The fiscal year ended January 31, 2010 consisted of fifty-three weeks with the extra week falling in the fourth quarter. All other fiscal years presented consisted of fifty-two weeks. Our past results are not necessarily indicative of our future performance.

Income Statement Data

	Fiscal Year Ended				
(in thousands, except per share amounts)	January 27, 2013	January 29, 2012	January 30, 2011	January 31, 2010	January 25, 2009
Net sales	$ 578,827	$ 480,601	$ 454,502	$ 286,560	$ 294,820
Cost of sales	264,215	194,956	186,196	130,514	135,233
Gross profit	314,612	285,645	268,306	156,046	159,587
Operating costs and expenses:					
Selling, general and administrative	149,070	100,629	110,404	77,934	75,200
Product development and engineering	120,009	80,577	69,624	44,847	41,405
Intangible amortization	29,944	10,853	9,520	2,348	1,091
Total operating costs and expenses	299,023	192,059	189,548	125,129	117,696
Operating income	15,589	93,586	78,758	30,917	41,891
Interest expense	(14,363)	—	—	—	—
Interest income and other (expense) income, net	(977)	593	574	3,054	4,287
Income before taxes	249	94,179	79,332	33,971	46,178
(Benefit) provision for taxes	(41,690)	5,092	6,760	33,014	8,657
Net income	$ 41,939	$ 89,087	$ 72,572	$ 957	$ 37,521
Earnings per share:					
Basic	$ 0.64	$ 1.37	$ 1.16	$ 0.02	$ 0.61
Diluted	$ 0.62	$ 1.32	$ 1.12	$ 0.02	$ 0.61
Weighted average number of shares used in computing earnings per share:					
Basic	65,809	65,099	62,339	60,779	61,249
Diluted	67,472	67,350	64,523	61,676	61,999
Anti-dilutive shares not included in the EPS calculations	783	625	1,700	8,900	10,600

Balance Sheet Data

(in thousands)	January 27, 2013	January 29, 2012	January 30, 2011	January 31, 2010	January 25, 2009
Cash, cash equivalents and investments	$ 236,072	$ 327,665	$ 258,342	$ 162,223	$ 258,815
Working capital	248,311	360,330	259,873	146,086	279,887
Total assets	1,171,013	726,321	659,943	514,294	420,795
Long term debt, less current	282,286	—	—	—	—
Other long-term liabilities	34,177	29,151	37,503	35,173	8,960
Total stockholders' equity	694,826	630,188	528,615	405,741	378,020

Note 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 on these acquisitions in our consolidated statements of income.

The Company acquired SMI on December 9, 2009 and Leadis Technology Inc. on February 6, 2009. Both of these acquisitions occurred during our fiscal year 2010 with SMI being the more significant of the two. As a result, fiscal year 2011 reflects a full year on these acquisitions in our consolidated statements of income.

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 Form 10-K.

As discussed in "Special Note Regarding Forward-Looking and Cautionary Statements" earlier in this report, this Form 10-K contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward looking statements, including as a result of the risks described in the cautionary statements in Item 1A "Risk Factors" and elsewhere in this Form 10-K, in our other filings with the SEC, and in material incorporated herein and therein by reference. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, 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 market includes handheld products, tablet computers, set-top boxes, digital televisions, digital video recorders, thunderbolt and fiberless high-speed interfaces and other consumer equipment. Applications for the industrial market include broadcast studio equipment, automated meter reading, military and aerospace, medical, security systems, automotive, industrial and home automation, video security and surveillance and other industrial equipment. Enterprise computing product markets include optical receiver and transceiver, desktops, notebooks, servers, graphic boards, monitors, printers, and other computer peripherals. Communications market applications include base stations, backplane, optical networks, carrier networks, switches and routers, servers, cable modems, signal conditioners, wireless LAN, and other communication infrastructure equipment. Our end-customers are primarily original equipment manufacturers and their suppliers, including Alcatel-Lucent, Cisco Systems, Inc., Huawei Technologies Co., Ltd., LG Electronics, Motorola, Nokia Siemens Networks, Itron, Apple, Phonak International, Research In Motion Limited, Samsung Electronics Co., and ZTE Corporation.

