

SEMTECH CORP  
Form 10-Q  
November 29, 2017

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, 2017  
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 (I.R.S. Employer  
incorporation or organization) 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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

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Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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Number of shares of Common Stock, \$0.01 par value per share, outstanding at November 24, 2017: 66,358,418

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Unless the context otherwise requires, the use of the terms "Semtech," "the Company," "we," "us" and "our" in this Quarterly Report on Form 10-Q refers to Semtech Corporation and its consolidated subsidiaries. This Quarterly Report on Form 10-Q may contain references to the Company's trademarks and to trademarks belonging to other entities. Solely for convenience, trademarks and trade names referred to in this Quarterly Report on Form 10-Q, including logos, artwork and other visual displays, may appear without the ® or TM symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensor to these trademarks and trade names. We do not intend our use or display of other companies' trade names or trademarks to imply a relationship with, or endorsement or sponsorship of us by, any other company.

#### Special Note Regarding Forward-Looking and Cautionary Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, as amended, based on our current expectations, estimates and projections about our operations, industry, financial condition, performance, results of operations, and liquidity. Forward-looking statements are statements other than historical information or statements of current condition and relate to matters such as future financial performance, future operational performance, the anticipated impact of specific items on future earnings, and our plans, objectives and expectations. Statements containing words such as "may," "believe," "anticipate," "expect," "intend," "plan," "project," "estimate," "should," "will," "designed to," "projections," or "business outlook," or other similar expressions constitute forward-looking statements. Forward-looking statements involve known and unknown risks and uncertainties that could cause actual results and events to differ materially from those projected.

Potential factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to:

- fluctuation in the Company's future results;
- downturns in the business cycle;
- reduced demand for the Company's products, including due to global economic conditions and potential changes in economic policy;
- business interruptions;
- the Company's reliance on a limited number of suppliers and subcontractors for components and materials;
- potentially insufficient liability insurance if the Company's products are found to be defective;
- obsolete inventories as a result of changes in demand and change in life cycles for the Company's products;
- the Company's inability to successfully develop and sell new products;
- lengthy and expensive product qualification processes without any assurance of product sales;
- the Company's products failing to meet industry standards;
- the Company's inability to protect intellectual property rights;
- the Company suffering losses if its products infringe the intellectual property rights of others;
- the Company's need to commit resources to product production prior to receipt of purchase commitments;
- increased business risk resulting from significant business with foreign customers;
- the Company's foreign currency exposures;
- potential increased tax liabilities and effective tax rate if the Company needs to repatriate funds held by foreign subsidiaries;
- export restrictions and laws affecting the Company's trade and investments;
- the Company's inability to adequately compete against larger, more established entities;
- increased competition due to industry consolidation;
- the loss of any one of the Company's significant customers;
- volatility of customer demand;
- termination of a contract by a distributor;
- the Company's failure to maintain effective internal control over financial reporting and disclosure controls and procedures;



- government regulations and other standards, including those that impose operational and reporting requirements;
- the Company's failure to comply with applicable environmental regulations;
- compliance with conflict minerals regulations;
- increase in the Company's cost of doing business as a result of having to comply with the codes of conduct of certain of the Company's customers and suppliers;
- changes in tax law, including effective tax rates, and review by taxing authorities;
- taxation of Company sales in non-U.S. jurisdictions;
- the Company's limited experience with government contracting;
- potential government investigations and inquiries;
- loss of the Company's key personnel;
- risks associated with companies the Company has acquired in the past and may acquire in the future and the Company's ability to successfully integrate acquired businesses and benefit from expected synergies;
- the Company may be required to recognize additional impairment charges;
- loss of value of investments in entities not under our control;
- the Company may not receive accurate, complete or timely financial information from entities for which the Company is required to consolidate such information;
- the Company may be adversely affected by new accounting pronouncements;
- the Company's ability to generate cash to service its debt obligations;
- restrictive covenants in the Company's credit agreement which may restrict its ability to pursue its business strategies;
- the Company's reliance on certain critical information systems for the operation of its business;
- costs associated with the Company's indemnification of certain customers, distributors and other parties;
- the Company's share price could be subject to extreme price fluctuations;
- the impact on the Company's common stock price if securities or industry analysts do not publish reports about the Company's business or adversely change their recommendations regarding the Company's common stock;
- anti-takeover provisions in the Company's organizational documents could make an acquisition of the Company more difficult; and
- the Company is subject to litigation risks which may be costly to defend

Additionally, forward-looking statements should be considered in conjunction with the cautionary statements contained in this Quarterly Report on Form 10-Q, including, without limitation, information under the captions "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" and additional factors that accompany the related forward-looking statements in this Quarterly Report on Form 10-Q, in our Annual Report on Form 10-K for the fiscal year ended January 29, 2017 including, without limitation information under the caption "Risk Factors", in other filings with the Securities and Exchange Commission ("SEC"), and in material incorporated herein and therein by reference. In light of the significant risks and uncertainties inherent in the forward-looking information included herein that may cause actual performance and results to differ materially from those predicted, any such forward-looking information should not be regarded as representations or guarantees by the Company of future performance or results, or that its objectives or plans will be achieved, or that any of its operating expectations or financial forecasts will be realized. Reported results should not be considered an indication of future performance. Investors are cautioned not to place undue reliance on any forward-looking information contained herein, which reflect management's analysis only as of the date hereof. Except as required by law, the Company assumes no obligation to publicly release the results of any update or revision to any forward-looking statement that may be made to reflect new information, events or circumstances after the date hereof or to reflect the occurrence of unanticipated or future events, or otherwise.

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





## PART I - FINANCIAL INFORMATION

## ITEM 1. Financial Statements

SEMTECH CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

(unaudited)

|   | Three Months Ended |                  | Nine Months Ended |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | October 29, 2017   | October 30, 2016 | October 29, 2017  | October 30, 2016 |
| Net sales   | \$ 150,304         | \$ 137,185       | \$ 447,233        | \$ 404,241       |
| Cost of sales   | 60,885             | 56,120           | 180,663           | 162,877          |
| Gross profit  | 89,419             | 81,065           | 266,570           | 241,364          |
| Operating costs and expenses:   |                    |                  |                   |                  |
| Selling, general and administrative                                       | 36,568             | 35,116           | 109,820           | 101,654          |
| Product development and engineering                                       | 27,631             | 25,600           | 81,046            | 77,097           |
| Intangible amortization   | 7,453              | 6,286            | 20,414            | 19,017           |
| (Gain) loss on disposition of business operations                         | —                  | (25,036)         | 375               | (25,036)         |
| Changes in the fair value of contingent earn-out obligations              | 188                | —                | 188               | (162)            |
| Total operating costs and expenses  | 71,840             | 41,966           | 211,843           | 172,570          |
| Operating income  | 17,579             | 39,099           | 54,727            | 68,794           |
| Interest expense, net   | (2,032)            | (1,890)          | (6,107)           | (5,857)          |
| Non-operating income (expense), net                                       | 1,267              | (690)            | 431               | (871)            |
| Income before taxes and equity in net losses of equity method investments | 16,814             | 36,519           | 49,051            | 62,066           |
| Provision for taxes   | 3,272              | 5,743            | 11,124            | 15,424           |
| Net income before equity in net losses of equity method investments       | 13,542             | 30,776           | 37,927            | 46,642           |
| Equity in net losses of equity method investments                         | (204)              | —                | (204)             | —                |
| Net income  | \$ 13,338          | \$ 30,776        | \$ 37,723         | \$ 46,642        |
| Earnings per share:   |                    |                  |                   |                  |
| Basic   | \$ 0.20            | \$ 0.47          | \$ 0.57           | \$ 0.71          |
| Diluted   | \$ 0.20            | \$ 0.46          | \$ 0.56           | \$ 0.71          |
| Weighted average number of shares used in computing earnings per share:   |                    |                  |                   |                  |
| Basic   | 66,194             | 65,549           | 65,932            | 65,331           |
| Diluted   | 67,817             | 66,206           | 67,555            | 65,899           |

The accompanying notes are an integral part of these unaudited consolidated financial statements.

SEMTECH CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

|   | Three Months Ended |             | Nine Months Ended |             |
|---|--------------------|-------------|-------------------|-------------|
|   | October 29,        | October 30, | October 29,       | October 30, |
|   | 2017               | 2016        | 2017              | 2016        |
| Net income  | \$13,338           | \$ 30,776   | \$37,723          | \$ 46,642   |
| Other comprehensive income, net:                            |                    |             |                   |             |
| Unrealized (loss) gain on foreign currency cash flow hedges | (144 )             | (422 )      | 865               | 321         |
| Realized gain on foreign currency cash flow hedges          | (509 )             | (88 )       | (772 )            | (546 )      |
| Unrealized gain on convertible debt                         | —                  | —           | 750               | —           |
| Release of realized gain on convertible debt                | —                  | —           | (750 )            | —           |
| Change in unrealized gain on interest rate cap              | —                  | (37 )       | —                 | 48          |
| Change in employee benefit plans                            | 22                 | (3,429 )    | 65                | (3,429 )    |
| Other changes to comprehensive income                       | —                  | 129         | —                 | 129         |
| Other comprehensive (loss) income, net                      | (631 )             | (3,847 )    | 158               | (3,477 )    |
| Comprehensive income  | \$12,707           | \$ 26,929   | \$37,881          | \$ 43,165   |

The accompanying notes are an integral part of these unaudited consolidated financial statements.

SEMTECH CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

(unaudited)

|  | October 29,<br>2017 | January 29,<br>2017 |
|--|---------------------|---------------------|
| Assets   |                     |                     |
| Current assets:  |                     |                     |
| Cash and cash equivalents  | \$291,125           | \$297,134           |
| Accounts receivable, less allowances of \$9,041 and \$8,230, respectively  | 66,456              | 51,441              |
| Inventories  | 71,249              | 65,872              |
| Prepaid taxes  | 5,274               | 5,563               |
| Other current assets   | 15,741              | 18,418              |
| Total current assets   | 449,845             | 438,428             |
| Non-current assets:  |                     |                     |
| Property, plant and equipment, net of accumulated depreciation of \$173,999 and \$161,236, respectively  | 123,360             | 108,910             |
| Deferred tax assets  | 5,848               | 5,493               |
| Goodwill   | 341,890             | 329,703             |
| Other intangible assets, net   | 67,660              | 61,773              |
| Other assets   | 82,354              | 67,235              |
| <b>TOTAL ASSETS</b>  | <b>\$1,070,957</b>  | <b>\$1,011,542</b>  |
| Liabilities and Stockholders' Equity   |                     |                     |
| Current liabilities:   |                     |                     |
| Accounts payable   | \$39,832            | \$41,960            |
| Accrued liabilities  | 51,398              | 54,524              |
| Deferred revenue   | 12,729              | 12,059              |
| Current portion - long-term debt   | 14,462              | 14,432              |
| Total current liabilities  | 118,421             | 122,975             |
| Non-current liabilities:   |                     |                     |
| Deferred tax liabilities   | 8,687               | 6,881               |
| Long term debt, less current portion   | 215,674             | 226,524             |
| Other long-term liabilities  | 63,516              | 49,899              |
| Commitments and contingencies (Note 12)  |                     |                     |
| Stockholders' equity:  |                     |                     |
| Common stock, \$0.01 par value, 250,000,000 shares authorized, 78,136,144 issued and 66,312,459 outstanding and 78,136,144 issued and 65,793,083 outstanding, respectively | 785                 | 785                 |
| Treasury stock, at cost, 11,823,685 shares and 12,343,061 shares, respectively   | (249,198)           | (253,107)           |
| Additional paid-in capital   | 410,566             | 390,938             |
| Retained earnings  | 503,642             | 467,941             |
| Accumulated other comprehensive loss   | (1,136)             | (1,294)             |
| Total stockholders' equity   | 664,659             | 605,263             |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>  | <b>\$1,070,957</b>  | <b>\$1,011,542</b>  |

The accompanying notes are an integral part of these unaudited consolidated financial statements.



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

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|   | Nine Months Ended |                  |
|---|-------------------|------------------|
|   | October 29, 2017  | October 30, 2016 |
| Cash flows from operating activities:   |                   |                  |
| Net income  | \$ 37,723         | \$ 46,642        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                   |                  |
| Depreciation and amortization   | 35,794            | 35,506           |
| Impairment of assets  | 4,250             | —                |
| Accretion of deferred financing costs and debt discount                           | 430               | 492              |
| Deferred income taxes   | 5,508             | 15,659           |
| Share-based compensation and warrant costs  | 44,166            | 21,198           |
| Loss (gain) on disposition of business operations and assets                      | 283               | (24,988 )        |
| Earn-out liabilities  | 188               | (162 )           |
| Equity in net losses of equity method investments                                 | 204               | —                |
| Gain from convertible debt settlement   | (4,275 )          | —                |
| Contingencies   | —                 | (68 )            |
| Corporate owned life insurance, net   | 843               | 436              |
| Changes in assets and liabilities:  |                   |                  |
| Accounts receivable, net  | (14,726 )         | (15,994 )        |
| Inventories   | (5,697 )          | 1,302            |
| Other assets  | (2,618 )          | (10,298 )        |
| Accounts payable  | (6,683 )          | 6,775            |
| Accrued liabilities   | (7,808 )          | 8,885            |
| Deferred revenue  | (55 )             | 3,300            |
| Income taxes payable  | (17,520 )         | (7,875 )         |
| Other liabilities   | 2,843             | 3,884            |
| Net cash provided by operating activities   | 72,850            | 84,694           |
| Cash flows from investing activities:   |                   |                  |
| Proceeds from convertible debt settlement   | 5,700             | —                |

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|   |            |   |            |   |
|---|------------|---|------------|---|
| Proceeds from sales of property, plant and equipment        | 180        |   | —          |   |
| Purchase of property, plant and equipment                   | (26,818)   | ) | (13,754)   | ) |
| Purchase of investments                                     | (13,337)   | ) | (3,248)    | ) |
| Acquisition, net of cash acquired                           | (17,619)   | ) | —          |   |
| Proceeds from disposition of business operations            | —          |   | 32,045     |   |
| Proceeds from sale of investments                           | —          |   | 555        |   |
| Net cash (used in) provided by investing activities         | (51,894)   | ) | 15,598     |   |
| Cash flows from financing activities:                       |            |   |            |   |
| Payments of term loans                                      | (11,250)   | ) | (9,374)    | ) |
| Payment for employee share-based compensation payroll taxes | (10,661)   | ) | (5,928)    | ) |
| Proceeds from exercise of stock options                     | 5,340      |   | 1,678      |   |
| Repurchase of outstanding common stock                      | (10,394)   | ) | (539)      | ) |
| Net cash used in financing activities                       | (26,965)   | ) | (14,163)   | ) |
| Net (decrease) increase in cash and cash equivalents        | (6,009)    | ) | 86,129     |   |
| Cash and cash equivalents at beginning of period            | 297,134    |   | 211,810    |   |
| Cash and cash equivalents at end of period                  | \$ 291,125 |   | \$ 297,939 |   |
| Supplemental disclosure of cash flow information            |            |   |            |   |
| Income taxes paid   | \$ 24,632  |   | \$ 5,067   |   |
| Interest paid   | \$ 5,197   |   | \$ 4,400   |   |
| Non-cash items  |            |   |            |   |
| Capital expenditures in accounts payable                    | \$ 4,417   |   | \$ 1,670   |   |
| Convertible debt  | \$ —       |   | \$ 1,425   |   |





The accompanying notes are an integral part of these unaudited consolidated financial statements.

