Balance Sheet Data

(in thousands)	January 25, 2015	January 26, 2014	January 27, 2013 (1)	January 29, 2012	January 30, 2011
Cash, cash equivalents and investments	$ 230,328	$ 246,868	$ 236,072	$ 327,665	$ 258,342
Working capital	288,647	282,706	248,311	360,330	259,873
Total assets	929,431	948,940	1,171,013	726,321	659,943
Long term debt, less current	234,746	273,293	282,286	—	—
Other long-term liabilities	270,032	302,207	318,505	29,151	37,503
Total stockholders' equity	551,358	535,843	694,826	630,188	528,615

(1)The Company acquired Gennum on March 20, 2012 and Cycleo SAS on March 7, 2012. Both of these acquisitions occurred during our fiscal year 2013 with Gennum being the more significant of the two. As a result, fiscal year 2013 reflects almost a full year of these acquisitions in our consolidated statements of operations.

Refer to Note 3 to our audited consolidated financial statements included in Item 8 of this report.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with Item 6 "Selected Consolidated Financial Data" and our audited consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

This Annual Report on Form 10-K 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 due to the global economic conditions; business interruptions; the Company's reliance on a limited number of suppliers and subcontractors for component and materials; potentially insufficient liability insurance if the Company's products are found to be defective; the Company maybe unsuccessful in developing and selling new products; 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 from 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; competition against larger, more established entities; the loss of any one of the Company's significant customers; volatility of customer demand; termination of a contract by a distributor; government regulations and other standards that impose operational and reporting requirements; the Company's failure to comply with applicable environmental regulations; compliance with conflict minerals regulations; changes in tax laws and review by taxing authorities; taxation of the Company in other jurisdictions; the Company's failure to maintain effective internal control over financial reporting and disclosure controls and procedures; 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'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 Company's ability to realize expected benefits of the implementation of a new enterprise resource planning ("ERP") system; and disruption of the Company's operations caused by the adjustment to the new ERP system and the transition from the Company's legacy systems and databases. Additionally, forward-looking statements should be considered in conjunction with the cautionary statements contained in this Annual Report on Form 10-K, including, without limitation, information under the section "Risk Factors" and additional factors that accompany the related forward-looking statements in this Annual Report on Form 10-K, in the Company's other filings with the 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.

Overview

We are a leading supplier of analog and mixed-signal semiconductor products and were incorporated in Delaware in 1960. We design, produce and market a broad range of products that are sold principally into applications within the high-end consumer, industrial, enterprise computing and communications end-markets. The high-end consumer end-market includes handheld devices, smartphones, tablets, set-top boxes, digital televisions, digital video recorders, thunderbolt cables and other consumer equipment. Applications for the industrial market include video broadcast studio equipment, automated meter reading, smart grid, wireless charging, military and aerospace, medical, security systems, automotive, Internet of Things ("IoT"), industrial and home automation, video security and surveillance and other industrial equipment. Enterprise computing end-markets include desktops, notebooks, servers, graphic boards, printers, datacenter related equipment, storage networks and computer peripherals. Communications end-market applications include base stations, optical networks, carrier networks, switches and routers, cable modems, signal conditioners, wireless LAN, and other communication infrastructure equipment.

Our end-customers are primarily original equipment manufacturers and their suppliers, including Cisco Systems, Inc., Huawei Technologies Co., Ltd., LG Electronics, Sharp Corporation, Nokia Solutions and Networks, Itron, Apple, Inc., Phonak International, Samsung Electronics Co. Ltd., Google Inc., Amazon.com Inc., and ZTE Corporation.

On March 4, 2015, we completed the acquisition of Triune Systems, LLC., a privately-held supplier of wireless charging and power management platforms targeted at high and low power, high efficiency applications. Under the terms of the purchase agreement, we acquired all of the outstanding equity interests of Triune Systems for an aggregate purchase price of $45.0 million consisting of $35.0 million cash paid at closing, with an additional cash consideration of$10.0 million to be paid in six months and additional contingent consideration subject to achieving certain future financial goals. In conjunction with the transaction, we expect to fund the aggregate purchase price using our revolving line of credit.

On January 13, 2015, we completed the acquisition of select assets of EnVerv, a privately-held supplier of power line communications ("PLC") and Smart Grid solutions targeted at advanced metering infrastructure, home energy management systems and IoT applications. We paid $4.9 million in cash at closing. Total acquisition consideration will be allocated to the acquired tangible and intangible assets and assumed liabilities of EnVerv based on their respective estimated fair values as of the acquisition date. Any excess of the acquisition consideration over the fair value of assets acquired and liabilities assumed will be allocated to goodwill. As of January 25, 2015, based on our preliminary estimates, $1.4 million of the total acquisition consideration has been allocated to core technologies and the remaining$3.4 million has been allocated to goodwill. We expect that all such goodwill will be deductible for tax purposes. We expect to complete the purchase price allocation for our acquisition of EnVerv in the second quarter of fiscal year 2016.

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

Upon consummation of the acquisition, which constituted a change in control of Gennum, Gennum’s stock option awards and restricted shares became fully vested. We acquired 100% of the outstanding shares and vested stock options, restricted shares, and deferred share units of Gennum for CDN$13.55 per share for a total purchase price of $506.5 million. See Note 3 to our audited consolidated financial statements included in Item 8 of this report. The acquisition was initially financed with a combination of cash from our international cash reserves and $347.0 million (net of original issue discount of $3.0 million) of five-year secured term loans with a combined interest rate of approximately 4%. See Note 10 to our audited consolidated financial statements included in Item 8 of this report.

Our primary reasons for the acquisition were to broaden our existing portfolio of high-performance analog products and to acquire a portfolio of high-speed data communications and video platforms to create one of the industry’s most complete and robust high-speed analog and mixed signal portfolios. In addition, Gennum’s strong position in the emerging HD video surveillance market further diversifies our portfolio of high-performance analog semiconductors and provides cross-selling potential with the combined customer base.

On March 7, 2012, we completed the acquisition of Cycleo SAS (“Cycleo”), a privately held company based in France that develops IP for wireless long-range semiconductor products used in smart metering and other industrial and consumer markets. This transaction, which was accounted for using the acquisition method of accounting, complements our current wireless offerings and will bring customers a set of high-end, digitally enhanced wireless solutions. Under the terms of the agreement, we paid the stockholders of Cycleo $5.0 million in cash at closing, with an additional contingent consideration of up to $16.0 million subject to achieving certain future financial goals. The audited consolidated financial statements for the fiscal years 2015 and 2014 include the results of operations of Gennum and Cycleo commencing as of the acquisition dates.

