months of fiscal years 2010 and 2009 were $126.4 million and $152.4 million, respectively. Continuing weak global economic conditions resulted in continued weakness in demand for our customer s end products, which resulted in continued weakness in demand for our component products.

Our estimates of sales by major end-markets are detailed below:

End-Market

(% of net sales)	Six Months Ended July 26, 2009	July 27, 2008
Computer	15%	18%
Communications	19%	18%
Consumer	38%	38%
Industrial	28%	26%
Total	100%	100%

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Net sales summarized by reportable segment are detailed below:

Net Sales by Reportable Segment

	Six Months Ended	
(in thousands)	July 26, 2009	July 27, 2008
Standard Semiconductor Products	$	