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

Note 1: Organization and Basis of Presentation

Nature of Business

Semtech Corporation (together with its consolidated subsidiaries, the "Company" or "Semtech") is a global supplier of high performance analog, mixed-signal semiconductors and advanced algorithms. The end customers for the Company's products are primarily original equipment manufacturers ("OEMs") that produce and sell electronics. The Company designs, develops and markets a wide range of products for commercial applications, the majority of which are sold into the enterprise computing, communications, high-end consumer and industrial end-markets. Enterprise Computing: datacenters, passive optical networks, desktops, notebooks, servers, monitors, printers and other computer peripherals.

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

High-End Consumer: handheld products, smartphones, wireless charging, set-top boxes, digital televisions, monitors and displays, tablets, wearables, digital video recorders and other consumer equipment.

Industrial: analog and digital video broadcast equipment, automated meter reading, Internet of Things ("IoT"), smart grid, wireless charging, military and aerospace, medical, security systems, automotive, industrial and home automation 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 the fourth quarter of 53-week years. The third quarter of fiscal years 2018 and 2017 each consisted of 13 weeks.

Principles of Consolidation

The accompanying interim unaudited consolidated financial statements have been prepared by the Company, in accordance with accounting principles generally accepted in the United States ("GAAP") and on the same basis as the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended January 29, 2017. In the opinion of the Company, these interim unaudited consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly, in all material respects, the financial position of the Company for the interim periods presented. All intercompany balances have been eliminated. Certain information and footnote disclosures normally included in annual consolidated financial statements have been condensed or omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. Because the interim unaudited consolidated financial statements do not include all of the information and notes required by GAAP for a complete set of consolidated financial statements, they should be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended January 29, 2017. The results reported in these interim unaudited consolidated financial statements should not be regarded as indicative of results that may be expected for any subsequent period or for the entire year.

The Company's interim unaudited consolidated statements of income are referred to herein as the "Statements of Income." The Company's interim unaudited consolidated balance sheets are referred to herein as the "Balance Sheets" and interim unaudited consolidated statements of cash flows as the "Statements of Cash Flows."

Segment Information

The Company's Chief Executive Officer ("CEO") has been identified as the Chief Operating Decision Maker ("CODM") as defined by guidance regarding segment disclosures (see Note 13 for further discussion). In fiscal year 2016, the Company identified five operating segments in total. Four of the operating segments aggregated into one reportable segment, the Semiconductor Products Group. The remaining operating segment, the Systems Innovation Group (shown as "All others"), could not be aggregated with the other operating segments and did not meet the criteria for a separate reportable segment as defined by the guidance regarding segment disclosure. As a result, the financial activity associated with the Systems Innovation Group was reported separately from the Company's

Semiconductor Products Group. This separate reporting was included in the "All others" category. On August 5, 2016, the Company completed its divestiture of its Snowbush Intellectual Property ("Snowbush IP") business (previously part of the Company's Systems Innovation Group) to Rambus Inc. ("Rambus") for a purchase price of \$32.0 million in cash along with the opportunity to receive additional payments from Rambus through 2022 based upon a percentage of sales by Rambus of new products expected to be developed by Rambus from the disposed assets. Therefore, as of January 29, 2017, the Company no longer has a Systems Innovation Group or an "All others" category, resulting in four operating segments that aggregate into one reportable segment, the Semiconductor Products Group.

#### Use of Estimates

The preparation of financial statements in conformity with 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.

#### Recent Accounting Pronouncements

##### Recently Adopted Accounting Guidance

In the first quarter of fiscal year 2018, the Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-09, Improvements to Employee Share-Based Payment Accounting (Topic 718). Under the amended guidance, all excess tax benefits and tax deficiencies will be recognized in the Statements of Income as they occur. This replaced the previous guidance, which required tax benefits that exceed compensation cost ("windfalls") to be recognized in additional paid in capital. It also eliminates the need to maintain a windfall pool, and removes the requirement to delay recognizing a windfall until it reduces current taxes payable. Using the modified retrospective adoption method, in the first quarter of fiscal year 2018, the Company recognized deferred tax assets of \$8.4 million for the windfall tax benefits and also recognized an increase of an equal amount in the valuation allowance against those deferred tax assets. Under the amended guidance, companies can make an accounting policy election to either continue to estimate forfeitures or account for forfeitures as they occur. Upon adoption, the Company elected to account for forfeitures when they occur, on a modified retrospective basis. In the first quarter of fiscal year 2018, a cumulative effect adjustment of \$2.0 million was recorded to retained earnings. The amended guidance also changed the Statements of Cash Flow presentation of excess tax benefits, classifying them as operating activities instead of financing activities, consistent with other cash flows related to income taxes. Further, following the adoption of this updated guidance, there will be additional dilutive effects in earnings per share calculations because excess tax benefits are no longer recognized in additional paid in capital. Due to the valuation allowance maintained against the Company's deferred tax assets, the adoption of this updated guidance did not have a material impact on the Company's consolidated financial statements.

##### Accounting Guidance Issued but Not Adopted as of October 29, 2017

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815). The new standard is designed to refine and expand hedge accounting for both financial (e.g., interest rate) and commodity risks. Its provisions create more transparency around how economic results are presented, both on the face of the financial statements and in the footnotes. It also makes certain targeted improvements to simplify the application of hedge accounting guidance. The new standard is effective for interim and annual fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption, including adoption in an interim period, is permitted. The Company is currently evaluating the impact this ASU will have on its consolidated condensed financial statements and disclosures.

In July 2017, the FASB issued ASU No. 2017-11, Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815). This standard addresses narrow issues identified as a result of the complexity associated with applying GAAP for certain financial instruments with characteristics of liabilities and equity. Part I addresses the complexity of accounting for certain financial instruments with down round features. Part II addresses the difficulty of navigating Topic 480, Distinguishing Liabilities from Equity, because of the existence of pending content in the Accounting Standards Codification ("ASC") that results from the indefinite

deferral of accounting requirements concerning mandatorily redeemable financial instruments of certain non-public entities and certain mandatorily redeemable non-controlling interests. The Company does not expect the adoption of this pronouncement to have a material impact on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715). This standard amends the Statements of Income presentation of the components of net periodic benefit cost for defined benefit pension and other post retirement plans. This standard requires companies to: (1) disaggregate the current service cost component from the other components of net periodic benefit cost (the "other components") and present it in the same line items on the Statements of Income as other current compensation costs for related employees and (2) present the other components outside of operating profit. This standard is required to be applied retrospectively and is effective for annual and interim periods beginning after December 15, 2017. The Company does not expect the adoption of this pronouncement to have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350). The pronouncement was issued to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. This pronouncement stipulates that an entity should perform a goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and will recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, with the loss recognized not exceeding the total amount of goodwill allocated to that reporting unit. The amendments in this pronouncement are to be applied on a prospective basis. This guidance will be effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 31, 2017. The adoption of this pronouncement is not expected to have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805). This standard clarifies the definition of a business to assist entities with evaluating when a set of assets acquired or disposed of should be considered a business. The new standard requires an entity to evaluate if substantially all the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets; if so, the set would not be considered a business. The new standard also requires a business to include at least one substantive process and narrows the definition of outputs. The new standard is effective for interim and annual periods beginning after December 15, 2017, and may be adopted earlier. The standard would be applied prospectively to any transaction occurring on or after the adoption date. The impact of this standard will be dependent upon the specific facts and circumstances of any applicable future acquisitions or dispositions.

In October 2016, the FASB issued ASU No. 2016-16, Intra-Entity Asset Transfers Other Than Inventory (Topic 740). This accounting standard update is aimed at recognizing the income tax consequences of intra-entity transfers of assets other than inventory when they occur. This removes the exception to postpone recognition until the asset has been sold to an outside party. This ASU will be effective in the first quarter of fiscal year 2020. The standard update is required to be applied on a modified retrospective basis through a cumulative-effect adjustment to the Balance Sheet as of the beginning of the fiscal year of adoption. The Company is currently assessing the impact this pronouncement will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (Topic 230). The primary purpose of this ASU is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. This ASU is effective for fiscal years beginning after December 15, 2017. This ASU will be effective for the Company as of the beginning of fiscal year 2019. Early adoption is permitted in any interim or annual period. The Company is continuing to assess the overall impacts of the new standard. The Company does not expect the adoption of this pronouncement to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which will require that substantially all leases be recognized by lessees on their Balance Sheets as a right-of-use asset and corresponding lease liability, including leases currently accounted for as operating leases. The new standard also will result in enhanced quantitative and qualitative disclosures, including descriptions of significant judgments made by management, to provide greater insight into the extent of expense recognized and expected to be recognized from existing leases. The standard requires modified retrospective adoption and will be effective for the Company as of the beginning of fiscal year 2020. The Company expects the valuation of right of use assets and lease liabilities, previously described as operating leases, to be the present value of the Company's forecasted future lease commitments. The Company is continuing to assess the overall impacts of the new standard, including the discount rate to be applied in these valuations.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which will require an entity to recognize revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance addresses, in particular, contracts with more than one performance obligation, as well as the accounting for some costs to obtain or fulfill a contract with a customer, and provides for additional disclosures with respect to revenues and cash flows arising from contracts with customers. Public entities are required to apply the amendments on either a full- or modified-retrospective basis for annual periods beginning after December 15, 2017 and for interim periods within those annual periods. This update will be effective for the Company beginning in the first quarter of fiscal year 2019. The Company plans to adopt the standard retrospectively with the cumulative effect of initially applying it recognized at the date of initial application ("modified retrospective" approach).

The Company has completed its impact assessment and identified a change in timing of revenue recognition on the Company's sales made to certain distributors where revenues are currently deferred and not recognized until the distributor sells to the end customers. Upon adoption of the standard, the Company will no longer defer revenue until sale by the distributor to the end customer, but rather, will record revenue at the time of sale to the distributor. The Company will also be required to estimate the effects of returns and allowances provided to distributors.

On the date of initial application, the Company will reverse the deferred net revenue through a cumulative adjustment to retained earnings on sales made to distributors where revenue was recognized upon sales to the end customer. The Company does not expect the impact of this cumulative adjustment to be material to the reported revenue in the period of adoption, or in future periods, as the impact will be offset by the revenue recognized for sales to distributors upon shipment, post adoption.

The Company is in the process of implementing changes to its accounting policies, business processes and internal controls to support the new accounting and disclosure requirements. These changes are not expected to be material.

## Note 2: Acquisitions

## AptoVision Technologies Inc.

On July 1, 2017, the Company acquired AptoVision Technologies Inc. ("AptoVision"), a privately-held provider of uncompressed, zero-frame latency, video-over-IP solutions addressing the professional audio visual ("Pro AV") market. The unique combination of AptoVision's advanced algorithms for real-time, full bandwidth video transmission over IP networks, and Semtech's industry leading high-speed signal integrity and chip development expertise is expected to enable the adoption of Software Defined Video over Ethernet ("SDVoE") accelerating this natural progression in the evolution of video transport.

Under the terms of the share purchase agreement, the Company acquired all of the outstanding equity interest in AptoVision for a cash payment of \$17.6 million at closing, net of acquired cash, and a commitment to pay additional contingent consideration of up to a maximum of \$47.0 million over three years if certain goals are achieved in each of the earn out periods. The fair value of the additional contingent consideration (the "AptoVision Earn-out") as of the acquisition date was \$17.0 million, of which \$8.5 million is presented within "Accrued liabilities" and \$8.5 million is presented within "Other long-term liabilities" in the Balance Sheets. For the nine months ended October 29, 2017, acquisition related transaction costs of \$1.6 million are accounted for as an expense in the period in which the costs are incurred and are presented within "Selling, general and administrative" expense in the Statements of Income.

AptoVision met the definition of a business and is accounted for under the acquisition method of accounting in accordance with the FASB's ASC Topic 805, Business Combinations. The consideration to acquire AptoVision was allocated to the acquired tangible and intangible assets and assumed liabilities of AptoVision based on their respective estimated fair values as of the acquisition date. A summary of the allocation is as follows:

| (in thousands)  | Estimated Useful Life | October 29,<br>2017 |
|---|-----------------------|---------------------|
| Finite-lived intangible asset - Developed Technology                              | 6-7 years             | \$ 20,000           |
| Finite-lived intangible asset - Customer Relationships                            | 3 years               | 4,000               |
| Indefinite-lived intangible asset - in-process research and development ("IPR&D") |                       | 2,300               |
| Goodwill  |                       | 12,187              |
| Other (liabilities) assets, net   |                       | (3,868 )            |
| Total consideration   |                       | \$ 34,619           |

The fair value of the developed technology rights acquired was determined by estimating the probability-weighted net cash flows attributable to these rights discounted to present value using a discount rate that represents the estimated rate that market participants would use to value this intangible asset. The developed technology rights acquired relate to AptoVision's BlueRiver™ platform.

The fair value of the customer relationships was determined by estimating the amount that would be required currently to replace the customers from lead generations to product shipment.

The IPR&D primarily relates to an assumed license agreement that had been executed in close proximity to the acquisition date. The investment in the license approximates fair value.

The \$12.2 million excess of the acquisition consideration over the fair value of the assets acquired and liabilities assumed was allocated to goodwill. The goodwill resulted from expected synergies and other benefits from the transaction. The Company expects that all such goodwill will be deductible for tax purposes.

The purchase price allocation for the AptoVision acquisition is complete and resulted in a reduction of goodwill during the three months ended October 29, 2017 of \$4.7 million due primarily to tax related items. The adjustments

did not have a material effect on the Company's consolidated financial results.