We operate and account for results in one reportable segment. In the second quarter of fiscal year 2015, we completed the reassessment of our operations in light of our restructuring efforts. See Note 19 to our audited consolidated financial statements included in Item 8 of this report. Based on this reassessment, we have identified a total of four operating segments. Three of these operating segments aggregate into one reportable segment; the Semiconductor Products Group. The remaining operating segment, the Systems Innovation Group (shown as "All other"), 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. The three operating segments aggregated into our one reportable segment all exhibit similar economic characteristics and we manage that business to a targeted gross margin range which all of the aggregated product lines are expected to meet. The historical activity of the reportable segment has been recast for consistent presentation for fiscal years 2014 and 2013.

During fiscal years 2015, 2014 and 2013 the gross margin of our Protection, Power and High-Reliability group performed slightly below our targeted range as their business was negatively impacted by lower sales volumes and an unfavorable product mix. The lower sales volumes are the result of the group's strategic transition away from certain markets (i.e., the personal computer market) that are characterized by non-differentiated offerings in sectors that are highly competitive. Specifically, this group is transitioning its product offerings to better support its current target markets, which include high-end consumer and medical, space, industrial and automotive applications that have historically enjoyed higher gross margins. We are starting to see traction in this endeavor as supported by the pace of new product introductions and customer design win communications. As a result of the lower volumes currently being experienced by this group, their gross margin has been impacted more than our other product groups by lower overhead absorption and fixed costs. In order to support existing customers while developing new cost-efficient products that can be sold at competitive prices, the Protection, Power and High-Reliability group has sold certain products at lower margins.

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 fiscal year 2015 represented 48% of net sales. Sales made directly to customers during fiscal year 2015 were 44% of net sales. The remaining 56% of net 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, Europe and Israel. For the fiscal year ended January 25, 2015, approximately 39% of our silicon, in terms of cost of wafers purchased, was manufactured in China. Foreign sales for fiscal year 2015 constituted approximately 88% of our net sales. Approximately 84% of foreign sales in fiscal year 2015 were to customers located in the Asia-Pacific region. The remaining foreign sales were primarily to customers in Europe and Canada.

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 to not result in revenue, 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.

Restructuring - fiscal 2015

In December 2014, we made a strategic decision to reduce our investment in the defense and microwave communications markets and to make additional reductions in our investments in the long-haul optical market. As a result of these actions, we recorded restructuring charges and impairments of certain intangible assets. Additionally, certain long-lived assets were determined to be impaired. The financial impact of these actions for the twelve month period ending January 25, 2015, is presented below:

Restructuring charges

(in thousands)		
Employee terminations and related costs	$	662
Contract termination costs		623
Total restructuring costs	$	1,285

Impairment of finite-lived intangibles

(in thousands)		Finite-lived intangible assets
Intangible asset impairments	$	11,636

Other charges

(in thousands)	Cost of sales	Selling general and administrative	Product development and engineering	Total
Long-lived asset impairments	2,810	6	6,630	9,446
Contract commitments	2,983			2,983
	5,793	6	6,630	12,429

We do not expect any significant changes to our liquidity as a result of our restructuring activities as most of the charges associated with these actions do not require settlement in cash.

As a result of these restructuring actions we expect to realize operating cost savings beginning in the first quarter of fiscal year 2016 of approximately $1.6 million per quarter.

Restructuring - fiscal 2014

In December 2013, after filing our Form 10-Q for the period ended October 27, 2013, we became aware of changes tied to the decision of a customer, disclosed in our filings as a key customer, to transition from our standard product to their internal application specific integrated circuit ("ASIC") solution. This decision by our key customer to utilize an internal ASIC solution was accelerated by continued delays in the release of capital investment tenders, primarily within China, which also provided other potential customers of ours with additional time to develop their internal solutions. While some of these potential customers had indicated an interest in transitioning to an internal ASIC solution, it was our key customer's decision to do so that prompted our strategic reassessment and resulting restructuring.

Upon completing the reassessment of our strategic options in January 2014, we decided to reduce the level of investments that we are making in the long-haul optical market. This reduction in investment is expected to significantly impact our ability to generate future revenue from the long-haul optical market. This anticipated reduction in potential future revenue resulted in us recording significant impairments of goodwill and other intangibles. Additionally, certain long-lived assets were determined to be impaired. As a result of our communications to our customers regarding our operational changes, we expect our customers to take action to transition away from some of our current platforms, including certain products in the 40Gbps and 100Gbps SerDes class which resulted in us reducing the cost basis of inventories in the fourth quarter of fiscal year 2014. Additionally, we incurred significant costs to terminate certain contract commitments and to provide for certain severance benefits to employees who were terminated prior to January 26, 2014 as a result of these investment reductions. The financial impact of these actions for the twelve month period ending January 26, 2014 is presented below:

Restructuring charges (in thousands)	
Employee terminations and related costs	$ 1,841
Contract termination costs	1,245
Total restructuring costs	$ 3,086

Impairment of finite and indefinite-lived intangibles (in thousands)	Finite-lived intangible assets	Indefinite-lived intangible assets	Total
Intangible asset impairments	$ 29,938	$ —	$ 29,938
Goodwill impairment	—	116,686	116,686
Total	$ 29,938	$ 116,686	$ 146,624

Other charges (in thousands)	Cost of sales	Selling general and administrative	Product development and engineering	Total
Inventory write-downs	$ 15,047	$ —	$ —	$ 15,047
Long-lived asset impairments	4,341	314	4,541	9,196
Contract commitments	1,729	—	3,197	4,926
Total other charges	$ 21,117	$ 314	$ 7,738	$ 29,169

Results of Operations

Fiscal Year 2015 Compared With Fiscal Year 2014

Presented below is our estimate of the end-market classification of net sales.

(in thousands, except percentages)	Fiscal Years 2015			Fiscal Years 2014			Change
High-End Consumer (1)	$	173,799	31%	$	171,640	29%	1 %
Communications		120,864	22%		180,568	30%	(33)%
Industrial and Other		147,410	26%		148,748	25%	(1)%
Enterprise Computing		115,812	21%		94,021	16%	23 %
Total	$	557,885	100%	$	594,977	100%	(6)%

(1) *Approximately $46.7 million and $43.8 million of our total sales to Samsung Electronics (and Affiliates), one of our significant customers, in fiscal year 2015 and 2014, respectively, were for products that target the handheld market (which includes mobile phones). These revenues are included in the high-end consumer end-market category.*

Net Sales. Net sales for fiscal year 2015 were $557.9 million, a decrease of 6% compared to $595.0 million for fiscal year 2014. Fiscal year 2015 revenues within the Enterprise Computing end-market benefited from particular strength from our optical products which are well positioned for the current cycle of datacenter upgrades. This strength was more than offset by the substantial decline in the Communications market driven by the anticipated weakness in 40Gbps and 100Gbps SerDes devices going into the long-haul optical market as our customers transitioned away from our solutions. Revenue from the licensing of intellectual property was $0.4 million and $2.5 million in fiscal years 2015 and 2014, respectively.