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. The acquisition was financed with a combination of cash from our international cash reserves and $347 million (net of original issue discount of $3 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-speed communications platforms with Gennum's 1 Gbps to 25 Gbps signal integrity platform, to complement our 40 Gbps to 100 Gbps SerDes solutions and to create one of the industry's most complete and robust analog and mixed signal portfolios. In addition, Gennum's strong position in video broadcast and 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 million in cash at closing.

The audited consolidated financial statements for the fiscal year 2013 include the results of operations of Gennum and Cycleo commencing as of the acquisition dates.

We operate our business in one enterprise-wide reportable segment. 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 years 2013 represented 41% of net sales. Sales made directly to customers during fiscal year2013 were 61% of net sales. The remaining 39% 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, the United States, Canada, Europe and Israel. For the fiscal year ended January 27, 2013, approximately 38% of our silicon, in terms of cost of wafers purchased, was manufactured in China. Foreign sales for fiscal year 2013 constituted approximately 83% of our net sales. Approximately 84% of foreign sales in fiscal year 2013 were to customers located in the Asia-Pacific region. The remaining foreign sales were primarily to customers in Europe and Canada.

Results of Operations

Fiscal Year 2013 Compared With Fiscal Year 2012

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

	Fiscal Years				
(in thousands, except percentages)	2013		2012		Change
Enterprise Computing	$ 85,945	15%	$ 41,716	9%	106 %
Communications	181,791	31%	186,479	39%	(3)%
High-End Consumer	169,847	29%	168,520	35%	1 %
Industrial and Other	141,243	25%	83,886	17%	68 %
Total	$ 578,826	100%	$ 480,601	100%	20 %

Net Sales. Net sales for fiscal year 2013 were $578.8 million, an increase of 20% compared to $480.6 million for fiscal year 2012. Fiscal year 2013 revenues increased driven by strengthening demand in the enterprise computing and industrial end markets and by the impact of approximately $129.6 million of Gennum sales in the current fiscal year, partially offset by a slight decrease in demand from the high-end consumer and communications end markets. Fiscal year 2012 was also impacted by softening global economic conditions that resulted in a reduction in orders of our component products during the fiscal year.

Higher revenue in the enterprise computing market is driven primarily by demand for the Gennum Product Group optical communications products. Within the communications category, lower revenue was attributed to softer demand for 40G communications products in our Advanced Communications product line, partially offset by increasing demand for 100G communication products. High-end consumer revenues were relatively flat due to softer demand in Protection products due to reduced demand from a North American Tier 1 smartphone customer offset by increasing demand for Gennum Product Group Thunderbolt cables. Higher revenue in the industrial category was attributed to video broadcast applications in the Gennum Product Group and continued strength in the medical business of our Wireless and Sensing Group.

Gross Profit. Gross profit was $314.6 million and $285.6 million in fiscal years 2013 and 2012, respectively. Our gross margin was 54.4% for fiscal year 2013, down from 59.4% in fiscal year 2012. Gross profit margins for fiscal year 2013 were negatively impacted by the amortization of $39.4 million of the fair value adjustment related to acquired inventory recorded to cost of sales from the Gennum acquisition which offset a favorable end-market product mix driven primarily by the impact of approximately $129.6 million of Gennum sales in fiscal year 2013.

Operating Costs and Expenses.

	Fiscal Years				
(in thousands, except percentages)	2013		2012		
	Cost/Exp.	% net sales	Cost/Exp.	% net sales	Change
Selling, general and administrative	$ 149,070	26%	$ 100,629	21%	48%
Product development and engineering	120,009	21%	80,577	17%	49%
Intangible amortization and impairments	29,944	5%	10,853	2%	176%
Total operating costs and expenses	$ 299,023	52%	$ 192,059	40%	56%

<u>Selling, General & Administrative Expenses</u>
Selling, general and administrative ("SG&A") expenses for fiscal year 2013 increased by $48.4 million or 48% driven primarily by $11.4 million of transaction and integration expenses due to the acquisition of Gennum and Cycleo in March 2012 and the impact of incremental Gennum SG&A expenses.