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

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Triune Systems, L.L.C

On March 4, 2015, the Company acquired Triune Systems, L.L.C. ("Triune"), a privately-held supplier of isolated switching, wireless charging and power management platforms targeted at, among other things, high and low power, high efficiency applications. Under the terms of the purchase agreement, the Company acquired all of the outstanding equity interest in Triune for a guaranteed minimum purchase price of \$45.0 million consisting of \$35.0 million in cash paid at closing, with an additional cash consideration of \$10.0 million of which \$9.5 million was paid in September 2015 and \$0.5 million was paid in the second quarter of fiscal year 2017.

Subject to achieving certain future financial goals ("Triune Earn-out"), up to \$70.0 million of contingent consideration will be paid over three years if certain net revenue targets are achieved starting in fiscal year 2016 and ending in fiscal year 2018. An additional payment of up to \$16.0 million will be paid after fiscal year 2018 if certain cumulative net revenue and contribution margin targets are achieved.

The Triune Earn-out targets for fiscal year 2017 were not met and the Company does not expect the fiscal year 2018 targets to be achieved. The fair value of the Triune Earn-out liability was zero as of both October 29, 2017 and January 29, 2017, respectively. (See Notes 6 and 11).



## Note 3: 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 |                  | Nine Months Ended |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | October 29, 2017   | October 30, 2016 | October 29, 2017  | October 30, 2016 |
| Net income  | \$13,338           | \$ 30,776        | \$37,723          | \$ 46,642        |
| Weighted average common shares outstanding - basic          | 66,194             | 65,549           | 65,932            | 65,331           |
| Dilutive effect of stock options and restricted stock units | 1,623              | 657              | 1,623             | 568              |
| Weighted average common shares outstanding - diluted        | 67,817             | 66,206           | 67,555            | 65,899           |
| Basic earnings per common share                             | \$0.20             | \$ 0.47          | \$0.57            | \$ 0.71          |
| Diluted earnings per common share                           | \$0.20             | \$ 0.46          | \$0.56            | \$ 0.71          |
| Anti-dilutive shares not included in the above calculations | 362                | 989              | 447               | 1,498            |

Basic earnings per common share is computed by dividing income available to common stockholders 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 non-qualified stock options, the vesting of restricted stock units and performance unit awards if the conditions have been met.

## Note 4: Share-Based Compensation

Financial Statement Effects and Presentation. The following table summarizes pre-tax share-based compensation included in the Statements of Income for the three and nine months ended October 29, 2017 and October 30, 2016.

| (in thousands)  | Three Months Ended |                  | Nine Months Ended |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | October 29, 2017   | October 30, 2016 | October 29, 2017  | October 30, 2016 |
| Revenue offset  | \$6,249            | \$ 3,669         | \$14,726          | \$ 3,669         |
| Cost of sales   | 316                | 360              | 1,161             | 1,108            |
| Selling, general and administrative                               | 6,589              | 3,965            | 22,200            | 12,001           |
| Product development and engineering                               | 2,202              | 1,401            | 6,079             | 4,420            |
| Share-based compensation  | \$15,356           | \$ 9,395         | \$44,166          | \$ 21,198        |
| Net change in share-based compensation capitalized into inventory | \$—                | \$ 124           | \$(414 )          | \$ 106           |

Warrant. On October 5, 2016, the Company issued a warrant (the "Warrant") to Comcast Cable Communications Management LLC ("Comcast") to purchase up to 1,086,957 shares (the "Warrant Shares") of the common stock of Semtech Corporation. The Warrant was issued by the Company to Comcast in connection with an agreement between the parties regarding the intended trial deployment by Comcast of a low-power wide-area Network ("LPWAN") in the United States, based on the Company's LoRa® devices and wireless radio frequency technology. The Warrant is accounted for as equity and the cost is recognized as an offset to net sales over the respective performance period. The Warrant consists of five performance tranches. The cost associated with each tranche is recognized based on the fair value at each reporting date until vesting which is the measurement date. For both the three-and nine-month periods ended October 29, 2017, the revenue offset reflects the cost associated with the Warrant.

Performance-Based Restricted Stock Units. The Company grants performance-based restricted stock units to select employees. The performance-based restricted stock units are valued as of the measurement date and expense is recognized on a straight line basis for the awards expected to vest based on the probability of attainment of the performance condition for each separately vesting portion of the award.

In the first quarter of fiscal year 2018, the Company granted 215,857 performance-based restricted stock units that have a pre-defined market condition, a service condition and are accounted for as equity awards. The market condition is determined based upon the Company's total stockholder return ("TSR") benchmarked against the TSR of the S&P SPDR Semiconductor ETF (NYSE:XSD) over a one, two and three year performance period (one-third of the awards vesting each performance period). The fiscal year 2018 award recipients must be employed for the entire performance period and be an active employee at the time of vesting of the awards. The Company used a Monte Carlo simulation to determine the grant-date fair value for these awards, which takes into consideration the possible outcomes pertaining to the TSR market condition. The grant-date fair value per unit of the awards granted in the first quarter of fiscal year 2018 for each one, two and three year performance period is \$38.01, \$39.76 and \$40.89, respectively. At October 29, 2017, the market metrics associated with the outstanding awards issued in fiscal year 2018 is expected to be met at a level which would result in a grant at 101.5% of target.

## Note 5: Investments

Cash and cash equivalents includes investments in money market funds that are valued based on the net asset value of the funds. The cash equivalents consist primarily of money market funds that are Level 1 measurements. The investments in these funds were \$10.1 million and \$16.9 million as of October 29, 2017 and January 29, 2017, respectively.

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

| (in thousands)       | October 29, 2017 |               |                       | January 29, 2017 |               |                       |
|----------------------|------------------|---------------|-----------------------|------------------|---------------|-----------------------|
|                      | Market Value     | Adjusted Cost | Gross Unrealized Gain | Market Value     | Adjusted Cost | Gross Unrealized Gain |
| Convertible debt     | \$ —             | \$ —          | \$ —                  | \$ 1,425         | \$ 1,425      | \$ —                  |
| Other current assets | \$ —             | \$ —          | \$ —                  | \$ 1,425         | \$ 1,425      | \$ —                  |

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

| (in thousands)               | October 29, 2017 |               | January 29, 2017 |               |
|------------------------------|------------------|---------------|------------------|---------------|
|                              | Market Value     | Adjusted Cost | Market Value     | Adjusted Cost |
| Within 1 year                | \$ —             | \$ —          | \$ 1,425         | \$ 1,425      |
| After 1 year through 5 years | —                | —             | —                | —             |
| Other current assets         | \$ —             | \$ —          | \$ 1,425         | \$ 1,425      |

The Company's available-for-sales securities consisted of an investment in a convertible debt instrument issued by a privately-held company and is included in "Other current assets" within the Balance Sheets. During the nine months ended October 29, 2017, the Company received cash to fully settle the convertible debt instrument.

The Company currently has a \$25.0 million investment, which includes \$5.0 million of restricted deposits, in a private entity that is accounted for at cost and included in "Other assets" within the Balance Sheets. As part of its investment, the Company received a call option that allows the Company to purchase all of the outstanding equity of the entity. The call option, which was out-of-the-money at inception, is exercisable until June 30, 2018.

## Note 6: Fair Value Measurements

## Instruments Measured at Fair Value on a Recurring Basis

Financial assets and liabilities measured and recorded at fair value on a recurring basis were presented within the Company's Balance Sheets as follows:

| (in thousands)                     | Fair Value as of October 29, 2017 |                 |              |                 | Fair Value as of January 29, 2017 |                 |              |                |
|------------------------------------|-----------------------------------|-----------------|--------------|-----------------|-----------------------------------|-----------------|--------------|----------------|
|                                    | Total                             | (Level 1)       | (Level 2)    | (Level 3)       | Total                             | (Level 1)       | (Level 2)    | (Level 3)      |
| <b>Financial assets:</b>           |                                   |                 |              |                 |                                   |                 |              |                |
| Cash equivalents                   | \$10,126                          | \$10,126        | \$—          | \$—             | \$16,945                          | \$16,945        | \$—          | \$—            |
| Derivative financial instruments   | 482                               | —               | 482          | —               | 326                               | —               | 326          | —              |
| Convertible debt                   | —                                 | —               | —            | —               | 1,425                             | —               | —            | 1,425          |
| <b>Total financial assets</b>      | <b>\$10,608</b>                   | <b>\$10,126</b> | <b>\$482</b> | <b>\$—</b>      | <b>\$18,696</b>                   | <b>\$16,945</b> | <b>\$326</b> | <b>\$1,425</b> |
| <b>Financial liabilities:</b>      |                                   |                 |              |                 |                                   |                 |              |                |
| AptoVision Earn-out                | \$17,188                          | \$—             | \$—          | \$17,188        | \$—                               | \$—             | \$—          | \$—            |
| Triune Earn-out                    | —                                 | —               | —            | —               | —                                 | —               | —            | —              |
| Cycleo Earn-out                    | 776                               | —               | —            | 776             | 1,242                             | —               | —            | 1,242          |
| Derivative financial instruments   | —                                 | —               | —            | —               | —                                 | —               | —            | —              |
| <b>Total financial liabilities</b> | <b>\$17,964</b>                   | <b>\$—</b>      | <b>\$—</b>   | <b>\$17,964</b> | <b>\$1,242</b>                    | <b>\$—</b>      | <b>\$—</b>   | <b>\$1,242</b> |

During the nine months ended October 29, 2017, the Company had no transfers of financial assets or liabilities between Level 1, Level 2 or Level 3. As of October 29, 2017 and January 29, 2017, the Company had not elected the fair value option for any financial assets and liabilities for which such an election would have been permitted.

The fair values of the foreign exchange forward contracts are valued using Level 2 inputs. Foreign currency forward contracts are valued using readily available foreign currency forward and interest rate curves. The fair value of each contract is determined by comparing the contract rate to the forward rate and discounting to the present value.

Contracts in a gain position are recorded in the Balance Sheets within the caption "Other current assets" and the value of contracts in a loss position are recorded within the caption "Accrued liabilities" within the Balance Sheets. Please see Note 15 for further discussion of the Company's derivative instruments.

The convertible debt is valued using probability weighted cash flows (Level 3 inputs).

The Triune Earn-out liability is valued utilizing estimates of annual revenue and operating income (Level 3 inputs) during a period ending January 2018. These estimates represent inputs for which market data are not available and are developed using the best information available about the assumptions that market participants would use when pricing the liability.

The Cycleo Earn-out liability (see Note 11) is valued utilizing estimates of annual revenue and operating income (Level 3 inputs) through April 2020. These estimates represent inputs for which market data are not available and are developed using the best information available about the assumptions that market participants would use when pricing the liability.

The AptoVision Earn-out liability is valued utilizing estimates of annual revenue, adjusted earnings and product development targets (Level 3 inputs) through July 2020. These estimates represent inputs for which market data are not available and are developed using the best information available about the assumptions that market participants would use when pricing the liability.

The Company measures contingent earn-out liabilities at fair value on a recurring basis using significant unobservable inputs classified within Level 3 of the fair value hierarchy. The Company uses a Monte Carlo valuation method as a valuation technique to determine the value of the earn-out liability. The significant unobservable inputs used in the fair value measurements are revenue projections over the earn-out period, and the probability outcome percentages assigned to each scenario. Significant increases or decreases to either of these inputs in isolation would result in a significantly higher or lower liability, with a higher liability capped by the contractual maximum of the contingent

earn-out obligation. Ultimately, the liabilities will be equivalent to the amount paid, and the difference between the fair value estimate and amount paid will be recorded in earnings. For the Triune Earn-out, Cycleo Earn-out and AptoVision Earn-out, these companies have business profiles comparable to a start-up company. Accordingly, their respective revenue projections are subject to significant revisions. This characteristic can result in volatile changes to the measurement of fair value for a given earn-out.

The Company reviews and re-assesses the estimated fair value of contingent consideration on a recurring basis, and the updated fair value could differ materially from the previous estimates. Changes in the estimated fair value of the Company's contingent earn-out liabilities related to the time component of the present value calculation are reported in "Interest expense" within the Statements of Income. Adjustments to the estimated fair value related to changes in all other unobservable inputs are reported in operating income.

A reconciliation of the change in the earn-out liability during the nine months ended October 29, 2017 is as follows:

| (in thousands)   | Cycleo  | Triune | AptoVision | Total    |
|--|---------|--------|------------|----------|
| Balance at January 29, 2017                                  | \$1,242 | \$ —   | —          | \$1,242  |
| Changes in the fair value of contingent earn-out obligations | —       | —      | —          | —        |
| Current acquisitions   | —       | —      | 17,188     | 17,188   |
| Payments   | (466 )  | —      | —          | (466 )   |
| Balance as of October 29, 2017                               | \$776   | \$ —   | —\$ 17,188 | \$17,964 |

#### 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, net receivables, certain other assets, accounts payable, 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 in Note 9) is \$135.0 million and \$146.3 million as of October 29, 2017 and January 29, 2017, respectively. The fair value of the Company's Revolving Commitments (as defined in Note 9) is \$97.0 million as of both October 29, 2017 and January 29, 2017, respectively. These are based on Level 2 inputs which are derived from transactions with similar amounts, maturities, credit ratings and payment terms.

#### 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 securities to fair value when held for sale or determined to be impaired.

For its investment in non-marketable 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 equity investments during the first nine months of fiscal year 2018.

Note 7: 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)   | October 29,<br>2017 | January 29,<br>2017 |
|------------------|---------------------|---------------------|
| Raw materials    | \$ 2,000            | \$ 2,968            |
| Work in progress | 50,373              | 44,740              |
| Finished goods   | 18,876              | 18,164              |
| Inventories      | \$ 71,249           | \$ 65,872           |

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## Note 8: Goodwill and Intangible Assets

Goodwill – There were no events or changes in circumstances that would indicate the carrying amount of goodwill may not be recoverable as of October 29, 2017 and January 29, 2017. Goodwill by applicable reporting unit is as follows:

| (in thousands)              | Signal Integrity | Power and High Reliability | Wireless and Sensing | Total     |
|-----------------------------|------------------|----------------------------|----------------------|-----------|
| Balance at January 29, 2017 | \$261,891        | \$ 49,384                  | \$ 18,428            | \$329,703 |
| Additions <sup>(1)</sup>    | 12,187           | —                          | —                    | 12,187    |
| Balance at October 29, 2017 | \$274,078        | \$ 49,384                  | \$ 18,428            | \$341,890 |

(1) Composed of goodwill recognized on the acquisition date and subsequent adjustments resulting from changes to the acquisition date fair values of net assets acquired in the business combination recorded during their respective measurement periods.