The decline in Communications end-market activity discussed above is expected to continue through fiscal year 2016 and be offset by the continued demand for datacenter upgrades, and the build-out of metro communications infrastructure, including wireless base stations (specifically in China) and IoT applications.

Gross Profit. Gross profit was $328.8 million and $335.2 million in fiscal years 2015 and 2014, respectively. Our gross margin was 58.9% for fiscal year 2015, up from 56.3% in fiscal year 2014. In both fiscal years 2015 and 2014, we incurred significant charges related to our strategic decision to reduce our investments in the long-haul optical and defense and microwave communications markets. Specifically, the fiscal year 2014 gross margin was impacted by a $15.0 million charge related to lower of cost or market write-down of inventory and $6.1 million of charges related to asset impairments and settlement of contract commitments. The fiscal year 2015 gross margin was impacted by $2.8 million of asset impairment charges and $3.0 million of charges related to settlement of contract commitments. Excluding the charges related to these business alignment decisions, our gross margin profile for fiscal year 2015 and 2014 were similar. We expect overall gross margins to strengthen to approximately 59.4% in the first quarter of fiscal year 2016 as a result of lower levels of impairment charges.

Operating Costs and Expenses.

(in thousands, except percentages)	Fiscal Years 2015			Fiscal Years 2014			
		Cost/Exp.	% net sales		Cost/Exp.	% net sales	Change
Selling, general and administrative	$	128,525	23%	$	125,379	21%	3 %
Product development and engineering		119,371	21%		137,437	23%	(13)%
Intangible amortization		25,718	5%		29,002	5%	(11)%
Intangible asset impairments		11,636	2%		32,538	5%	(64)%
Goodwill impairment		—	—%		116,686	20%	(100)%
Restructuring		1,285	—%		3,086	1%	(58)%
Total operating costs and expenses	$	286,535	51%	$	444,128	75%	(35)%

Selling, General & Administrative Expenses

Selling, general and administrative ("SG&A") expenses for fiscal year 2015 increased by $3.1 million or 3% as a result of higher stock-based compensation expense partially offset by lower levels of variable compensation tied to lower sales.

SG&A stock-based compensation expense was $17.4 million and $12.1 million in fiscal years 2015 and 2014, respectively. The year over yearincrease in equity compensation was principally driven by the impact of a higher stock price on awards that are classified as liability awards and must be marked to market at the end of each financial period.

Product Development and Engineering Expenses

Product development and engineering expenses for fiscal years2015 and 2014 were $119.4 million and $137.4 million, respectively or a decrease of 13%. The decrease was primarily a result of significantly lower levels of investment in the long-haul optical market and an $11.7 million increase in recoveries from third parties for 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 third parties for non-recurring engineering services which are typically recorded as a reduction to product development and engineering expense.

Intangible Amortization and Impairments

Intangible amortization was $25.7 million and $29.0 million in fiscal years 2015 and 2014, respectively. The decrease in amortization expense in fiscal year 2015 reflects the impact of impairment charges recorded in fiscal 2014.

Intangible asset impairments were $11.6 million and $32.5 million in fiscal years 2015 and 2014, respectively.

Goodwill Impairment

As a result of the actions taken to reduce our investments in the long-haul optical market, the Company recorded an impairment charge of $116.7 million in the fourth quarter of fiscal year 2014 to write-off the value of all goodwill associated with our former Advanced Communications group.

Restructuring

We incurred $1.3 million and $3.1 million for restructuring charges in fiscal years2015 and 2014, respectively, for severance and contract cancellation liabilities related to our decision to reduce our investments in the defense and microwave communications and long-haul optical markets, realign product groupings, and align spending with anticipated demand levels.

Interest Expense. Interest expense was $5.9 million and $18.2 million for fiscal year 2015 and 2014, respectively. The decrease was primarily due to a $7.1 million write-off of unamortized original issue discount and debt issuance cost associated with the debt modification in the second quarter of fiscal year 2014 and lower interest rates associated with the new credit facilities.

Interest Income and Other Expense, Net. Interest income and other expense, net was income of$0.2 million in fiscal year 2015 compared to expense of $1.4 million in fiscal year 2014. The net decrease in fiscal year 2015 was primarily related to the impact of favorable movements in foreign exchange rates.

Provision for Taxes. The provision for income taxes was$8.5 million for fiscal year 2015 compared to $36.0 million for fiscal year 2014. The effective tax rates for fiscal years 2015 and 2014 were a tax provision of 23.4% and 28.0%, respectively. The effective tax rates for fiscal years 2015 and 2014 reflect the adverse impact of $14.3 million and $52.9 million respectively, related to a valuation reserve against our deferred tax assets.

Our effective tax rate in fiscal year2015 differs from the statutory federal income tax rate of 35% due primarily to a valuation reserve against our deferred tax assets and certain undistributed foreign earnings for which no U.S. taxes are provided, because such earnings are indefinitely reinvested outside of the U.S.

We account for income taxes using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and tax basis of the assets and liabilities.

As of January 25, 2015, we have a valuation allowance against our U.S. and Canadian deferred tax assets of approximately$75.5 million. We are required to assess whether a valuation allowance should be recorded against our deferred tax assets ("DTAs") based on the consideration of all available evidence, using a "more likely than not" realization standard. The four sources of taxable income that must be considered in determining whether DTAs will be realized are; (1) future reversals of existing taxable temporary differences (i.e. offset of gross deferred tax assets against gross deferred tax liabilities); (2) taxable income in prior carryback years, if carryback is permitted under the tax law; (3) tax planning strategies and (4) future taxable income exclusive of reversing temporary differences and carryforwards.

In assessing whether a valuation allowance is required, significant weight is to be given to evidence that can be objectively verified. We have evaluated our DTAs each reporting period, including an assessment of our cumulative income or loss over the prior three-year period, to determine if a valuation allowance was required. A significant negative factor in our assessment was the Company's three-year cumulative loss history in the U.S. and Canada as of January 25, 2015.

After a review of the four sources of taxable income described above and in view of our three-year cumulative loss, we were not able to conclude that it is more likely than not that our U.S. and Canadian DTAs will be realized. As a result, we recorded an additional valuation allowance on our DTAs, with a corresponding charge to our income tax provision, of approximately $14.3 million as of January 25, 2015.

As we enter fiscal year 2016, we expect our tax rate to face upward pressure as a result of a less favorable mix of foreign and domestic income and our expected inability to benefit deferred tax assets as a result of our recent history of tax losses in the United States.

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.

Fiscal Year 2014 Compared With Fiscal Year 2013

Presented below is our estimate of net sales by end-market.