Selling, general and administrative expenses for fiscal years2013 include approximately $2.5 million environmental reserves and $13.4 million severance costs associated with the integration of the acquired Gennum business with the Company's pre-existing business (refer to Note 15 and Note 17 to our audited consolidated financial statements for details). Fiscal year 2012 includes $2.0 million for expenses attributed to a reorganization plan initiated during the third quarter of fiscal year 2012 which resulted in consolidation of research and development activities and reduction in workforce.

SG&A stock-based compensation expense was $15.0 million and $15.8 million in fiscal years 2013 and 2012, respectively. The year over yeardecrease in equity compensation was principally driven by staffing reductions associated with our reorganization actions in fiscal year 2012 partially offset by the increase in stock price in fiscal year 2013.

Product Development and Engineering Expenses

Product development and engineering expenses for fiscal years2013 and 2012 were $120.0 million and $80.6 million, respectively or an increase of 49%. The increase in fiscal year 2013 is principally driven primarily by the inclusion of Gennum expenses of $40.9 million since March 2012.

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

Intangible Amortization and Impairments

Intangible amortization and impairments was $29.9 million and $10.9 million in fiscal years 2013 and 2012, respectively. The increase reflects the impact of $19.7 million intangible amortization related to the acquisition of Gennum and an impairment charge of $0.7 million attributed to assets acquired from SMI Inc. As of January 27, 2013, we had a total of $228.6 million of gross carrying amount of finite-lived intangible assets, which included $129.9 million related to the acquisition of Gennum.

The purchase price allocation for the Gennum acquisition included $29.1 million of acquired in-process research and development ("IPR&D") projects. Each project was analyzed to determine the unique technological innovations, the existence and reliance on core technology, the existence of any alternative future use or current technological feasibility, and the complexity, cost and time to complete the remaining development.

The fair value of the IPR&D projects was determined using an income approach or replacement cost approach as applicable. The replacement cost approach was used for IPR&D projects that were considered long-term core investments and were not anticipated to be profitable for a period of time. IPR&D projects which were valued using an income approach, measured the returns attributable to each specific IPR&D project, discounted to present value using a risk-adjusted rate of return, including as appropriate, any tax benefits derived from amortizing the intangible asset for tax purposes. Significant factors considered in the calculation of the rate of return are the weighted average cost of capital and return on assets, as well as the risks inherent in the development process, including the likelihood of achieving technological success and market acceptance. For IPR&D projects valued using a replacement cost approach, value was estimated by developing the cost to either replace or reproduce (replicate) the IPR&D to its current state.

The top three IPR&D projects that comprise $21.0 million of the total $29.1 million IPR&D balance are for enterprise computing, communications and high-end consumer products. The following table summarizes the significant assumptions underlying the valuation for such three IPR&D projects at the acquisition date:

Development Projects	**Estimated Percent Complete**	**Estimated Time to Complete (in years)**	**Estimated Cost to Complete (in millions)**	**Risk Adjusted Discount Rate**	**Valuation Approach**	**IPR&D (In millions)**
Video Platform	10%-14%	1.7 to 1.9	$3.4 - $10.4	12%	Income	$4.0
Backplane	36%-40%	0.2 to 0.4	$18.4 - $20.2	NA	Replacement Cost	$12.0
Consumer	44%-48%	0.2	$5.2 - $6.0	NA	Replacement Cost	$5.0

Costs, timing, and successful completion are subject to additional risk factors such as (i) increase in the projected technological risk of completion, (ii) decrease in the projected market size for the developed product, and (iii) subsequent decisions to postpone or delay the development of the IPR&D project. Actual results to date have been consistent, in all material respects, with our assumptions at the time of the acquisition.