During the second quarter of fiscal year 2018, goodwill associated with the Signal Integrity product group increased due to the Company's acquisition of AptoVision (see Note 2).

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

| (in thousands)                       | Estimated Useful Life | October 29, 2017      |                          |                     | January 29, 2017      |                          |                     |
|--------------------------------------|-----------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
|                                      |                       | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Core technologies                    | 5-8 years             | \$164,930             | \$(109,609)              | \$ 55,321           | \$144,930             | \$(92,940)               | \$ 51,990           |
| Customer relationships               | 5-10 years            | 34,030                | (23,991)                 | 10,039              | 30,030                | (20,247)                 | 9,783               |
| Total finite-lived intangible assets |                       | \$198,960             | \$(133,600)              | \$ 65,360           | \$174,960             | \$(113,187)              | \$ 61,773           |

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

| (in thousands)             | Gross Carrying Value |
|----------------------------|----------------------|
| Value at January 29, 2017  | \$174,960            |
| Acquired intangible assets | 24,000               |
| Value at October 29, 2017  | \$198,960            |

For the three months ended October 29, 2017 and October 30, 2016, amortization expense related to acquired finite-lived intangible assets was \$7.5 million and \$6.3 million, respectively. For the nine months ended October 29, 2017 and October 30, 2016, amortization expense related to acquired finite-lived intangible assets was \$20.4 million and \$19.0 million, respectively. Amortization expense related to acquired finite-lived intangible assets is reported as "Intangible amortization" within the Statements of Income.

The following table sets forth the Company's indefinite-lived intangible assets resulting from additions to IPR&D:

| (in thousands)   | Net Carrying Value |
|--|--------------------|
| Value at January 29, 2017                                | \$ —               |
| In-process research and development through acquisitions | 2,300              |
| Value at October 29, 2017                                | \$ 2,300           |

The Company reviews indefinite-lived intangible assets for impairment as of November 30, each year, by comparing the carrying amount of the asset to the future discounted cash flows that asset is expected to generate.





## Note 9: Credit Facilities

On November 15, 2016 (the "Closing Date"), Semtech Corporation, with certain of its domestic subsidiaries as guarantors (the "Guarantors"), entered into the amended and restated credit facility with the lenders party thereto ("Lenders"), and HSBC Bank USA, National Association, as administrative agent and as swing line lender and letter of credit issuer (the "Credit Agreement"). The Credit Agreement amended and restated the Company's prior credit agreement. The Company accounted for the Credit Agreement as a debt modification. Pursuant to the Credit Agreement, the Lenders provided the Company with senior secured first lien credit facilities in an aggregate principal amount of \$400.0 million, consisting of term loans in an aggregate initial principal amount of \$150.0 million (the "Term Loans") and revolving credit 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, 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. Each of the Term Loans and the Revolving Commitments is scheduled to mature on November 12, 2021. As of October 29, 2017, there were no amounts outstanding under the letters of credit, swing line loans and alternative currency sub facilities.

All of the proceeds of the Credit Agreement were used to repay in full all of the obligations outstanding under the Company's prior credit facility and to pay transaction costs in connection with such refinancing. As of November 15, 2016, \$247.0 million of borrowings were outstanding under the Credit Agreement, consisting of \$150.0 million in term loans and \$97.0 million in revolving loans, and there was \$153.0 million of undrawn revolving commitments. The proceeds of the revolving credit facility may be used by the Company for capital expenditures, permitted acquisitions, permitted dividends, working capital and general corporate purposes.

The Credit Agreement provides that, subject to certain conditions, the Company may request 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 the sum of (a) \$150.0 million and (b) the aggregate principal amount of all voluntary prepayments of term loans made prior to the date of incurrence of such additional term loan facilities and/or increases to the revolving commitments. The Lenders will have an opportunity to, but are not required to participate in the additional term loan facilities and/or revolving commitment increases. If the Lenders do not agree to provide such incremental facilities, the Company may request such additional and/or increased facilities from additional lenders. Interest on loans made under the Credit Agreement in U.S. Dollars accrues, at the Company'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 the Company's consolidated leverage ratio or (2) LIBOR (determined with respect to deposits in U.S. Dollars) for an interest period to be selected by the Company plus a margin ranging from 1.25% to 2.25% depending upon the Company's consolidated leverage ratio (such margin, the "Applicable Margin"). The "Base Rate" is equal to a fluctuating rate equal to the highest of (a) the prime rate of the administrative agent, (b) ½ of 1% above the federal funds effective rate published by the Federal Reserve Bank of New York and (c) one-month LIBOR (determined with respect to deposits in U.S. Dollars) plus 1%. Interest on loans made under the Credit Agreement in alternative currencies accrues at a rate per annum equal to LIBOR (determined with respect to deposits in the applicable alternative currency) (other than loans made in Canadian Dollars, for which a special reference rate for Canadian Dollars applies) for an interest period to be selected by the Company plus the Applicable Margin.

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 the Company's consolidated leverage ratio. With respect to letters of credit, the Company will pay the administrative agent, for the account of the lenders under the revolving credit facility, letter of credit participation fees at a rate per annum equal to the applicable margin then in effect with respect to LIBOR-based loans under the revolving commitments on the face amount of all outstanding letters of credit. The Company also will pay HSBC Bank USA, N.A., as the issuing bank, a fronting fee for each letter of credit issued under the Credit Agreement at a rate equal to 0.125% per annum based on the maximum amount available to be drawn under each such letter of

credit, as well as its customary documentation fees.

All obligations of the Company under the Credit Agreement are unconditionally guaranteed by each of the Guarantors, which currently consist of all of the direct and indirect domestic subsidiaries of Semtech Corporation. Semtech Corporation and the Guarantors have also pledged substantially all of their assets, including sixty-five percent (65.0%) of such Guarantor's equity interest in direct non-U.S. subsidiaries, to secure their obligations under the Credit Agreement, including the Company's owned real property located in Camarillo, California.

The outstanding principal balance of the Term Loans is subject to repayment in quarterly installments. No amortization is required with respect to the revolving credit facility. The Company may voluntarily prepay borrowings under the Credit

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Agreement at any time and from time to time, without premium or penalty, other than customary "breakage costs" and fees for LIBOR-based loans.

The Term Loans are required to be prepaid using the proceeds of certain dispositions of assets and receipt of insurance proceeds, subject to agreed-upon thresholds and exceptions and customary reinvestment rights.

The Credit Agreement contains customary covenants, including limitations on Company's ability to, among other things, incur indebtedness, create liens on assets, engage in certain fundamental corporate changes, make investments, sell or otherwise dispose of assets, repurchase stock, pay dividends or make similar distributions, engage in certain transactions with affiliates and make capital expenditures. In addition, the Company must comply with the following financial covenants, tested at the end of each fiscal quarter on a trailing four-quarter basis: (i) a minimum consolidated interest coverage ratio of 3.00 to 1.00 and (ii) a maximum consolidated leverage ratio of 3.00 to 1.00 provided that, such maximum consolidated leverage ratio may be increased to 3.25 to 1.00 or 3.50 to 1.00, as applicable, for the four consecutive fiscal quarters ending on or after the date of consummation of a permitted acquisition which constitutes a "Material Acquisition" under the Credit Agreement, subject to the satisfaction of certain conditions. As of October 29, 2017, the Company was in compliance with all covenants.

The Credit Agreement also contains customary provisions pertaining to events of default. If any event of default occurs, the principal, interest, and any other monetary obligations on all the then outstanding amounts can become due and payable immediately by action of the administrative agent acting upon the instructions of or with the consent of the Lenders representing more than 50% of the revolving commitments and outstanding term loans or automatically upon the occurrence of certain bankruptcy events related to the Company.

As of October 29, 2017, the interest rates payable on both the Term Loans and the Revolving Commitments was 2.87%.

Scheduled maturities of current and long-term Term Loans are as follows:

(in thousands)

Fiscal Year Ending:

|            |           |
|------------|-----------|
| 2018       | \$3,750   |
| 2019       | 15,938    |
| 2020       | 18,750    |
| 2021       | 19,688    |
| 2022       | 76,875    |
| Total debt | \$135,001 |

There are no scheduled principal payments for the Revolving Commitments which had an outstanding balance of \$97.0 million at October 29, 2017 and is due on or before November 12, 2021.

## Note 10: Income Taxes

The Company's effective tax rate differs from the statutory federal income tax rate of 35% due primarily to regional mix of income, valuation allowances in the U.S., and 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 Company uses a two-step approach to recognize and measure uncertain tax positions ("UTP"). The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows:

(in thousands)

|  |           |
|--|-----------|
| Balance at January 29, 2017                                  | \$ 11,452 |
| Additions based on tax positions related to the current year | 590       |
| Reductions for issue resolutions                             | (990 )    |
| Balance as of October 29, 2017                               | \$ 11,052 |

Included in the balance of gross unrecognized tax benefits at October 29, 2017 and January 29, 2017, are \$8.9 million and \$9.3 million of net tax benefits (after federal impact of state items), respectively, that, if recognized, would impact the effective tax rate, prior to consideration of any required valuation allowance.

The liability for UTP is reflected within the Balance Sheets as follows:

| (in thousands)                    | October 29,<br>2017 | January 29,<br>2017 |
|-----------------------------------|---------------------|---------------------|
| Deferred tax assets - non-current | \$ 9,782            | \$ 9,309            |
| Other long-term liabilities       | 1,270               | 2,143               |
| Total accrued taxes               | \$ 11,052           | \$ 11,452           |

The Company's policy is to include net interest and penalties related to unrecognized tax benefits within the "Provision for taxes" in the Statements of Income. The Company had approximately \$0.3 million of net interest and penalties accrued at both October 29, 2017 and January 29, 2017, respectively.

Tax years prior to 2012 (the Company's fiscal year 2013) are generally not subject to examination by the U.S. Internal Revenue Service ("IRS") except for items involving tax attributes that have been carried forward to tax years whose statute of limitations remains open. For state returns, the Company is generally not subject to income tax examinations for calendar years prior to 2012 (the Company's fiscal year 2013). The Company has a significant tax presence in Switzerland for which Swiss tax filings have been examined through fiscal year 2016. The Company is also subject to routine examinations by various foreign tax jurisdictions in which it operates.

The Company's regional income from continuing operations before taxes and equity in net losses of equity method investments is as follows:

| (in thousands) | Three Months Ended  |                     | Nine Months Ended   |                     |
|----------------|---------------------|---------------------|---------------------|---------------------|
|                | October 29,<br>2017 | October 30,<br>2016 | October 29,<br>2017 | October 30,<br>2016 |
| Domestic       | \$(2,366 )          | \$ 937              | \$(11,396)          | \$(13,048 )         |
| Foreign        | 19,180              | 35,582              | 60,447              | 75,114              |
| Total          | \$ 16,814           | \$ 36,519           | \$ 49,051           | \$ 62,066           |



Note 11: Commitments and Contingencies

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. The Company also 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 consolidated 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. The Company evaluates, at least quarterly, developments in its legal matters that could affect the amount of liability that has been previously accrued, and makes adjustments as appropriate. Significant judgment is required to determine both probability and the estimated amount. The Company may be unable to estimate a possible loss or range of possible loss due to various reasons, including, among others: (i) if the damages sought are indeterminate; (ii) if the proceedings are in early stages, (iii) if there is uncertainty as to the outcome of pending appeals, motions or settlements, (iv) if there are significant factual issues to be determined or resolved, and (v) if there are novel or unsettled legal theories presented. In such instances, there is considerable uncertainty regarding the ultimate resolution of such matters, including a possible eventual loss, if any.

Because the outcomes of litigation and other legal matters are inherently unpredictable, the Company's evaluation of legal matters or 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 matters and 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, 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. However, legal matters are inherently unpredictable and subject to significant uncertainties, some of which are beyond the Company's control. As such, even though the Company intends to vigorously defend itself with respect to its legal matters, there can be no assurance that the final outcome of these matters will not materially and adversely affect the Company's business, financial condition, operating results, or cash flows.

From time to time, 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 IP, contract, product liability, employment, and environmental matters. In the opinion of management, after consulting with legal counsel, 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 that sent acetone to the site and entered into a Consent Order with the State that required the group to perform a soil investigation at the site and submit a remediation plan. The State has approved the remediation plan, which addressed the group's initial obligations under the Consent Order. 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. To date, the Company's share of the group's expenses has not been material and has been expensed as incurred. More recently, the State has decided to pursue a smaller group of parties for additional remediation and/or costs, in particular, parties the State alleges provided chlorinated solvents for recycling, including the Company. Due

to the fact that there are fewer parties that are alleged to have provided chlorinated solvent wastes, the potential share of this alleged liability is much larger than the Company's share of acetone group potential liability. On January 30, 2017, the Company entered into a Consent Decree to settle and resolve all of the State's claims against the Company, including any liability the Company may have relating to acetone and chlorinated solvents. The Company's share of the settlement amount to be paid to the State is not material. On January 31, 2017, the State filed its Complaint and lodged the Consent Decree. The Consent Decree was subject to a public comment period of not less than 30 days. The State filed a motion for entry of the Consent Decree on April 25, 2017 and the current owner of the property, Westside Delivery LLC, filed an Objection to the Proposed Consent Decree and Opposition to the Motion for Entry as well as a Motion to Intervene on May 15, 2017. On July 21, 2017, the Court granted the Motion to Intervene and Westside Delivery filed an intervenor complaint on July 26, 2017. On July 31, 2017, the parties filed a stipulation requesting a stay of the proceedings pending a ruling on an appeal in the case between the State and Westside Delivery. On August 2, 2017, the Court entered an order granting the State's motion for entry of the Consent Decree, but did not actually sign the Consent Decree. On August 4, 2017, the Court entered an order staying the proceedings pending appeal, but then on August 10, 2017, the Court signed the Consent Decree. The Company has been informed by the State that Westside Delivery has asserted an ability to appeal the entry of the Consent Decree, despite the fact that the 30 days provided in the rules for filing a notice of appeal has lapsed and the parties to the Consent Decree have complied with its terms, including having made the appropriate payments.

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. The location of key soil contamination (and some related site groundwater impact associated with the soil contamination) is concentrated in and found to emanate from an area of an underground storage tank that the Company believes to have been installed and primarily used in the early 1960s by a former tenant at the site who preceded the Company's tenancy. There are no litigation claims pending with respect to environmental matters at the Newbury Park site.