(in thousands, except percentages)	Fiscal Years 2014		Fiscal Years 2013		Change
Communications	$ 180,568	30%	$ 187,936	32%	(4)%
High-End Consumer	171,640	29%	162,858	28%	5 %
Industrial and Other	148,748	25%	156,563	28%	(5)%
Enterprise Computing	94,021	16%	71,469	12%	32 %
Total	$ 594,977	100%	$ 578,826	100%	3 %

Net Sales. Net sales for fiscal year 2014 were $595.0 million, an increase of 3% from $578.8 million for fiscal year 2013. Fiscal year 2014 revenues within the Enterprise Computing end-market benefited from a full year of Gennum revenue, with particular strength from optical communications which was well positioned for the upgrading of datacenters. Strength from these areas was offset by a slight decline in the Communications market with particular weakness in 40Gbps and 100Gbps SerDes devices offset by growth in demand from the wireless base station market. The weakness in the Communications market was the result of continued delays in the release of capital investment tenders, primarily in China, and pricing pressure in this space as current suppliers to this market compete for the existing business. Higher revenue in the Industrial end-market was attributed to higher sales of video broadcast products. Revenue from the licensing of intellectual property was $2.5 million and $8.6 million in fiscal years 2014 and 2013, respectively. Licensing revenue in fiscal year 2013 benefited from a single licensing arrangement that resulted in the recognition of $7.5 million of revenue.

Gross Profit. Gross profit was $335.2 million and $314.6 million in fiscal years 2014 and 2013, respectively. Our gross margin was 56.3% for fiscal year 2014, up from 54.4% in fiscal year 2013. In the fourth quarter of fiscal year 2014, as a result of a significant reduction in forecasted demand for 40Gbps and 100Gbps SerDes products that support the long-haul optical market, we recorded inventory lower of cost or market write-downs of $15.0 million, asset impairment charges of $4.3 million and contract commitment settlement charges of $1.7 million. Gross profit margins for fiscal year 2013 were negatively impacted by the inventory fair value step-up of $39.4 million associated with inventory acquired as part of the Gennum acquisition that was recorded to cost of sales as the acquired inventory was sold.

Operating Costs and Expenses.

(in thousands, except percentages)	Fiscal Years 2014 Cost/Exp.	2014 % net sales	Fiscal Years 2013 Cost/Exp.	2013 % net sales	Change
Selling, general and administrative	$ 125,379	21%	$ 149,070	26%	(16)%
Product development and engineering	137,437	23%	120,009	21%	15 %
Intangible amortization	29,002	5%	29,244	5%	(1)%
Intangible asset impairments	32,538	5%	700	—%	4,548 %
Goodwill impairment	116,686	20%	—	—%	*
Restructuring	3,086	1%	—	—%	*
Total operating costs and expenses	$ 444,128	75%	$ 299,023	52%	49 %

* Percentage is not applicable

Selling, General & Administrative Expenses

SG&A expenses for fiscal year 2014 decreased by $23.7 million or 16% as a result of lower expenses related to our acquisition of Gennum and Cycleo and by lower equity compensation expense. In fiscal year 2013, we incurred transaction and integration expenses related to the Gennum and Cycleo acquisitions of $24.8 million, including severance costs of $13.4 million. Fiscal year 2013 also included approximately $2.5 million of environmental reserves and $1.5 million of legal contingencies associated with a contract dispute.

SG&A stock-based compensation expense was $12.1 million and $15.0 million in fiscal years 2014 and 2013, respectively. The year over year decrease in equity compensation was principally driven by the impact of lower stock price on awards that are classified as liability awards and must be marked to market at the end of each financial period and lower anticipated vesting for awards that have performance vesting conditions.

Product Development and Engineering Expenses

Product development and engineering expenses for fiscal years2014 and 2013 were $137.4 million and $120.0 million, respectively or an increase of 15%. The increase resulted from the inclusion of a full year of spending for Gennum and Cycleo and our decision in the fourth quarter of fiscal year 2014 to reduce our investments in the long-haul optical market. Specifically, our decision to reduce our investments in the long-haul optical market resulted in us recording an impairment charge against long-lived assets of $5.3 million and contract settlement charges of $2.4 million in the fourth quarter of fiscal year 2014.

Intangible Amortization and Impairments

Intangible amortization was $29.0 million and 29.2 million in fiscal years 2014 and 2013, respectively. Intangible asset impairments was $32.5 million and $0.7 million in fiscal years 2014 and 2013 respectively. The increase in intangible asset impairments reflects the impact of $32.5 million of intangible impairment charges primarily related to our decision in the fourth quarter of fiscal year 2014 to reduce the level of investment in the long-haul optical market.

Goodwill Impairment

As a result of the actions taken to reduce our investments in the long-haul optical market, we recorded an impairment charge of $116.7 million in the fourth quarter of fiscal year 2014 to write-off the value of all goodwill associated with our former Advanced Communications group.

Restructuring

We incurred $3.1 million for restructuring charges in fiscal year2014 for severance and contract cancellation liabilities related to our decision to reduce our investment in the long haul optical market, realign product groupings, and align spending with anticipated demand levels.

Interest Expense. Interest expense was $18.2 million and $14.4 million for fiscal year 2014 and 2013, respectively. The increase was primarily due to a $7.1 million write-off of unamortized original issue discount and debt issuance cost associated with the debt modification in the second quarter of fiscal year 2014, partially offset by lower interest rates associated with modified credit facilities.

Interest Income and Other Expense, Net. Interest income and other expense, net was expense of $1.4 million in fiscal year 2014 compared to expense of $1.0 million in fiscal year 2014. The net increase in fiscal year 2014, was due to higher levels of other interest expense and volatility of foreign exchange related to cash denominated in foreign currencies.

Provision for Taxes. The provision for income taxes was$36.0 million for fiscal year 2014 compared to a benefit of $41.7 million for fiscal year 2014. The effective tax rate for fiscal year 2014 and 2013 was a tax provision of 28.0% and a tax benefit of 16,470.4%, respectively. The effective tax rate for fiscal year 2014 reflects the impact of a valuation reserve against our deferred tax assets of $52.9 million. The effective tax rate for fiscal year 2013 reflects the impact of a one-time $23.4 million benefit related to our change in assertion to permanently reinvest $70.0 million of foreign subsidiary earnings.

During fiscal year 2014 we recognized a one-time tax benefit of $2.7 million related to the revaluation of our net Swiss deferred tax liabilities. The revaluation of these liabilities was required to reflect the impact of a new Swiss tax ruling, which was formally approved by Swiss tax authorities during the third quarter of fiscal year 2014

Our effective tax rate in fiscal year2014 differs from the statutory federal income tax rate of 35% due primarily to the non-deductibility of goodwill impairment charges, a valuation reserve against our deferred tax assets, certain undistributed foreign earnings for which no U.S taxes are provided because such earnings are indefinitely reinvested outside of the U.S. and a change in the tax rates in Switzerland due to a new Swiss tax ruling. We receive an income tax benefit from tax differentials due to our presence in foreign jurisdictions such as Switzerland and Canada where statutory rates are lower than U.S. federal tax rates. We are currently not aware of any uncertainties or trends relating to foreign tax differential or the new Swiss tax ruling that could significantly impact our income taxes in future periods.