Acquired in-process research and development was tested for impairment as of November 30, 2012, the date of our annual impairment review. With the exception of the impairment charge of $0.7 million recorded to write-off acquired IPR&D from

SMI, we concluded that the fair value of the acquired in-process research and developments exceeded the carrying value and no impairment existed as of January 27, 2013 (see Note 8 to our audited consolidated financial statements).

Interest Expense. Interest expense was $14.4 million in fiscal year 2013. There was no interest expense in fiscal year 2012. The increase was due to interest expense and the amortization of the original issue discount and debt issuance costs related to the credit facilities to finance the acquisition of Gennum (see Notes 3 and 10 to our audited consolidated financial statements).

We are currently assessing our financing alternatives and may decide to replace our existing debt with lower interest debt in fiscal year 2014.

Interest Income and Other Expense, Net. Interest income and other expense, net was $(977,000) in fiscal year 2013, compared to $593,000 in fiscal year 2012. In fiscal year 2013, the interest income and other expense is primarily made of $(700,000) Swiss Stamp duty tax liabilities. In addition, interest income in fiscal year 2013 is lower as a result of a significant liquidation of investment to pay for acquisitions.

Provision for Taxes. The benefit for income taxes was $41.7 million for fiscal year 2013 compared to a provision of $5.1 million for fiscal year 2012. The effective tax rate for fiscal year 2013 reflects the impact of the one-time $23.4 million benefit related to our change in assertion regarding $70 million of foreign subsidiary earnings. Because income before taxes was near break-even for fiscal year 2013, comparison of year-over-year effective tax rates is meaningless.

In fiscal year 2010, we concluded that $120 million of foreign subsidiary earnings were no longer considered to be permanently reinvested offshore. In the first quarter of fiscal year 2013, in connection with the acquisition of Gennum, we reviewed our assertion regarding the amount of foreign subsidiary earnings that were considered to be permanently reinvested offshore and concluded that due to post-acquisition foreign operating cash needs, all of our foreign subsidiary earnings are considered to be permanently reinvested offshore. This change in assertion resulted in the recognition of a one-time tax benefit of $23.4 million in the first quarter of fiscal year 2013.

In fiscal year 2013, our tax provision was adversely affected by a net increase to our valuation allowance of $2.7 million. This net increase was primarily the result of concerns related to our ability to utilize our California net operating losses due to a projected lower California apportionment in future years.

Fiscal Year 2012 Compared With Fiscal Year 2011

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

	Fiscal Years				
(in thousands, except percentages)	2012		2011		Change
Enterprise Computing	$ 41,716	9%	$ 42,728	9%	(2)%
Communications	186,479	39%	166,419	37%	12 %
High-End Consumer	168,520	35%	151,945	33%	11 %
Industrial and Other	83,886	17%	93,410	21%	(10)%
Total	$ 480,601	100%	$ 454,502	100%	6 %

Net Sales. Net sales for fiscal year 2012 were $480.6 million, an increase of 6% from $454.5 million for fiscal year 2011. Fiscal year 2012 revenues increased driven by strengthening demand in the communications and consumer end markets. Fiscal year 2012 was also impacted by softening global economic conditions that resulted in a reduction in orders of our component products during the fiscal year.

Higher revenue in the communications end market was attributed to the impact of strengthening demand for our 40G and 100G communications infrastructure products in our Advanced Communications product line. Higher revenues in the high-end consumer end market were driven by strengthening demand for Protection products in consumer applications including LCD TVs, smartphones and tablet computers. Enterprise computing revenues were roughly flat. Within the industrial category, lower revenue was attributed to softer demand from the military segment in our Power Management and High-Reliability and Advanced Communications product lines.

Gross Profit. Gross profit was $285.6 million and $268.3 million for fiscal years 2012 and 2011, respectively. Our gross margin was 59.4% for fiscal year 2012, up from 59.0% in fiscal year 2011. Gross profit margins for fiscal year 2012 were positively impacted by higher revenues, increased manufacturing volumes and the impact of reduced equity compensation expenses attributed to staffing reductions associated with a reduction in workforce. These factors offset the impact of a higher mix of consumer and enterprise computing revenues relative to communications and industrial revenues.