The Los Angeles Regional Water Quality Control Board ("RWQCB") 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 October 2013, an order was issued including a scope of proposed additional site work, monitoring, and proposed remediation activities. The Company filed appeals of the October 2013 order seeking reconsideration by the RWQCB and review by the State Water Resources Control Board ("SWRCB") of the removal of two other potentially responsible parties, and seeking clarification of certain other factual findings. In April 2015, the RWQCB denied the Company's request to name the two other potentially responsible parties to the order, but did correct certain findings of fact identified by the Company in its petition for reconsideration. The SWRCB has not yet ruled on the Company's petition for review of the RWQCB's action as the petition was filed with a request it be held in abeyance.

The Company has been engaged with the regulatory agency, including technical discussions between the Company's environmental firm and RWQCB staff, and has initiated the technical efforts to comply with the order. The Company submitted technical reports prepared by the environmental firm to the RWQCB and has received confirmation regarding the satisfaction of portions of the order. The Company also submitted a remedial action plan prepared by the environmental firm outlining the cleanup of soil, groundwater, and soil vapor at the site. The Company's contractors have installed new monitoring wells and have submitted plans and applications in order to initiate pilot testing of a soil vapor extraction system. The parties are continuing to work toward compliance with the October 2013 order and anticipate working cooperatively on any ultimate proposed cleanup 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 on the latest determinations by the RWQCB and the draft remedial action plan, the



Company determined a revised range of probable loss between \$4.7 million and \$7.2 million. Given the 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 has recorded the minimum amount of probable loss as follows within the Company's Balance Sheets.

| (in thousands)              | Accrued<br>Liability | Other-Long<br>Term<br>Liability | Total    |
|-----------------------------|----------------------|---------------------------------|----------|
| Balance at January 29, 2017 | \$ 620               | \$ 4,381                        | \$ 5,001 |
| Change in estimate          | 2,186                | (2,186 )                        | —        |
| Utilization                 | (268 )               | —                               | (268 )   |
| Balance at October 29, 2017 | \$ 2,538             | \$ 2,195                        | \$ 4,733 |

These estimates could change as a result of changes in planned remedial actions, further actions from the regulatory agency, remediation technology, and other factors.

#### Indemnification

The Company has entered into agreements with its current and former executives 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 or additional warranty terms, including 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.

#### Earn-out Liability

Pursuant to the terms of the amended earn-out arrangement ("Cycleo Earn-out") with the former shareholders of Cycleo SAS ("Cycleo Earn-out Beneficiaries"), which the Company acquired on March 7, 2012, 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 over a defined period ("Cycleo Defined Earn-out Period"). The Cycleo Defined Earn-out Period covers the period April 27, 2015 to April 26, 2020. For certain of the Cycleo Earn-out Beneficiaries, payment of the earn-out liability is contingent upon continued employment 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 not considered as compensation expense. The Company has recorded a liability for the Cycleo Earn-out of \$6.1 million and \$6.1 million as of October 29, 2017 and January 29, 2017, respectively, of which \$2.8 million is expected to be paid within twelve months.

Pursuant to the terms of the Triune Earn-out with the former members of Triune ("Triune Earn-out Beneficiaries"), which the Company acquired on March 4, 2015, the Company potentially may make payments totaling up to approximately \$70.0 million based on achievement of certain net revenue targets measured at each fiscal year end, starting with fiscal year 2016 and ending in fiscal year 2018. An additional payment of up to \$16.0 million may be made based upon a combination of cumulative revenue and contribution margin targets measured from the acquisition date through the end of the Company's fiscal year 2018. For certain of the Triune Earn-out Beneficiaries, payment of the earn-out liability is contingent upon continued employment 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 not considered as compensation expense. The Triune Earn-out targets for fiscal years 2017 and 2016 were not met and the Company does not expect the fiscal year 2018 targets to be achieved. Refer to Note 6 for additional discussion

regarding fair value measurements.

Pursuant to the terms of the AptoVision Earn-out with the former shareholders of AptoVision ("AptoVision Earn-out Beneficiaries"), which the Company acquired on July 1, 2017, the Company potentially may make payments totaling up to approximately \$47.0 million based on the achievement of a combination of certain net revenue, adjusted earnings and product development targets measured from the acquisition date through July 26, 2020.

A summary of earn-out liabilities by classification follows:

| (in thousands)                                     | Balance at October 29, 2017 |        |                  | Balance at January 29, 2017 |        |            |          |
|--|-----------------------------|--------|------------------|-----------------------------|--------|------------|----------|
|  | Cycleo                      | Triune | AptoVision Total | Cycleo                      | Triune | AptoVision | Total    |
| Compensation expense                               | \$4,662                     | \$ —   | \$4,662          | \$4,576                     | \$ —   | —          | —\$4,576 |
| Not conditional upon continued employment          | 776                         | —      | 17,188           | 949                         | —      | —          | 949      |
| Interest expense                                   | 621                         | —      | 621              | 543                         | —      | —          | 543      |
| Total liability                                    | \$6,059                     | \$ —   | \$23,247         | \$6,068                     | \$ —   | —          | —\$6,068 |
| Amount expected to be settled within twelve months | \$2,798                     | \$ —   | \$11,486         |                             |        |            |          |

## Note 12: Concentration of Risk

The following significant customers accounted for at least 10% of net sales in one or more of the periods indicated:

| (percentage of net sales)   | Three Months Ended |                  | Nine Months Ended |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | October 29, 2017   | October 30, 2016 | October 30, 2017  | October 30, 2016 |
| Arrow Electronics (and affiliates)                                  | 13 %               | 11 %             | 10 %              | 9 %              |
| Trend-tek Technology Ltd (and affiliates)                           | 10 %               | 8 %              | 10 %              | 10 %             |
| Samsung Electronics (and affiliates)                                | 9 %                | 9 %              | 8 %               | 8 %              |
| Premier Technical Sales Korea, Inc. (and affiliates) <sup>(1)</sup> | 5 %                | 6 %              | 6 %               | 5 %              |

(1) Premier is a distributor with a concentration of sales to Samsung. The above percentages represent the Company's estimate of the sales activity related to Samsung that is passing through this distributor.

The Company did not have any customer that accounted for at least 10% of total net receivables as of October 29, 2017 or January 29, 2017.

## Outside Subcontractors and Suppliers

The Company relies on a limited number of third-party subcontractors and suppliers for the production of silicon wafers, packaging and certain other tasks. Disruption or termination of supply sources or subcontractors, including 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 third-party subcontractors and suppliers, including third-party foundries that supply silicon wafers, are located in foreign countries, including China, Taiwan and Israel. 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. For the third quarter of fiscal years 2018 and 2017, respectively, approximately 21% and 24%, respectively, of the Company's silicon in terms of cost of wafers was supplied by a third-party foundry in China, and these percentages could be higher in future periods.

In the third quarter of fiscal year 2018, authorized distributors accounted for approximately 66% of the Company's net sales compared to approximately 64% in the third quarter of fiscal year 2017. Generally, the Company does not have long-term contracts with its distributors and most can terminate their agreement with little or no notice. For the third quarter of fiscal year 2018, the Company's two largest distributors were based in Asia.

## Note 13: Segment Information

## Segment Information

The Company's CEO functions as the CODM. The Company's CODM makes operating decisions and assesses performance based on these operating segments. The four operating segments: Protection Products Group, Power and High-Reliability Products Group, Signal Integrity Products Group, and Wireless and Sensing Products Group, all have similar economic characteristics and have been aggregated into one reportable segment identified in the table below as the "Semiconductor Products Group".

On August 5, 2016, the Company completed its divestiture of its Snowbush IP business, and the Company no longer has a Systems Innovation Group or an "All others" category, which previously existed as a separate operating segment.

The Company's assets are commingled among the various operating segments and the CODM does not use that information in making operating decisions or assessing performance. Therefore, the Company has not included asset information by segment below.

Net sales by segment are as follows:

| (in thousands)               | Three Months Ended |                  | Nine Months Ended |                  |
|------------------------------|--------------------|------------------|-------------------|------------------|
|                              | October 29, 2017   | October 30, 2016 | October 29, 2017  | October 30, 2016 |
| Semiconductor Products Group | \$ 150,304         | \$ 137,185       | \$ 447,233        | \$ 404,036       |
| All others                   | —                  | —                | —                 | 205              |
| Total                        | \$ 150,304         | \$ 137,185       | \$ 447,233        | \$ 404,241       |

Income by segment and reconciliation to consolidated operating income:

| (in thousands)   | Three Months Ended |                  | Nine Months Ended |                  |
|--|--------------------|------------------|-------------------|------------------|
|  | October 29, 2017   | October 30, 2016 | October 29, 2017  | October 30, 2016 |
| Semiconductor Products Group   | \$ 42,828          | \$ 33,013        | \$ 124,906        | \$ 92,973        |
| All others   | —                  | 25,214           | —                 | 22,738           |
| Operating income by segment  | 42,828             | 58,227           | 124,906           | 115,711          |
| Items to reconcile segment operating income to consolidated income before taxes          |                    |                  |                   |                  |
| Share-based compensation   | 15,356             | 9,395            | 44,166            | 21,198           |
| Intangible amortization  | 7,453              | 6,286            | 20,414            | 19,017           |
| Changes in the fair value of contingent earn-out obligations                             | 188                | —                | 188               | (162)            |
| Other non-segment related expenses   | 2,252              | 3,139            | 5,221             | 5,939            |
| Amortization of fair value adjustments related to acquired property, plant and equipment | —                  | 308              | 190               | 925              |
| Interest expense, net  | 2,032              | 1,890            | 6,107             | 5,857            |
| Non-operating expense, net   | (1,267)            | 690              | (431)             | 871              |
| Income before taxes  | \$ 16,814          | \$ 36,519        | \$ 49,051         | \$ 62,066        |

## Information by Product Line

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



The table below provides net sales activity by product line on a comparative basis:

| (in thousands, except percentages) | Three Months Ended |       |                  |       | Nine Months Ended |       |                  |       |
|------------------------------------|--------------------|-------|------------------|-------|-------------------|-------|------------------|-------|
|                                    | October 29, 2017   |       | October 30, 2016 |       | October 29, 2017  |       | October 30, 2016 |       |
| Signal Integrity                   | \$63,921           | 42 %  | \$60,550         | 44 %  | \$198,645         | 43 %  | \$193,745        | 48 %  |
| Protection                         | 49,366             | 33 %  | 40,250           | 29 %  | 136,673           | 31 %  | 108,296          | 27 %  |
| Wireless and Sensing               | 31,146             | 21 %  | 24,070           | 18 %  | 92,378            | 21 %  | 60,514           | 15 %  |
| Power and High-Reliability         | 12,120             | 8 %   | 15,984           | 12 %  | 34,263            | 8 %   | 45,150           | 11 %  |
| Systems Innovation                 | —                  | — %   | —                | — %   | —                 | — %   | 205              | — %   |
| Other: Warrant Shares              | (6,249 )           | (4 )% | (3,669 )         | (3 )% | (14,726 )         | (3 )% | (3,669 )         | (1 )% |
| Total net sales                    | \$150,304          | 100 % | \$137,185        | 100 % | \$447,233         | 100 % | \$404,241        | 100 % |

The cost of the Warrant granted is recognized as an offset to net sales over the respective performance period.

#### Geographic Information

The Company generates virtually all of its sales from its Semiconductor Products Group through sales of analog and mixed-signal devices.

Net sales activity by geographic region is as follows:

|                       | Three Months Ended |                  | Nine Months Ended |                  |
|-----------------------|--------------------|------------------|-------------------|------------------|
|                       | October 29, 2017   | October 30, 2016 | October 29, 2017  | October 30, 2016 |
| Asia-Pacific          | 75 %               | 80 %             | 74 %              | 79 %             |
| North America         | 21 %               | 16 %             | 21 %              | 16 %             |
| Europe                | 8 %                | 7 %              | 8 %               | 8 %              |
| Other: Warrant Shares | (4 )%              | (3 )%            | (3 )%             | (3 )%            |
|                       | 100 %              | 100 %            | 100 %             | 100 %            |

The Company 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 for at least one of the periods presented:

| (percentage of total sales) | Three Months Ended |                  | Nine Months Ended |                  |
|-----------------------------|--------------------|------------------|-------------------|------------------|
|                             | October 29, 2017   | October 30, 2016 | October 29, 2017  | October 30, 2016 |
| China (including Hong Kong) | 50 %               | 46 %             | 50 %              | 45 %             |
| United States               | 9 %                | 11 %             | 9 %               | 11 %             |

## Note 14: Stock Repurchase Program

## Stock Repurchase Program

The Company maintains a stock repurchase program that was initially approved by its Board of Directors in March 2008. The stock repurchase program does not have an expiration date and the Company's Board of Directors has authorized expansion of the program over the years. The following table summarizes activity under the program for the presented periods:

|   | Three Months Ended  |                     | Nine Months Ended |           |        |        |
|---|---------------------|---------------------|-------------------|-----------|--------|--------|
|   | October 29,<br>2017 | October 30,<br>2016 | Shares            | Value     | Shares | Value  |
| (in thousands, except number of shares)               |                     |                     |                   |           |        |        |
| Shares repurchased under the stock repurchase program | —                   | —                   | 312,304           | \$ 10,389 | 23,968 | \$ 538 |
| Total treasury shares required                        | —                   | —                   | 312,304           | \$ 10,389 | 23,968 | \$ 538 |

As of October 29, 2017, the Company had repurchased \$147.0 million in shares of its common stock under the program since inception and the remaining authorization under the program was \$51.4 million. Under the program, the Company may repurchase its common stock at any time or from time to time, without prior notice, subject to market conditions and other considerations. The Company's repurchases may be made through Rule 10b5-1 and/or Rule 10b-18 or other trading plans, open market purchases, privately negotiated transactions, block purchases or other transactions. The Company intends to fund repurchases under the program from cash on hand. The Company has no obligation to repurchase any shares under the program and may suspend or discontinue it at any time.

## Note 15: Derivatives and Hedging Activities

The Company is exposed to certain risk arising from both its business operations and economic conditions and principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company, on a routine basis and in the normal course of business, experiences expenses denominated in Swiss Franc ("CHF"), Canadian Dollar ("CAD") and Great British Pound ("GBP"). Such expenses expose the Company to exchange rate fluctuations between these foreign currencies and the U.S. Dollar ("USD"). The Company uses derivative financial instruments in the form of forward contracts to mitigate risk associated with adverse movements in these foreign currency exchange rates on a portion of foreign denominated expenses expected to be realized during the current and following fiscal year. Currency forward contracts involve fixing the exchange rate for delivery of a specified amount of foreign currency on a specified date.