We account for income taxes using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and tax bases of the assets and liabilities.

As of January 26, 2014, we have a valuation allowance against our U.S. and Canadian deferred tax assets of approximately $61.3 million. We are required to assess whether a valuation allowance should be recorded against our deferred tax assets

("DTAs") based on the consideration of all available evidence, using a "more likely than not" realization standard. The four sources of taxable income that must be considered in determining whether DTAs will be realized are, (1) future reversals of existing taxable temporary differences (i.e. offset of gross deferred tax assets against gross deferred tax liabilities); (2) taxable income in prior carryback years, if carryback is permitted under the tax law; (3) tax planning strategies and (4) future taxable income exclusive of reversing temporary differences and carryforwards.

In assessing whether a valuation allowance is required, significant weight is to be given to evidence that can be objectively verified. We have evaluated our DTAs each reporting period, including an assessment of our cumulative income or loss over the prior three-year period, to determine if a valuation allowance was required. A significant negative factor in our assessment was the Company's three-year cumulative loss history in the U.S. and Canada as of January 26, 2014.

After a review of the four sources of taxable income described above and in view of our three-year cumulative loss, we were not able to conclude that it is more likely than not that our U.S. and Canadian DTAs will be realized. As a result, we recorded an additional valuation allowance on our DTAs, with a corresponding charge to our income tax provision, of approximately $52.9 million as of January 26, 2014.

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

Liquidity and Capital Resources

Our capital requirements depend on a variety of factors, including but not limited to, the rate of increase or decrease in our existing business base; the success, timing and amount of investment required to bring new products to market; revenue growth or decline; and potential acquisitions. We believe that we have the financial resources necessary to meet business requirements for the next 12 months, including funds needed for working capital requirements.

As of January 25, 2015, our total shareholders' equity was $551.4 million. At that date we also had approximately $230.3 million in cash and cash equivalents and $253.3 million of borrowings, net of debt discount.

Our primary sources and uses of cash during the comparative fiscal years are presented below:

	Fiscal Year Ended		
(in millions)	January 25, 2015	January 26, 2014	January 27, 2013
Sources of Cash			
Operating activities	$ 106.2	$ 118.0	$ 102.0
Proceeds from exercise of stock options including tax benefits	8.9	20.6	19.8
Proceeds from sale of investments	3.7	10.2	112.5
Issuance of debt, net of discount and debt issuance cost	5.0	324.4	338.0
	$ 123.7	**$ 473.2**	**$ 572.2**
Uses of Cash			
Capital expenditures on property, plant and equipment, net of sale proceeds	$ (31.7)	$ (37.1)	$ (23.3)
Payment for employee stock-based compensation payroll taxes	(7.2)	(10.5)	(6.9)
Acquisitions, net of cash acquired	(4.9)	—	(491.7)
Purchase of cost method investments	(7.1)	(2.5)	(2.5)
Purchases of investments	—	(1.1)	(24.7)
Purchase of intangible assets	(1.1)	(3.5)	(1.3)
Payment of long-term debt	(43.7)	(368.5)	(16.9)
Payment for interest rate cap	—	—	(1.1)
Repurchase of common stock	(40.9)	(30.0)	(7.8)
	$ (136.6)	**$ (453.2)**	**$ (576.1)**
Effect of exchange rate increase on cash and cash equivalents	**$ —**	**$ —**	**$ 0.1**
Net (decrease) increase in cash and cash equivalents	**$ (12.9)**	**$ 20.0**	**$ (3.8)**

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 January 25, 2015, our foreign subsidiaries held approximately $149.9 million of cash, cash equivalents, and short-term investments compared to $219.3 million at January 26, 2014. Of the $149.9 million held by our foreign subsidiaries, approximately $38.1 million could be returned to the U.S. tax free to settle an intercompany loan. An additional $16.4 million of earnings previously taxed in the U.S. could be repatriated subject only to a 5% withholding tax, as we do not assert permanent reinvestment of earnings previously taxed in the U.S.

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

Additionally, we will continue to seek to maintain and improve our existing business performance with capital expenditures and, potentially, acquisitions that meet our rate of return requirements. Acquisitions might 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 flows for fiscal year 2015 and 2014 were impacted by several significant non-cash transaction related items including, for fiscal 2015, depreciation, amortization and impairment expenses of $69.3 million and stock-based compensation expense of $29.6 million. The significant non-cash transactions for fiscal 2014 included, a goodwill impairment charge of $116.7 million, the write-off of $7.1 million of unamortized deferred financing costs and original issue discount associated with a debt modification, depreciation, amortization, and impairment expense of $94.1 million, the lower of cost or market write down of inventory of $15.0 million and stock-based compensation expense of $24.6 million.

Investing Activities

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

Capital expenditures were $31.8 million for fiscal year 2015 compared to $37.2 million for fiscal year 2014. The decrease in capital expenditures was due primarily to lower manufacturing and other general support spending offset slightly by higher engineering spending. Over the next year, we expect our capital spending to be approximately 5% of revenue.

Financing Activities

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

We incurred debt of $347.0 million (net of original issue discount of $3.0 million) in term loans (the “Prior Credit Agreement”) in fiscal year 2013 to complete the Gennum acquisition. In accordance with the term loans, we also entered into an interest rate cap agreement protecting at least 50% of the variable interest rate exposure on the term loans and made an upfront payment of $1.1 million in June 2012.

On May 2, 2013, we entered into a new credit agreement with certain lenders (the “Lenders”) and HSBC Bank USA, National Association, as administrative agent and as swing line lender and letter of credit issuer, which replaced the Prior Credit Agreement. In accordance with this agreement, the Lenders provided Semtech with senior secured first lien credit facilities in an aggregate principal amount of $400.0 million, consisting of term loans in aggregate principal amount of $150.0 million and revolving commitments in an aggregate principal amount of $250.0 million (the “New Credit Agreement”). We incurred loan fees of $2.2 million during the second quarter of fiscal year 2014, of which $1.0 million was expensed, and $1.2 million was capitalized and is being amortized using the effective interest method over the five year term of the agreement. Payments of long term debt in fiscal years 2015 and 2014 were $43.7 million and $368.5 million, respectively. Payments made in fiscal year 2014 included a payoff of the Prior Credit Agreement and a $26.0 million prepayment on the New Credit Agreements.

Our stock repurchase program represents one of our principal efforts to return value to our shareholders. In fiscal year 2015 and fiscal year 2014, we repurchased 1.6 million shares for $40.9 million and 1.0 million shares for $30.0 million, respectively. All stock repurchasing activity has been conducted under authorization from the Board of Directors. The original authorization was approved by the Board of Directors in November 2011, under which the Company was authorized to repurchase up to $50.0 million of shares of our common stock from time to time through negotiated or open market transactions. In August 2013, we announced an additional $50.0 million expansion of the program, for a total authorized program of $100.0 million. In November of 2014, we announced that the Board of Directors authorized an additional $28.4 million of repurchases under the program, which together with the $21.6 million remaining under the program, brought the total authorization to $50.0 million, such authorization being subject to certain limitations, guidelines and conditions as directed by the Board of Directors. As of January 25, 2015, we had repurchased $78.4 million of common stock under this program.