Operating Costs and Expenses.

	Fiscal Years				
(in thousands, except percentages)	2012		2011		
	Cost/Exp.	% net sales	Cost/Exp.	% net sales	Change
Selling, general and administrative	$ 100,629	21%	$ 110,404	24%	(9)%
Product development and engineering	80,577	17%	69,624	15%	16 %
Intangible amortization and impairments	10,853	2%	9,520	2%	14 %
Total operating costs and expenses	$ 192,059	40%	$ 189,548	41%	1 %

Selling, General & Administrative Expenses

Selling, general and administrative expenses for fiscal year2012 decreased by $9.8 million or 9% driven by the reduction in class action lawsuit expenses as the Company settled the litigation in August 2011, and lower equity compensation expenses partially offset by the impact of transaction expenses, reorganization charges and the impact of higher staffing and information technology infrastructure upgrade spending. Approximately $2.9 million of transaction expenses attributed to the acquisition of Gennum and the evaluation of other acquisition candidates were recorded in fiscal year 2012.

Selling, general and administrative expenses for fiscal years2012 and 2011 include approximately $0.2 million and $13.6 million (net of insurance recoveries of $10 million), respectively, for legal and other professional services incurred in connection with matters related to our historical stock option practices, including the government inquiries, the related litigation, and other associated matters. Fiscal year 2012 includes $2.0 million for expenses attributed to a reorganization plan initiated during the third quarter of fiscal year 2012 which resulted in consolidation of research and development activities and reduction in workforce.

SG&A stock-based compensation expense was $15.8 million and $19.3 million in fiscal years 2012 and 2011, respectively. The year over year decrease in equity compensation was principally driven by staffing reductions associated with our reorganization actions.

Product Development and Engineering Expenses

Product development and engineering expenses for fiscal years2012 and 2011 were $80.6 million and $69.6 million, respectively or an increase of 16%. The increase in fiscal year 2012 is principally driven by the impact of increased new product and process development expenditures primarily in the Advanced Communications and Protection product lines. In addition, fiscal year 2012 includes a $0.9 million expense associated with the impairment of a new process development initiative.

Intangible Amortization and Impairments

Intangible amortization and impairments, which reflects amortization costs associated with acquired intangibles,increased by $1.3 million in fiscal year 2012 compared to fiscal year 2011, as a result of the impact of impairment charges attributed to assets acquired from Leadis Technology Inc. During the third quarter of fiscal year 2012, we abandoned certain development efforts related to acquired intangible assets and recorded an impairment charge of $2.5 million.

Interest Expense. There was no interest expense in fiscal year 2012 and 2011.

Interest Income and Other Expense, Net. Interest income and other expense, net was $593,000 for fiscal year 2012, up from $574,000 in fiscal year 2011. For fiscal years 2012 and 2011, the primary source of income was interest from investments offset by loss from foreign currency transactions.

Provision for Taxes. The provision for income taxes was$5.1 million for fiscal year 2012 compared to $6.8 million for fiscal year 2011. The effective tax rates for fiscal year 2012 and fiscal year 2011 were 5.4% and 8.5%, respectively. The rate for fiscal year2012 reflects the impact of favorable trends in our regional mix of income. We expect our regional income trends to remain favorable. However, certain items which occurred in fiscal year 2012 are not expected to recur in fiscal year 2013. One such item includes a one-time benefit of $3.9 million related to a release of previously recorded reserves for uncertain tax positions, as a result of statutes of limitations for the taxing authority to challenge the positions expiring.

In fiscal year 2012, our tax provision was adversely affected by a net increase to our valuation allowance of $2.1 million. This net increase was primarily the result of concerns related to our ability to utilize our California net operating losses due to a projected lower California apportionment in future years.

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 27, 2013, our total shareholders' equity was$694.8 million. At that date we also had approximately $228.2 million in cash and cash equivalents, $7.9 million in long-term investments, and total debt of$330.7 million.