The Company's accounting treatment for these instruments is based on whether or not the instruments are designated as a hedging instrument. The Company is currently applying hedge accounting to all foreign currency derivatives and has designated these hedges as cash flow hedges.

At October 29, 2017, the Company had the following outstanding foreign exchange contracts:  
(in thousands)

| Foreign Exchange Contracts        | Number of Instruments | Sell Notional Value | Buy Notional Value |
|-----------------------------------|-----------------------|---------------------|--------------------|
| Sell USD/Buy CAD Forward Contract | 3                     | \$ 4,976            | C\$ 6,750          |
| Sell USD/Buy GBP Forward Contract | 3                     | \$ 2,762            | £ 2,250            |
| Total                             | 6                     |                     |                    |

These contracts met the criteria for cash flow hedges and the unrealized gains or losses, after tax, are recorded as a component of "Accumulated other comprehensive loss" within the Balance Sheet. The effective portions of cash flow hedges are recorded in accumulated other comprehensive income or loss ("AOCI") until the hedged item is recognized in selling, general and administrative ("SG&A") expense within the Statements of Income when the underlying hedged expense is recognized. Any ineffective portions of cash flow hedges are recorded in "Non-operating expense, net" within the Company's Statements of Income. The Company presents its derivative assets and liabilities at their gross fair values on the Balance Sheets.

The table below summarizes the carrying values of derivative instruments as of October 29, 2017 and January 29, 2017:

| (in thousands)                                | Carrying Values of Derivative Instruments as of October 29, 2017 |                            |                               |
|---|--|----------------------------|-------------------------------|
|   | Fair Value   | Fair Value - (Liabilities) | Derivative Net Carrying Value |
| Derivatives designated as hedging instruments |  |                            |                               |
| Foreign exchange contracts <sup>(1)</sup>     | \$482  | \$ —                       | \$ 482                        |
| Total derivatives                             | \$482  | \$ —                       | \$ 482                        |

Carrying Values of Derivative Instruments as of January 29, 2017



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|   | Fair Value -        | Derivative Net |
|---|---------------------|----------------|
|   | Value (Liabilities) | Carrying Value |
|   | -                   |                |
|   | (2)                 |                |
|   | Assets              |                |
|   | (2)                 |                |
| Derivatives designated as hedging instruments |                     |                |
| Foreign exchange contracts <sup>(1)</sup>     | \$326               | \$ — 326       |
| Total derivatives                             | \$326               | \$ — 326       |

(1) Assets are included in "Other current assets" and liabilities are included in "Accrued liabilities" within the Balance Sheets.

(2) The fair values of the foreign exchange forward contracts are valued using Level 2 inputs. Please refer to Note 6.

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The following table summarizes the amount of income recognized from derivative instruments for the three months ended October 29, 2017 and October 30, 2016 as well as the line items within the accompanying Statements of Income where the results are recorded for cash flow hedges:

|                                   | Amount of Gain (Loss) Recognized in AOCI on Derivative (Effective Portion) |                  | Location of Gain or Loss into Income (Effective Portion) | Amount of (Gain) Loss Reclassified from AOCI into Income (Effective Portion) |                  | Location of Gain or Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) |                  |
|-----------------------------------|--|------------------|--|--|------------------|--|---|------------------|
|                                   | Three Months Ended   |                  |  | Three Months Ended   |                  |  | Three Months Ended  |                  |
| (in thousands)                    | October 29, 2017   | October 30, 2016 |  | October 29, 2017   | October 30, 2016 |  | October 29, 2017  | October 30, 2016 |
| Sell USD/Buy CHF Forward Contract | \$ —   | \$ (85 )         | SG&A   | \$ —   | \$ (24 )         | SG&A   | \$ —  | \$ (1 )          |
| Sell USD/Buy CAD Forward Contract | (184 )   | (141 )           | SG&A   | (442 )   | (334 )           | SG&A   | (1 )  | —                |
| Sell USD/Buy GBP Forward Contract | (9 )   | (196 )           | SG&A   | (208 )   | 270              | SG&A   | —   | (2 )             |
|                                   | \$ (193 )  | \$ (422 )        |  | \$ (650 )  | \$ (88 )         |  | \$ (1 )   | \$ (3 )          |

The following table summarizes the amount of income recognized from derivative instruments for the nine months ended October 29, 2017 and October 30, 2016 as well as the line items within the accompanying Statements of Income where the results are recorded for cash flow hedges:

|                | Amount of Gain (Loss) Recognized in AOCI on Derivative (Effective Portion) |                  | Location of Gain or Loss into Income (Effective Portion) | Amount of (Gain) Loss Reclassified from AOCI into Income (Effective Portion) |                  | Location of Gain or Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) |                  |
|----------------|--|------------------|--|--|------------------|--|---|------------------|
|                | Nine Months Ended  |                  |  | Nine Months Ended  |                  |  | Nine Months Ended   |                  |
| (in thousands) | October 29, 2017   | October 30, 2016 |  | October 29, 2017   | October 30, 2016 |  | October 29, 2017  | October 30, 2016 |
| Sell USD/Buy   | \$ —   | \$ 51            | SG&A   | \$ —   | \$ (72 )         | SG&A   | \$ —  | \$ —             |

|   |          |        |      |           |           |      |         |      |
|---|----------|--------|------|-----------|-----------|------|---------|------|
| CHF Forward<br>Contract<br>Sell<br>USD/Buy<br>CAD     | 819      | 1,113  | SG&A | (532 )    | (909 )    | SG&A | (4 )    | 5    |
| Forward<br>Contract<br>Sell<br>USD/Buy<br>GBP Forward | 296      | (843 ) | SG&A | (428 )    | 435       | SG&A | —       | (3 ) |
| Contract  | \$ 1,115 | \$ 321 |      | \$ (960 ) | \$ (546 ) |      | \$ (4 ) | \$ 2 |

The amount of losses related to the effective portion of derivative instruments designated as cash flow hedges included in AOCI within the Balance Sheets for the three months ended October 29, 2017 and October 30, 2016 was \$0.8 million and \$0.5 million, respectively. The amount of gains related to the effective portion of derivative instruments designated as cash flow hedges included in AOCI within the Balance Sheets for the nine months ended October 29, 2017 and October 30, 2016 was \$0.2 million and \$0.2 million, respectively. Any gains or losses under these contracts are expected to be realized and reclassified to selling, general and administrative within the next three months.

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

The following "Management's Discussion and Analysis of Financial Condition and Results of Operations" should be read in conjunction with our unaudited consolidated financial statements and the accompanying notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q (this "Quarterly Report") and the "Special Note Regarding Forward-Looking and Cautionary Statements" in this Quarterly Report.

### Overview

Semtech Corporation (together with its consolidated subsidiaries, the "Company", "we", "our", or "us") designs, develops, manufactures and markets high-performance analog, mixed signal semiconductors and advanced algorithms. We operate and account for results in one reportable segment. Prior to the third quarter of fiscal year 2017, we also had one non-reportable segment. See Note 13 to our unaudited consolidated financial statements. The Company's interim unaudited consolidated balance sheets are referred to herein as the "Balance Sheets" and interim unaudited consolidated statements of income are referred to herein as the "Statements of Income."

Our product lines include:

**Signal Integrity Products.** We design, develop and market a portfolio of optical communications, broadcast video and video over IP products used in a wide variety of enterprise computing, industrial, communications and high-end consumer applications. Our comprehensive portfolio of integrated circuits ("ICs") for datacenter, enterprise, passive optical network ("PON"), and wireless basestation optical transceivers and high-speed interfaces ranges from 100Mbps to 400Gbps and supports key industry standards such as Fibre Channel, Infiniband, Ethernet, PON and SONET. Our video products offer advanced solutions for next generation broadcast applications at ever increasing data rates, as well as highly differentiated video over IP technology for Pro AV applications.

**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, electrical over stress or secondary lightning surge energy, can permanently damage sensitive semiconductor ICs. Our portfolio of protection solutions include filter and termination devices that are integrated with the TVS device. Our products provide robust protection while preserving signal integrity in high-speed communications, networking and video interfaces. These products also operate at very low voltage. Our protection products can be found in a broad range of applications including smart phones, LCD and organic light-emitting diode TVs, set-top boxes, monitors and displays, tablets, computers, notebooks, base stations, routers, automobile and industrial instruments.

**Wireless and Sensing Products.** We design, develop and market a portfolio of specialized RF products used in a wide variety of industrial, medical and communications applications, and specialized sensing products used in industrial and consumer applications. Our wireless products, which include our LoRa® devices and radio frequency technology, feature industry leading and longest range industrial, scientific and medical radio, enabling a lower total cost of ownership and increased reliability in all environments. This makes these products particularly suitable for machine to machine and IoT applications. Our unique sensing interface platforms can interface to any sensor and output digital data in any form. Specifically, the proximity sensing capability of our devices enable advanced user interface solutions for mobile and consumer products. Our wireless and sensing products can be found in a broad range of applications in the industrial, medical and consumer markets.

**Power and High-Reliability Products.** We design, develop and market power product devices that control, alter, regulate and condition the power within electronic systems. The highest volume product types within the power product line are switching voltage regulators, combination switching and linear regulators, smart regulators, isolated switches and charge pumps, and wireless charging. Our Power products feature highly integrated functionality for the communications, industrial and computing markets and low-power, small form factor and high-efficiency products for smart phones and other mobile devices, notebook computers, computer peripherals and other consumer devices. The primary application for these products is power regulation for enterprise computing, communications, high-end consumer and industrial systems. Our high-reliability discrete semiconductor products are comprised of rectifiers, assemblies (packaged discrete rectifiers) and other products that are typically used to convert alternating currents into direct currents 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, automotive, aerospace and defense systems, including satellite communications.

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Systems Innovation Group. Prior to the third quarter of fiscal year 2017, we had a Systems Innovation Group which combined the analog/mixed signal design competencies from our previous Sierra Monolithics, Inc. and Gennum Corporation acquisitions and was chartered with developing innovative analog/mixed signal intellectual property ("IP") for emerging systems.

On August 5, 2016, we completed the divestiture of our Snowbush IP business (the remaining part of our Systems Innovation Group) to Rambus Inc. ("Rambus") for \$32.0 million in cash along with the opportunity to receive additional payments from Rambus through 2022 based upon a percentage of sales by Rambus of new products expected to be developed by Rambus from the disposed assets. In fiscal year 2017, we recorded a gain of \$25.5 million on the disposition of this business. Other than this gain, the divestiture did not and is not expected to have a material impact on our consolidated financial statements. Following the divestiture, as of January 29, 2017, we no longer have a Systems Innovation Group.

Our net sales by product line are as follows:

| (in thousands)                       | Three Months Ended |                  | Nine Months Ended |                  |
|--------------------------------------|--------------------|------------------|-------------------|------------------|
|                                      | October 29, 2017   | October 30, 2016 | October 29, 2017  | October 30, 2016 |
| Signal Integrity                     | \$63,921           | \$60,550         | \$198,645         | \$193,745        |
| Protection                           | 49,366             | 40,250           | 136,673           | 108,296          |
| Wireless and Sensing                 | 31,146             | 24,070           | 92,378            | 60,514           |
| Power and High-Reliability           | 12,120             | 15,984           | 34,263            | 45,150           |
| Systems Innovation                   | —                  | —                | —                 | 205              |
| Other: Warrant Shares <sup>(1)</sup> | (6,249 )           | (3,669 )         | (14,726 )         | (3,669 )         |
| Total                                | \$150,304          | \$137,185        | \$447,233         | \$404,241        |

(1) On October 5, 2016, we issued a warrant (the "Warrant") to Comcast Cable Communications Management LLC ("Comcast") to purchase up to 1,086,957 shares (the "Warrant Shares") of our common stock. The Warrant was issued by us to Comcast in connection with an agreement between the parties regarding the intended trial deployment by Comcast of a low-power wide-area Network ("LPWAN") in the United States, based on our LoRa® devices and wireless radio frequency technology. The Warrant is accounted for as equity and the cost is recognized as an offset to net sales over the respective performance period which is expected to be completed by April 2018. The Warrant consists of five performance tranches. The cost associated with each tranche is recognized based on the fair value at each reporting date until vesting which is the measurement date.

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 third quarters of fiscal years 2018 and 2017 represented 66% and 64% of net sales, respectively. Sales made directly to customers during the third quarters of fiscal years 2018 and 2017 were 34% and 36% 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 and Israel. For the third quarter of fiscal years 2018 and 2017, approximately 21% and 24%, respectively, of the Company's silicon in terms of cost of wafers was supplied by a third-party foundry in China, and these percentages could be higher in future periods. Foreign sales during the third quarter of fiscal years 2018 and 2017 constituted approximately 91% and 89%, respectively, of our net sales. Approximately 82% and 87% of foreign sales during the third quarters of fiscal years 2018 and 2017, respectively, were to customers located in the Asia-Pacific region. The remaining foreign sales were primarily to customers in Europe, Canada, and Mexico.

We use several metrics as indicators of future potential growth. The indicators that we believe best correlate to potential future revenue growth are design wins and new product releases. There are many factors that may cause a design win or new product release not to result in sales, including a customer decision not to go to system production,

a change in a customer's perspective regarding a product's value or a customer's product failing in the end-market. As a result, although a design win or new product introduction is an important step towards generating future revenue, it does not inevitably result in us being awarded business or receiving a purchase commitment.

Historically, our results have reflected some seasonality, with demand levels generally lower in the enterprise computing and high-end consumer product lines during the first and fourth quarters of our fiscal year in comparison to the second and third quarters.

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### Critical Accounting Policies and Estimates

In addition to the discussion below, please 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 29, 2017 filed with the Securities and Exchange Commission ("SEC") on March 23, 2017.

### Fiscal Periods

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 period in the fourth quarter of 53-week years. The third quarter of fiscal years 2018 and 2017 each consisted of 13 weeks.

### Revenue and Cost of Sales

We recognize product revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is probable. Product design and engineering recoveries are recognized during the period in which services are performed and are recorded as an offset to the related expenses. Historically, these recoveries have not exceeded the cost of the related development efforts. We include revenue related to 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.

On October 5, 2016, we issued a Warrant to Comcast to purchase up to 1,086,957 Warrant Shares of our common stock. The cost of the Warrant is recognized as an offset to net sales over the respective performance period since the Warrant was issued to our customer in exchange for services.