We do not directly control the timing of the exercise of stock options. Such exercises are independent decisions made by grantees and are influenced most directly by the stock price and the expiration dates of stock awards. Such proceeds are difficult to forecast, resulting from several factors which are outside our control. We believe that such proceeds will remain an important secondary source of cash after cash flow from operating activities. Cash proceeds from the exercise of stock options were $8.9 million and $16.4 million in fiscal years 2015 and 2014, respectively.

Off-Balance Sheet Arrangements

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

We do not have any unconsolidated subsidiaries or affiliated entities. We have no special purpose or limited purpose entities that provide off-balance sheet financing, liquidity or market or credit risk support. We do not engage in leasing, hedging, research and development services, or other relationships that expose us to liability that is not reflected on the face of the financial statements.

Noted below under “Contractual Obligations” are various commitments we have associated with our business, such as lease commitments and open purchase obligations, which are not recorded as liabilities on our balance sheet because we have not yet received the related goods or services as of January 25, 2015.

Contractual Obligations

Presented below is a summary of our contractual obligations as of January 25, 2015.

(in thousands)	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
Long-term debt	$ 18,750	$ 43,125	$ 192,000	$ —	$ 253,875
Operating leases	6,812	9,258	6,032	5,614	27,716
Open capital purchase commitments	4,044	—	—	—	4,044
Other open purchase commitments	28,064	3,446	—	—	31,510
Other vendor commitments	1,000	—	—	—	1,000
Deferred compensation	527	873	1,141	17,227	19,768
Cycleo-deferred compensation	—	1,759	—	—	1,759
Stock-based compensation	718	6,387	—	—	7,105
Total contractual cash obligations	$ 59,915	$ 64,848	$ 199,173	$ 22,841	$ 346,777

Capital purchase commitments and other open purchase commitments are for the purchase of plant, equipment, raw material, supplies and services. They are not recorded as liabilities on our balance sheet as of January 25, 2015, as we have not yet received the related goods or taken title to the property. In addition, under the terms of the Series A-1 Convertible Preferred Stock Purchase Agreements (the "Agreement") with Senet Inc. ("Senet"), we have committed to purchase an additional $1.4 million shares of Senet convertible preferred stock based on the completion of certain milestones by EnterTrac in fiscal year 2016.

We maintain a deferred compensation plan for certain officers and key executives that allow participants to defer a portion of their compensation for future distribution at various times permitted by the plan. Our liability for deferred compensation under this plan was $19.8 million and $17.0 million as of January 25, 2015 and January 26, 2014, respectively, and is included in accrued liabilities and other long-term liabilities on the balance sheet and in the table above. The plan provides for a discretionary Company match up to a defined portion of the employee’s deferral, with any match subject to a vesting period.

We have purchased whole life insurance on the lives of some of our current and former deferred compensation plan participants. This Company-owned life insurance is held in a grantor trust and is intended to cover a majority of the costs of our deferred compensation plan. The cash surrender value of our Company-owned life insurance was $18.5 million and $14.4 million as of January 25, 2015 and January 26, 2014, respectively.

During fiscal year 2015, we recorded a $0.8 million increase to the Cycleo earn-out liability as a result of the amendment to the Earn-out arrangement with the former Cycleo stockholders ("Earn-out Benficiaries"). See Note 15 to our audited consolidated financial statements included in Item 8 of this report.

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.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles (“GAAP”). In connection with the preparation of our financial statements, we are required to make assumptions and estimates about future events, and apply judgments that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. On a regular basis, management reviews the accounting policies, assumptions, estimates and judgments to ensure that our financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

Our significant accounting policies are discussed in Note2 to our audited consolidated financial statements, included in Item 8, of this report on Form 10-K. We believe that the following accounting estimates are the most critical to aid in fully understanding and evaluating our reported financial results, and they require our most difficult, subjective or complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain. We have reviewed these critical accounting estimates and related disclosures with the Audit Committee of our Board of Directors.

Allowance for Doubtful Accounts

We evaluate the collectability of our accounts receivable based on a combination of factors. If we are aware of a customer's inability to meet its financial obligations to us, we record an allowance to reduce the net receivable to the amount we reasonably believe we will be able to collect from the customer. For all other customers, we recognize allowances for doubtful accounts based on the length of time the receivables are past due, the current business environment, the size and number of certain large accounts and our historical experience. If the financial condition of our customers were to deteriorate or if economic conditions worsen, additional allowances may be required in the future.

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. We include revenue related to granted technology licenses as part of "Net sales." Historically, revenue from these arrangements has not been significant though it is part of our recurring ordinary business.

We record a provision for estimated sales returns in the same period as the related revenues are recorded. We base these estimates on historical sales returns and other known factors. Actual returns could be different from our estimates and current provisions for sales returns and allowances, resulting in future charges to earnings.

We defer revenue recognition on shipment of products to certain customers, principally distributors, under agreements which provide for limited pricing credits or product return privileges, until these products are sold through to end-users or the return privileges lapse. For sales subject to certain pricing credits or return privileges, the amount of future pricing credits or inventory returns cannot be reasonably estimated given the relatively long period in which a particular product may be held by the customer. Therefore, we have concluded that sales to customers under these agreements are not fixed and determinable at the date of the sale and revenue recognition has been deferred. We estimate the deferred gross margin on these sales by applying an average gross profit margin to the actual gross sales. The average gross profit margin is calculated for each category of material using current standard costs. The estimated deferred gross margin on these sales, where there are no outstanding receivables, is recorded on the balance sheet under the heading of "Deferred revenue." There were no significant impairments of deferred cost of sales in fiscal year 2015 or fiscal year 2014.

The following table summarizes the deferred net revenue balance:

(in thousands)	January 25, 2015	January 26, 2014
Deferred revenues	$ 6,237	$ 7,179
Deferred cost of revenues	(1,562)	(1,698)
Deferred revenue, net	7,799	8,877
Deferred product design and engineering recoveries	1,173	1,786
Total deferred revenue	$ 8,972	$ 10,663

Inventory Valuation

Our inventories are stated at lower of cost or market and consist of materials, labor and overhead. We determine the cost of inventory by the first-in, first-out method. At each balance sheet date, we evaluate our ending inventories for excess quantities and obsolescence. This evaluation includes analyses of sales levels by product and projections of future demand. In order to state our inventory at lower of cost or market, we maintain specific reserves against our inventory which serve to write-down our inventories to a new cost basis. If future demand or market conditions are less favorable than our projections, a write-down of inventory may be required, and would be reflected in cost of goods sold in the period the revision is made.

Business Combinations

Business combinations are accounted for at fair value. Acquisition costs are expensed as incurred and recorded in general and administrative expenses; in-process research and development is recorded at fair value as an indefinite-lived intangible asset at the acquisition date; restructuring costs associated with a business combination are expensed subsequent to the acquisition date; contingent consideration obligations are recorded at fair value on the date of acquisition, with increases or decreases in the fair value arising from changes in assumptions or discount periods recorded as contingent consideration expenses in the consolidated statements of operations in subsequent periods; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally affect income tax expense. All changes that do not qualify as measurement period adjustments are included in current period earnings. The fair values assigned to tangible and intangible assets acquired and liabilities assumed, including contingent consideration, are based on management's estimates and assumptions, as well as other information compiled by management, including valuations that utilize customary valuation procedures and techniques. Significant judgment is required in estimating the fair value of intangible assets acquired in a business combination and in assigning their respective useful lives. The fair value estimates are based on available historical information and on future expectations and assumptions deemed reasonable by management at the time.

If the actual results differ from the estimates and judgments we utilized, the amounts recorded in the financial statements could result in a possible impairment of the intangible assets and goodwill, or require acceleration of the amortization expense of finite-lived intangible assets.

Contingencies and Litigation

We record accruals for contingencies when it is probable that a liability has been incurred and the amount can be reasonably estimated. These accruals are adjusted periodically as assessments change or additional information becomes available. Individually significant contingent losses are accrued when probable and reasonably estimable.

The legal defense costs we accrue are based on reviews by outside counsel, in-house counsel and management and some of the significant factors considered in the review of these reserves are as follows: the actual costs incurred by us; the development of our legal defense strategy and structure in light of the scope of the litigation; the number of cases being brought against us; the costs and outcomes of completed trials and the most current information regarding anticipated timing, progression, and related costs of pre-trial activities and trials in the associated litigation.

In those situations where we are unable to determine the best estimate within the range of loss, we will record the minimum amount in the identified range of probable loss.

Stock-Based Compensation

We measure compensation cost for all share-based payments (including stock options) at fair value using valuation models, which considers, among other things, estimates and assumptions on the rate of forfeiture, expected life of options and stock price volatility and market value of our common stock. Additionally, for awards with a performance condition, we use financial forecasts that use assumptions that are consistent with those used for other valuation exercises, including goodwill valuation and asset impairment assessments. If any of the assumptions used in the valuation model change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period and actual results may differ from estimates.

Impairment of Goodwill, Other Intangibles and Long-Lived Assets

Goodwill

Goodwill is the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations accounted for under the purchase method. Goodwill is not amortized but is tested for impairment using a two-step method. Step one is the identification of potential impairment. This involves comparing the fair value of each reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds the carrying amount, the goodwill of the reporting unit is considered not impaired and the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the impairment test is performed to measure the amount of impairment loss, if any. We test by reporting unit, goodwill and other indefinite-lived intangible assets for impairment at November 30 or more frequently if we believe indicators of impairment exist or if we make changes to a reporting unit with assigned goodwill.

For our annual impairment review, we primarily use an income approach, which incorporates multi-period excess earnings present value techniques (discounted cash flows) as well as other generally accepted valuation methodologies to determine the fair value of the assets using Level 3 inputs. Our assumptions incorporate judgments as to the price received to sell a reporting unit as a whole in an orderly transaction between market participants at the measurement date. Considering the integration of our operations, we have assumed that the highest and best use of a reporting unit follows an "in-use" valuation premise.

Significant management judgment is required in determining the estimations of future cash flows, which is dependent on internal forecasts, the long-term rate of growth for our business, the life over which cash flows will occur, and the weighted average cost of capital. Our calculations include sensitivity analysis of key assumptions such as a 10% increase in the weighted-average cost of capital, a 10% increase in the effective tax rate or a 5% decline in our compound annual growth rate. The value of our intangible assets, including goodwill, could be impacted by future adverse changes such as: (i) any future declines in our operating results, (ii) a decline in the valuation of technology company stocks, including the valuation of our common stock, (iii) a significant slowdown in the worldwide economy and the semiconductor industry or (iv) any failure to meet the performance projections included in our forecasts of future operating results.

The assumptions we have used are consistent with the plans and estimates that we use to manage our business and change year to year based on operating results, competitive conditions, customer preferences, market conditions and other factors. It is possible, however, that these assumptions are incorrect. We could incur impairment charges in a future period if our actual results or the assumptions used in future impairment analysis are lower than the original assumptions used to assess the recoverability of these assets.

As of November 30, 2014, our reporting units with assigned goodwill were as follows:

(in thousands)	Balance as of November 30, 2014	
Signal Integrity Products Group	$	261,891
Wireless, Sensing and Timing Products Group		15,007
Total	$	276,898

Other Intangibles and Long-lived Assets

We review indefinite-lived intangible assets for impairment as of November 30, the date of our annual goodwill impairment review or whenever events or changes in circumstances indicate the carrying value may not be recoverable. Recoverability of indefinite-lived intangible assets is measured by comparing the carrying amount of the asset to the future discounted cash flows that asset is expected to generate.

Finite-lived intangible assets resulting from business acquisitions or technology licenses purchased are amortized on a straight-line basis over their estimated useful lives. The useful lives of acquisition-related intangible assets represent the point where over 90% of realizable undiscounted cash flows for each intangible asset are recognized. The assigned useful lives are consistent with our historical experience with similar technology and other intangible assets owned by us. The useful life of technology licenses is usually based on the term of the agreement.

Acquired in-process research and development is recorded at fair value as of the date of acquisition as an indefinite-lived intangible asset until the completion or abandonment of the associated research and development efforts or impairment. Upon completion of development, acquired in-process research and development assets are transferred to finite-lived intangible assets and amortized over their useful lives.

We record impairment losses on long-lived assets used in operations when indicators of impairment, such as reductions in demand or significant economic slowdowns in the semiconductor industry, are present. Reviews are performed to determine whether the carrying value of an asset is impaired, based on comparisons to undiscounted expected future cash flows. If this comparison indicates that there is impairment, the impaired asset is written down to fair value, which is typically calculated using: (i) quoted market prices and/or (ii) discounted expected future cash flows utilizing a discount rate. Impairment is based on the excess of the carrying amount over the fair value of those assets.

Impairment Evaluation - Goodwill, Other Intangibles and Long-Lived Assets

Goodwill

In the fourth quarter of fiscal year 2015, we completed our quantitative assessment of any potential goodwill impairment and concluded that there were no indications of impairment as of January 25, 2015.