We record a provision for estimated sales returns in the same period as the related sales 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 record a provision for sales rebates in the same period as the related sales are recorded. These sales provisions include an estimate of rebates attributable to sales made through authorized distributors. As a result of these estimates, actual rebates may differ from our estimates and current provisions for sales rebates, 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 margin to the actual gross sales. The average gross margin is calculated for each category of material using current standard costs. The estimated deferred gross margin on these sales, where there are no outstanding receivables, is recorded within the Balance Sheets within the heading of "Deferred revenue." There were no significant impairments of deferred cost of revenues in the first nine months of fiscal years 2018 or 2017.

The following table summarizes the deferred revenue balance:

| (in thousands)            | October 29,<br>2017 | January 29,<br>2017 |
|---------------------------|---------------------|---------------------|
| Deferred revenues         | \$ 10,500           | \$ 11,419           |
| Deferred cost of revenues | (2,424 )            | (2,246 )            |
| Deferred revenue, net     | 8,076               | 9,173               |



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|  |           |           |
|--|-----------|-----------|
| Deferred product design and engineering recoveries | 4,653     | 2,886     |
| Total deferred revenue                             | \$ 12,729 | \$ 12,059 |

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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, restructuring charges, and other operating related charges.

Results of Operations

The following table sets forth, for the periods indicated, our Statements of Income expressed as a percentage of revenues.

|   | Three Months Ended |                  | Nine Months Ended |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | October 29, 2017   | October 30, 2016 | October 29, 2017  | October 30, 2016 |
| Net sales   | 100.0 %            | 100.0 %          | 100.0 %           | 100.0 %          |
| Cost of sales   | 40.5 %             | 40.9 %           | 40.4 %            | 40.3 %           |
| Gross profit  | 59.5 %             | 59.1 %           | 59.6 %            | 59.7 %           |
| Operating costs and expenses:   |                    |                  |                   |                  |
| Selling, general and administrative                                       | 24.3 %             | 25.6 %           | 24.6 %            | 25.1 %           |
| Product development and engineering                                       | 18.4 %             | 18.7 %           | 18.1 %            | 19.1 %           |
| Intangible amortization   | 5.0 %              | 4.6 %            | 4.6 %             | 4.7 %            |
| (Gain) loss on disposition of business operations                         | — %                | (18.2 )%         | 0.1 %             | (6.2 )%          |
| Changes in the fair value of contingent earn-out obligations              | 0.1 %              | — %              | — %               | — %              |
| Total operating costs and expenses  | 47.8 %             | 30.6 %           | 47.4 %            | 42.7 %           |
| Operating income  | 11.7 %             | 28.5 %           | 12.2 %            | 17.0 %           |
| Interest expense, net   | (1.4 )%            | (1.4 )%          | (1.4 )%           | (1.4 )%          |
| Non-operating income (expense), net                                       | 0.8 %              | (0.5 )%          | 0.1 %             | (0.2 )%          |
| Income before taxes and equity in net losses of equity method investments | 11.2 %             | 26.6 %           | 11.0 %            | 15.4 %           |
| Provision for taxes   | 2.2 %              | 4.2 %            | 2.5 %             | 3.8 %            |
| Net income before equity in net losses of equity method investments       | 9.0 %              | 22.4 %           | 8.5 %             | 11.5 %           |
| Equity in net losses of equity method investments                         | (0.1 )%            | — %              | — %               | — %              |
| Net income  | 8.9 %              | 22.4 %           | 8.4 %             | 11.5 %           |

Percentages may not add precisely due to rounding.

Our regional mix of income (loss) from continuing operations before taxes and equity in net losses of equity method investments is as follows:

| (in thousands) | Three Months Ended |                  | Nine Months Ended |                  |
|----------------|--------------------|------------------|-------------------|------------------|
|                | October 29, 2017   | October 30, 2016 | October 29, 2017  | October 30, 2016 |
| Domestic       | \$ (2,366 )        | \$ 937           | \$ (11,396 )      | \$ (13,048 )     |
| Foreign        | 19,180             | 35,582           | 60,447            | 75,114           |
| Total          | \$ 16,814          | \$ 36,519        | \$ 49,051         | \$ 62,066        |

Domestic performance from continuing operations includes amortization of acquired intangible assets and higher levels of share-based compensation compared to foreign operations.

Recent Accounting Pronouncements

New accounting standards are discussed in Note 1 to our consolidated financial statements, included in Item 1, of this Quarterly Report on Form 10-Q.



## Comparison of the Three Months Ended October 29, 2017 and October 30, 2016

All periods presented in the following summary of sales by major end-market reflect our current classification methodology (see Note 1 to our consolidated financial statements in this Quarterly Report for a description of each market category):

| (in thousands, except percentages) | Three Months Ended |       |                  |       |
|------------------------------------|--------------------|-------|------------------|-------|
|                                    | October 29, 2017   |       | October 30, 2016 |       |
| Enterprise Computing               | \$47,779           | 32 %  | \$37,239         | 27 %  |
| Industrial                         | 43,178             | 29 %  | 36,931           | 27 %  |
| High-End Consumer                  | 48,671             | 32 %  | 41,924           | 31 %  |
| Communications                     | 16,925             | 11 %  | 24,760           | 18 %  |
| Other: Warrant Shares              | (6,249 )           | (4 )% | (3,669 )         | (3 )% |
| Total                              | \$150,304          | 100 % | \$137,185        | 100 % |

## Net Sales

Net sales for the third quarter of fiscal year 2018 were \$150.3 million, an increase of 10% compared to \$137.2 million for the third quarter of fiscal year 2017. During the third quarter of fiscal year 2018, we benefited from strength in our high-end consumer end-market due to higher demand from our largest Korean customer and growing demand for our LoRa® products. This strength was partially offset by lower net sales of our power and high-reliability products and the \$6.2 million impact from the Warrant granted to Comcast which offset net sales.

Based on recent bookings trends and our backlog entering the quarter, we estimate net sales for the fourth quarter of fiscal year 2018 to be between \$131.5 million and \$135.5 million.

## Gross Profit

In the third quarter of fiscal year 2018, gross profit increased to \$89.4 million from \$81.1 million in the third quarter of fiscal year 2017 driven by higher sales. Gross margins were 59.5% in the third quarter of fiscal year 2018 compared to 59.1% in the third quarter of fiscal year 2017. In the third quarter of fiscal year 2018, the benefit of a favorable mix of higher margin product sales was offset by the impact of the Warrant granted to Comcast.

In the fourth quarter of fiscal year 2018, we expect our gross margins to be in the range of 58.8% to 59.9%.

## Operating Costs and Expenses

| (in thousands, except percentages)                           | Three Months Ended |      |                  |        | Change |
|--|--------------------|------|------------------|--------|--------|
|  | October 29, 2017   |      | October 30, 2016 |        |        |
| Selling, general and administrative                          | \$36,568           | 52 % | \$35,116         | 84 %   | 4 %    |
| Product development and engineering                          | 27,631             | 38 % | 25,600           | 61 %   | 8 %    |
| Intangible amortization                                      | 7,453              | 10 % | 6,286            | 15 %   | 19 %   |
| Gain on disposition of business operations                   | —                  | — %  | (25,036 )        | (60 )% | (100)% |
| Changes in the fair value of contingent earn-out obligations | 188                | — %  | —                | — %    | 100 %  |
| Total operating costs and expenses                           | \$71,840           | 100% | \$41,966         | 100 %  | 71 %   |

## Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses increased in the third quarter of fiscal year 2018 compared to the same quarter of fiscal year 2017 as a result of higher share-based compensation costs. The higher levels of share-based compensation expense primarily resulted from higher levels of anticipated performance achievement, for awards with performance-based vesting conditions, the impact of increases in our stock price and the related fair value re-measurement of awards accounted for as a liability rather than equity.

## Product Development and Engineering Expenses

Product development and engineering expenses increased slightly in the third quarter of fiscal year 2018 compared to the third quarter of fiscal year 2017 as a result of higher equity compensation and lower recoveries of non-recurring engineering services.

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.

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**Intangible Amortization**

Intangible amortization was \$7.5 million and \$6.3 million in the third quarter of fiscal years 2018 and 2017, respectively. The increase relates entirely to the addition of intangibles related to the acquisition of AptoVision Technologies Inc. ("AptoVision") in July 2017.

**Interest Expense**

Interest and amortization of debt discount and expense was \$2.0 million and \$1.9 million in the third quarter of fiscal years 2018 and 2017, respectively. The impact of higher LIBOR rates on interest expense was offset by lower overall debt levels and lower interest rate margins resulting from an improved leverage ratio.

We expect the interest rate on our credit facility to increase slightly in the fourth quarter of fiscal year 2018 as a result of higher anticipated LIBOR rates. See "Liquidity and Capital Resources" for a description of our credit facility.

**Income Taxes**

The effective tax rates for the third quarter of fiscal years 2018 and 2017 were a provision of 19.5% and 15.7%, respectively. In the third quarter of fiscal year 2018, we recorded an income tax provision of \$3.3 million compared to \$5.7 million in the third quarter of fiscal year 2017. The effective tax rate in the third quarter of fiscal year 2018 was higher than the effective tax rate in third quarter of fiscal year 2017 primarily due to lower pretax book income and the mix of regional earnings.

Our effective tax rate in the third quarter of fiscal year 2018 differs from the statutory federal income tax rate of 35% primarily due to a valuation reserve against our deferred tax assets and certain undistributed foreign earnings for which no U.S. taxes are provided. As a result of the valuation reserves that we maintain against our U.S. based deferred tax assets, our effective tax rate is subject to extreme volatility depending on the changes in our U.S. profitability in relation to total income from continuing operations before income taxes.

We intend to indefinitely reinvest all of our unremitted foreign earnings and, as a result, have not provided U.S. taxes on these earnings. We currently do not need these earnings to support our U.S. operations. If these unremitted foreign earnings are needed for our U.S. operations or can no longer be permanently reinvested outside the U.S., we would be required to accrue and pay U.S. taxes on these earnings. Some proposals in "The Tax Cuts and Jobs Act" would require us to pay taxes on foreign earnings that would create volatility in our future cash taxes and tax rates. Although it is too early to understand the final impact, under current proposals we would expect to have a cash tax liability on our cumulative unremitted foreign earnings.

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 Nine Months Ended October 29, 2017 and October 30, 2016**

All periods presented in the following summary of sales by major end-market reflect our current classification methodology (see Note 1 to our consolidated financial statements in this Quarterly Report for a description of each market category):

| (in thousands, except percentages) | Nine Months Ended |       |                  |       |  |  |
|------------------------------------|-------------------|-------|------------------|-------|--|--|
|                                    | October 29, 2017  |       | October 30, 2016 |       |  |  |
| Enterprise Computing               | \$149,270         | 33 %  | \$119,612        | 30 %  |  |  |
| Industrial                         | 115,978           | 26 %  | 106,269          | 26 %  |  |  |
| High-End Consumer                  | 140,043           | 31 %  | 108,515          | 27 %  |  |  |
| Communications                     | 56,668            | 13 %  | 73,514           | 18 %  |  |  |
| Other: Warrant Shares              | (14,726 )         | (3 )% | (3,669 )         | (1 )% |  |  |
| Total                              | \$447,233         | 100 % | \$404,241        | 100 % |  |  |

**Net Sales**

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Net sales for the first nine months of fiscal year 2018 were \$447.2 million, an increase of 10.6% compared to \$404.2 million for the first nine months of fiscal year 2017. During the first nine months of fiscal year 2018, we benefited from strength in our high-end consumer end-market due to higher demand from our largest Korean customer and growing demand for our LoRa® and proximity sensing products. This strength was partially offset by lower demand for our power and high-reliability products and the impact from the Warrant granted to Comcast which offset net sales.

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## Gross Profit

In the first nine months of fiscal year 2018, gross profit increased to \$266.6 million from \$241.4 million in the first nine months of fiscal year 2017. Gross margins were 59.6% in the first nine months of fiscal year 2018 compared to 59.7% in the first nine months of fiscal year 2017. The decline in gross margins in the first nine months of fiscal year 2018 resulted from the unfavorable impact of the Warrant granted to Comcast, partially offset by a more favorable mix of higher margin product sales.

## Operating Costs and Expenses

| (in thousands, except percentages)                           | Nine Months Ended   |       |                  |        | Change |
|--|---------------------|-------|------------------|--------|--------|
|  | October 29,<br>2017 |       | October 30, 2016 |        |        |
| Selling, general and administrative                          | \$109,820           | 51 %  | \$101,654        | 59 %   | 8 %    |
| Product development and engineering                          | 81,046              | 38 %  | 77,097           | 45 %   | 5 %    |
| Intangible amortization                                      | 20,414              | 11 %  | 19,017           | 11 %   | 7 %    |
| Loss (gain) on disposition of business operations            | 375                 | — %   | (25,036 )        | (15 )% | (101)% |
| Changes in the fair value of contingent earn-out obligations | 188                 | — %   | (162 )           | — %    | (216)% |
| Total operating costs and expenses                           | \$211,843           | 100 % | \$172,570        | 100 %  | 23 %   |

### Selling, General and Administrative Expenses

SG&A expenses increased in the first nine months of fiscal year 2018 compared to the first nine months of fiscal year 2017 as a result of a \$10.2 million increase in share-based compensation expense. The higher levels of share-based compensation expense primarily resulted from much higher levels of anticipated performance achievement, for awards with performance-based vesting conditions, and the impact of increases in our stock price and the related fair value re-measurement of awards accounted for as a liability rather than equity.

### Product Development and Engineering Expenses

Product development and engineering expenses increased in the first nine months of fiscal year 2018 compared to the first nine months of fiscal year 2017 as a result of a \$1.7 million increase in share-based compensation expenses and lower recoveries from non-recurring engineering services.

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

Intangible amortization was \$20.4 million and \$19.0 million in the first nine months of fiscal years 2018 and 2017, respectively. The increase relates entirely to the addition of intangibles related to the acquisition of AptoVision in July 2017.

### Interest Expense

Interest and amortization of debt discount and expense was \$6.1 million and \$5.9 million in the first nine months of fiscal year 2018 and 2017, respectively. The impact of higher LIBOR rates is being partially offset by lower overall debt levels and lower interest rate margins resulting from an improved leverage ratio.

### Income Taxes

The effective tax rates for the first nine months of fiscal years 2018 and 2017 were a provision of 22.7% and 24.9%, respectively. In the first nine months of fiscal year 2018, we recorded an income tax provision of \$11.1 million compared to \$15.4 million in the first nine months of fiscal year 2017. The effective tax rate in the first nine months of fiscal year 2018 was lower than the effective tax rate in the first nine months of fiscal year 2017 primarily due to favorability in regional mix of pre-tax book income.

Our effective tax rate in the first nine months of fiscal year 2018 differs from the statutory federal income tax rate of 35% primarily due to a valuation reserve against our deferred tax assets and certain undistributed foreign earnings for which no U.S taxes are provided. As a result of the valuation reserves that we maintain against our U.S. based deferred tax assets, our effective tax rate is subject to extreme volatility depending on the changes in our U.S. profitability in relation to total income from continuing operations before income taxes.



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

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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 October 29, 2017, our total stockholders' equity was \$664.7 million. At that date, we also had approximately \$291.1 million in cash and cash equivalents and \$230.1 million of borrowings, net of debt discount.

We believe that sources and uses of cash when used in conjunction with GAAP measures provide useful information to investors in evaluating our cash flows. Our primary sources and uses of cash for the corresponding periods are presented below (non-GAAP):

| (in millions)   | Nine Months Ended |                  |
|---|-------------------|------------------|
|   | October 29, 2017  | October 30, 2016 |
| <b>Sources of Cash</b>                                      |                   |                  |
| Operating activities  | \$72.9            | \$ 84.7          |
| Proceeds from convertible debt settlement                   | 5.7               | —                |
| Proceeds from sales of property, plant and equipment        | 0.2               | —                |
| Proceeds from disposition of business operations            | —                 | 32.0             |
| Proceeds from sales of investments                          | —                 | 0.6              |
| Proceeds from exercise of stock options                     | 5.3               | 1.7              |
|   | \$84.1            | \$ 119.0         |
| <b>Uses of Cash</b>   |                   |                  |
| Purchase of property, plant and equipment                   | (26.8 )           | (13.8 )          |
| Purchase of investments                                     | (13.3 )           | (3.3 )           |
| Acquisition, net of cash acquired                           | (17.6 )           | —                |
| Payments of term loans                                      | (11.3 )           | (9.4 )           |
| Payment for employee share-based compensation payroll taxes | (10.7 )           | (5.9 )           |
| Repurchase of outstanding common stock                      | (10.4 )           | (0.5 )           |
|   | \$(90.1)          | \$ (32.9 )       |
| Net (decrease) increase in cash and cash equivalents        | \$(6.0 )          | \$ 86.1          |

In summary, our cash flows for each period were as follows:

| (in millions)  | Nine Months Ended |                  |
|--|-------------------|------------------|
|  | October 29, 2017  | October 30, 2016 |
| Net cash provided by operating activities            | \$72.9            | \$ 84.7          |
| Net cash (used in) provided by investing activities  | (51.9 )           | 15.6             |
| Net cash used in financing activities                | (27.0 )           | (14.2 )          |
| Net (decrease) increase in cash and cash equivalents | \$(6.0 )          | \$ 86.1          |

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 October 29, 2017, our foreign subsidiaries held approximately \$209.1 million of cash and cash equivalents compared to \$224.6 million at January 29, 2017. Earnings previously taxed in the U.S. of \$18.7 million can be repatriated subject only to a 5% withholding tax, as we do not assert permanent reinvestment of earnings previously

taxed in the U.S. As of October 29, 2017, our foreign subsidiaries had \$634.0 million of unremitted earnings for which no Federal or state taxes have been provided. Those historical earnings have been and are expected to continue to be permanently reinvested.

One of our primary goals is to improve the cash flows from our existing business activities. Additionally, we will continue to seek to maintain and improve our existing business performance with capital expenditures and, potentially, acquisitions and

other investments that support achievement of our business strategies. 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 nine months of fiscal year 2018 was impacted by the disbursement of \$19.6 million of supplemental compensation, which is aligned with our financial performance and is normally settled in the first quarter of each fiscal year. Foreign tax payments of \$17.5 million during the first nine months of fiscal year 2018 were primarily made in Canada and included acquired AptoVision tax liabilities of \$6.0 million. Additionally, we have increased spending to build inventory to support higher product demand. Accounts receivable increased by \$15.0 million since January 29, 2017 due to revenue growth.

#### Investing Activities

Cash flows used in investing activities are primarily attributable to equity investments and capital expenditures, net of proceeds from sales of investments and property, plant and equipment. Investing activities are also impacted by acquisitions, net of any cash received.

Capital expenditures were \$26.8 million for the first nine months of fiscal year 2018 compared to \$13.8 million for the first nine months of fiscal year 2017.

In the first nine months of fiscal year 2018, we made \$13.3 million of strategic investments in companies that are enabling the LoRaWAN™ ecosystem and developing technologies to support the requirements of our customers'.

On July 1, 2017, we acquired AptoVision for an upfront cash payment of \$17.6 million at closing, net of acquired cash, and a commitment to pay an additional contingent consideration of up to a maximum of \$47.0 million over three years if certain goals are achieved in each of the earn out periods. We expect to fund any obligations associated with the additional cash consideration with cash generated by our operations and our existing cash balances.

#### Financing Activities

Cash flows used in financing activities are primarily attributable to principal and interest payments related to our long-term debt and repurchase of outstanding common stock.

In the first nine months of fiscal year 2018, we received \$5.3 million in proceeds from the exercise of stock options compared to \$1.7 million in the first nine months of fiscal year 2017.

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 option awards. Such proceeds are difficult to forecast, resulting from several factors which are outside our control. We believe that such proceeds will remain a nominal source of cash in the future.

#### Credit Facilities

On November 15, 2016 (the "Closing Date"), we entered into an amended and restated credit agreement (the "Credit Agreement") to refinance our prior credit agreement. We accounted for the Credit Agreement as a debt modification. Pursuant to the Credit Agreement, the Lenders provided us with senior secured first lien credit facilities in an aggregate principal amount of \$400.0 million, 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, 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"). Each of the Term Loans and the Revolving Commitments is scheduled to mature on November 12, 2021.

The Credit Agreement refinanced our existing \$400.0 million senior secured first lien credit facilities. All of the proceeds of the Term Loans were used to repay in full all of the obligations outstanding under the prior credit agreement and to pay transaction costs in connection with such refinancing and the Credit Agreement. As of October 29, 2017 we have \$135.0 million outstanding under our Term Loans and \$97.0 million outstanding under our

Revolving Commitments.

As of October 29, 2017, \$153.0 million of the Revolving Commitments were undrawn. The proceeds of the revolving credit facility may be used by us for capital expenditures, permitted acquisitions, permitted dividends, working capital and general corporate purposes.

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The Credit Agreement provides that, subject to certain conditions, we 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 the sum of (a) \$150.0 million and (b) the aggregate principal amount of all voluntary prepayments of Term Loans made prior to the date of incurrence of such additional term loan facilities and/or increases to the Revolving Commitments; however, the Lenders are not required to provide such increase upon our request.

Interest on loans made under the Credit Agreement in U.S. Dollars accrues, at our 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 our consolidated leverage ratio or (2) LIBOR (determined with respect to deposits in U.S. Dollars) for an interest period to be selected by us plus a margin ranging from 1.25% to 2.25% depending upon our consolidated leverage ratio (such margin, the "Applicable Margin"). The "Base Rate" is equal to a fluctuating rate equal to the highest of (a) the prime rate of the Administrative Agent, (b) ½ of 1% above the federal funds effective rate published by the Federal Reserve Bank of New York and (c) one-month LIBOR (determined with respect to deposits in U.S. Dollars) plus 1.00%.

Interest on loans made under the Credit Agreement in Alternative Currencies accrues at a rate per annum equal to LIBOR (determined with respect to deposits in the applicable Alternative Currency) (other than loans made in Canadian Dollars, for which a special reference rate for Canadian Dollars applies) for an interest period to be selected by us plus the Applicable Margin.

The outstanding principal balance of the Term Loans will be subject to repayment in equal quarterly installments beginning on the last day of our fiscal quarter ending closest to January 31, 2017 in an amount equal to 10.0% per annum of the original principal amount of the Term Loans on the Closing Date in the first two years after such date, 12.5% per annum in years three and four after such date, and 15.0% per annum in year five after such date, with the balance being due at maturity on November 12, 2021. No amortization is required with respect to the revolving credit facility. We may voluntarily prepay borrowings under the new credit facilities at any time and from time to time, without premium or penalty, other than customary "breakage costs" and fees for LIBOR-based loans.

The Term Loans must be mandatorily prepaid using the proceeds of certain dispositions of assets and receipt of insurance proceeds, subject to agreed upon thresholds and exceptions and customary reinvestment rights.

#### Stock Repurchase Program

We currently have in effect a stock repurchase program that was initially approved by our Board of Directors in March 2008. This program represents one of our principal efforts to return value to our stockholders. We repurchased 312,304 shares under this program in the first nine months of fiscal year 2018 for \$10.4 million. In the first nine months of fiscal year 2017, we repurchased 23,968 shares under this program for \$0.5 million. We currently have \$51.4 million available under this program that may be used for future repurchases.

#### 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, operating results, 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 consolidated financial statements.

#### Contractual Obligations

There were no material changes in our contractual obligations during the first nine months of fiscal year 2018 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 29, 2017 filed with the SEC on March 23, 2017.

#### 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](http://www.semtech.com). The information on our website is for informational purposes only and should not be relied on for investment purposes. The information on our website is not incorporated by reference into this 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 (the "Exchange Act"), or as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC. Our reports filed with, or furnished to, the SEC are also available directly at the SEC's website at [www.sec.gov](http://www.sec.gov).



### ITEM 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 2017 that ended on January 29, 2017 filed with the SEC on March 23, 2017. 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.

We do not engage in the trading of derivative financial instruments in the normal course of business to mitigate our risk related to interest rates. 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 \$2.3 million as a result of our variable-rate debt. The effect of the 100 basis points increase would not be expected to significantly impact the fair value of our variable-rate debt.

We are subject to risks related to changes in foreign currency exchange rates as we experience expenses denominated in foreign currencies. As a result, changes in exchange rate fluctuations may positively or negatively affect results of operations. We enter into forward contracts to hedge anticipated foreign currency denominated transactions generally expected to occur in the current and subsequent fiscal years. All data relating to our derivative positions is presented in accordance with authoritative guidance. Accordingly, these cash flow hedges are designated for hedge accounting treatment and gains and losses on these contracts are recorded in accumulated other comprehensive income in stockholder's equity and reclassified into earnings at the time that the related transactions being hedged are recognized in earnings. Please see Note 15 to our unaudited consolidated financial statements in Part I, Item 1 of this report for further discussion of our derivative instruments.

An adverse change of the U.S. Dollar against our foreign currency operating expenses of 10%, after taking into account balance sheet hedges, would have resulted in an adverse impact on income before taxes of \$1.6 million in the third quarter of fiscal year 2018.

### ITEM 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, which are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate to allow timely decisions regarding required disclosure. Our management, with the participation of our CEO and CFO, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report. Based on that evaluation, our CEO and CFO concluded that, our disclosure controls and procedures were effective as of October 29, 2017.

#### Changes in Internal Controls

As of October 29, 2017, there were no changes to our internal control over financial reporting that occurred during the fiscal quarter then ended that have materially affected, or are 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 11 to the unaudited consolidated financial statements included in Part I, Item 1 of this Quarterly Report.

## ITEM 1A. Risk Factors

Please 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 29, 2017 filed with the SEC on March 23, 2017. 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 29, 2017 filed with the SEC on March 23, 2017.

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

## Recent Sales of Unregistered Securities

None.

## Issuer Purchase of Equity Securities

This table provides information with respect to purchases by us of shares of our common stock during the third quarter of fiscal year 2018.

| Fiscal Month/Year                  | Total Number of Shares Purchased | 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) |                          |
| August 2017 (07/31/17-08/27/17)    | —                                | \$                           | —  | —   | \$ 51.4 million          |
| September 2017 (08/28/17-09/24/17) | —                                | —                            | —  | —   | \$ 51.4 million          |
| October 2017 (09/25/17-10/29/17)   | —                                | —                            | —  | —   | \$ 51.4 million          |
| Total activity                     | —                                | \$                           | —  | —   |                          |

We maintain an active stock repurchase program which was approved by our Board of Directors in March 2008.

(1) The stock repurchase program does not have an expiration date and our Board of Directors has authorized expansion of the program over the years.

As of October 29, 2017, we had repurchased \$147.0 million in shares of our common stock under the program since inception and the current remaining authorization under our stock repurchase program is \$51.4 million. Under our stock repurchase program, we may repurchase our common stock at any time or from time to time, without prior notice, subject to market conditions and other considerations. Our repurchases may be made through Rule 10b5-1 and/or Rule 10b-18 or other trading plans, open market purchases, privately negotiated transactions, block purchases or other transactions. We intend to fund repurchases under the program from cash on hand. We have no obligation to repurchase any shares under the stock repurchase program and may suspend or discontinue it at any time.

## Limitation Upon Payment of Dividends

The Credit Agreement governing our senior secured first lien credit facilities includes covenants limiting our ability to pay dividends or make distributions on our capital stock.

## ITEM 3. Defaults Upon Senior Securities

None.

## ITEM 4. Mine Safety Disclosures

Not applicable.



ITEM 5. Other Information

None.

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## 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   |
|-------------|---|--|
| <u>3.1</u>  | <u>Restated Certificate of Incorporation of Semtech Corporation</u>   | Exhibit 3.1 to our Quarterly Report on Form 10-Q for the quarterly period ended October 26, 2003 |
| <u>3.2</u>  | <u>Bylaws of Semtech Corporation</u>  | Exhibit 3.2 to our Annual Report on Form 10-K for the year ended January 27, 2008                |
| <u>10.1</u> | <u>Semtech Corporation Chief Executive Officer Bonus Plan, as amended and restated on November 15, 2017</u>   | Filed herewith   |
| <u>10.2</u> | <u>Semtech Corporation Executive Bonus Plan (non-CEO), as amended and restated on November 15, 2017</u>   | Filed herewith   |
| <u>31.1</u> | <u>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</u>  | Filed herewith   |
| <u>31.2</u> | <u>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</u>  | Filed herewith   |
| <u>32.1</u> | <u>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")</u> | Furnished herewith   |
| <u>32.2</u> | <u>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")</u>    | Furnished herewith   |
| 101.INS     | XBRL Instance Document  | Filed herewith   |
| 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: November 29, 2017 /s/ Mohan R. Maheswaran  
Mohan R. Maheswaran  
President and Chief Executive Officer

Date: November 29, 2017 /s/ Emeka N. Chukwu  
Emeka N. Chukwu  
Executive Vice President and  
Chief Financial Officer