In the fourth quarter of fiscal year 2014, our quantitative assessment of potential goodwill impairment concluded that the fair value of the Gennum Products group exceeded its carrying value by 25% and the fair value of the Wireless and Sensing Products group exceeded its carrying value by over 300%. The fair value of the former Advanced Communications Product group was determined to be lower than its carrying value, which failed Step 1. We performed Step 2 of the impairment test to measure the amount of impairment. The calculated loss was allocated pro-rata to the long-lived depreciable or amortizable assets of the asset group, based on the relative carrying amounts of those assets. Based on a comparison of the adjusted carrying value of the long-lived assets and the fair value of the reporting unit, the goodwill associated with the former

Advanced Communication Product group was determined to be fully impaired.

Before determining the extent to which goodwill was impaired, we evaluated whether impaired assets existed within the former Advanced Communications reporting unit. Accordingly, we assessed whether current assets, such as inventories, were impaired and then whether long-lived assets, including property, equipment and intangible assets, were impaired. To perform this test, we determined that the long-lived asset group is the former Advanced Communications reporting unit, which provides the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Since the asset group is at the reporting unit level, goodwill (before considering the effects of possible impairment) is included in the recoverability test. For purposes of testing recoverability for an asset group, we identified core technology as the primary asset within the long-lived asset group and used its remaining useful life of five years over which we estimated undiscounted future cash flows. The result of the recoverability test indicated that undiscounted cash flows were less than the carrying value of the asset group, which required us to determine the fair value of the asset group. We considered the principles behind the highest and best use of the asset group and determined that a market participant would determine the fair value of the individual long-lived assets in the asset group in combination with the other assets and liabilities within the asset group. The asset group's fair value was determined using an income approach, which serves as the basis for recognizing and measuring the impairment loss. To allocate the impairment loss, we also considered the individual long-lived assets fair values in order to ensure the carrying values of these assets were not reduced below fair values.

Intangible Long-Lived Assets

In the fourth quarter of fiscal year 2015 and 2014, we assessed our long-lived assets for any impairment and concluded that there were indicators of impairment as of January 25, 2015 and January 26, 2014, respectively. The resulting impairment charges are discussed below.

Using the cost approach, we determined fair values of individual tangible long-lived assets based upon the cost to reproduce the long-lived asset taking into account the age, condition, inflation using the U.S. Bureau of Labor Statistics and Marshall Valuation Services, and cost to ready the long-lived asset for its intended use. Additionally, we considered the potential existence of functional and economic obsolescence and quantified these elements in our cost approach as appropriate. Based on our analysis, we recognized and allocated to long-lived assets an impairment loss of $9.4 and $9.1 million for fiscal years 2015 and 2014, respectively, which reduced the cost basis in the corresponding assets. Also, we reassessed the estimated remaining useful lives of these assets and adjusted accordingly our estimates of future depreciation expense.

For intangible long-lived assets, which consist of core technology and customer relationships, we used the multi-period excess earnings method, an income approach, or the replacement cost method (a cost approach), to determine fair value. The multi-period excess earnings method, a form of the income approach, estimates the value of the asset based on the present value of the after-tax cash flows attributable to the intangible asset, which includes our estimates of forecasted revenue, operating margins, taxes and discount rate. The replacement cost method incorporates a market participant's assumption that an in-use premise is the highest and best use of customer relationships and core technology. We estimated the cost we would incur to rebuild or re-establish the intangible asset and the associated effort required to develop it. Based on our analysis, we recognized an impairment loss of $11.6 million and $32.5 million for the fiscal years ended January 25, 2015 and January 26, 2014, respectively, which reduced the cost basis in the corresponding intangible assets. Also, we reassessed the estimated remaining useful lives of these finite-lived intangible assets and adjusted accordingly our estimates of future amortization expense.

Based on a comparison of the fair value of long-lived assets to the carrying amount, we recoded impairment charges of $21.0 million and $39.0 million for fiscal years 2015 and 2014, respectively, which consisted of the following:

For fiscal 2015:

- Core technology - $11.6 million
- Property, plant and equipment (including licensed intangibles) - $9.4 million

For fiscal 2014:

- Core technology intangibles - $23.8 million
- Customer relationships - $6.1 million
- Property, plant and equipment (including licensed intangibles) - $9.1 million

Accounting for Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax liability together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet.

We must assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance. Generally, to the extent we change a valuation allowance, the change is recorded through the tax provision in the statements of operations. Management periodically evaluates our deferred tax assets to assess whether it is likely that the deferred tax assets will be realized. In determining whether a valuation allowance is required, we consider projected taxable income and our historical performance. The most significant assumptions used in preparing projections of taxable income include forecasting the levels of income by region and the amount of deductible stock based compensation.

We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant management estimates are required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax impact is uncertain. The calculation of tax liabilities involves dealing with uncertainties in the application of complex tax laws. We recognize liabilities for uncertain tax positions based on a two-step process. 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 requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as this requires us to determine the probability of various possible outcomes. We reevaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision in the period of change. Although we believe the estimates are reasonable, no assurance can be given that the final outcome of these matters will not be different than what is reflected in the historical income tax provisions and accruals. Should additional taxes be assessed as a result of an audit or litigation, a material effect on our income tax provision and net income in the period or periods for which that determination is made could result.

The income tax effects of share-based payments are recognized for financial reporting purposes only if such awards are expected to result in a tax deduction. We do not recognize a deferred tax asset for an excess tax benefit (that is, a tax benefit that exceeds the amount of compensation cost recognized for the award for financial reporting purposes) that has not been realized. In determining when an excess tax benefit is realized, we have elected to follow the ordering provision of the tax law. In addition to the risks to the effective tax rate discussed above, the effective tax rate reflected in forward-looking statements is based on current enacted tax law. Significant changes in enacted tax law could materially affect these estimates.

In general, the amount of taxes we pay will differ from our reported tax provision as a result of differences between accounting for income under U.S. GAAP and accounting for taxable income. Typical book-tax differences include expense related to equity compensation, deemed dividends, depreciation, litigation expense and amortization of intangible assets. As a result of these book-tax differences, our tax payments are expected to differ from our tax provision during the next three years. For intra-entity differences between the tax basis of an asset in the buyer’s tax jurisdiction and their cost as reported in the consolidated financial statements, we do not recognize a deferred tax asset. Income taxes paid on intra-entity profits on assets remaining within the group are accounted for as prepaid taxes.

We continually review our position on undistributed earnings from our foreign subsidiaries to determine whether those earnings are indefinitely reinvested offshore. Domestic and foreign operating cash flow forecasts are reviewed to determine the sources and uses of cash. Based on these forecasts, we determine the need to accrue deferred tax liabilities associated with our undistributed earnings offshore.

New Accounting Standards

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU“) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which requires 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, 2016 and for interim periods within those periods. This update will be effective for us beginning in the first quarter of fiscal year 2018. Early adoption is not permitted. We are currently assessing the basis of adoption and evaluating the impact of the adoption of this update on our consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 changes the requirements for reporting discontinued operations in FASB Accounting Standards Codification Subtopic 205-20, such that a disposal of a component of an entity or a group of components of an entity is required to be reported in