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

	Fiscal Year Ended		
(in millions)	**January 27, 2013**	**January 29, 2012**	**January 30, 2011**
Sources of Cash			
Operating activities	$ 102.0	$ 99.8	$ 93.8
Proceeds from exercise of stock options including tax benefits	12.9	45.0	30.7
Proceeds from sale of investments	112.5	131.7	111.0
Issuance of debt, net of original issue discount and debt issuance cost	338.0	—	—
	$ 565.4	***$ 276.5***	***$ 235.5***
Uses of Cash			
Capital expenditures, net of sale proceeds	$ (23.3)	$ (21.5)	$ (25.5)
Acquisitions, net of cash acquired	(491.7)	—	—
Purchase of intangible assets	(1.3)	(3.0)	—
Purchases of investments	(24.7)	(93.3)	(168.8)
Purchase of cost method investments	(2.5)	—	—
Payment of long-term debt	(16.9)	—	—
Payment for interest rate cap	(1.1)	—	—
Repurchase of common stock	(7.8)	(50.7)	(2.8)
	$ (569.3)	***$ (168.5)***	***$ (197.1)***
Effect of exchange rate increase on cash and cash equivalents	***$ 0.1***	***$ —***	***$ —***
Net (decrease) increase in cash and cash equivalents	**$ (3.8)**	**$ 108.0**	**$ 38.4**

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 27, 2013, our foreign subsidiaries held approximately $180.2 million of cash, cash equivalents, and short-term investments compared to$271.4 million at January 29, 2012. The decline was attributable to using approximately $213.0 million to partially fund the acquisitions of Gennum and Cycleo and to cover transaction and other related expenses.

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 2013 was impacted by several significant non-cash transaction related items including $39.4 million of purchase accounting adjustments related to inventory acquired from Gennum, $19.7 million of amortization expense for acquired intangible assets from Gennum. Also, accretion of deferred financing costs and debt discount was $2.5 million.

Investing Activities

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

Capital expenditures were $23.3 million for fiscal year 2013 compared to $21.6 million for fiscal year 2012. Acquisitions of Gennum and Cycleo were $491.7 million, net of cash acquired. Funding of the purchase price was sourced from cash and cash equivalents, credit facilities and required the liquidation of a significant amount of our temporary and long-term investments.

Financing Activities

Cash provided by financing activities is primarily attributable to the following: net proceeds from credit facilities, proceeds from the exercise of stock options offset by the repurchase of common stock under the Company's stock repurchase program and the payment of statutory tax withholding obligations resulting from the vesting of restricted stock settled by withholding shares.

In addition to using our cash, we incurred debt of $347 million (net of original issue discount of $3 million) in term loans during the quarter to complete the Gennum acquisition. On March 20, 2012, we entered into the senior secured first lien credit facilities in the aggregate principal amount of $350 million (the "Facilities"), consisting of Term A loans in an aggregate principal amount of $100 million (the "Term A Loans") and Term B loans in an aggregate principal amount of $250 million (the "Term B Loans"). Both the Term A Loans and the Term B Loans mature on March 20, 2017. Repayments of long term debt during the fiscal year 2013 totaled $16.9 million. In accordance with the stipulations in the credit agreement, we entered into an interest rate cap agreement protecting at least 50% of the variable interest rate exposure on the term loans and made an upfront payment of $1.1 million in June 2012. Under the terms of the Facilities, we may request, at any time, subject to certain conditions, the establishment of one or more additional term loan facilities in an aggregate principal amount not to exceed $150 million, the proceeds of which may be used for working capital and general corporate purposes. The Facilities are subject to customary affirmative and negative covenants. We were in compliance with such covenants as of January 27, 2013 and we expect to remain in compliance with these covenants.

Pursuant to the Credit Agreement, under certain circumstances, the Company is obligated to apply 50% of its excess cash flow (as defined in the Credit Agreement) for each fiscal year, as well as net cash proceeds from specified other sources, such as asset sales, debt issuances or insurance proceeds, to prepay the Term A Loans and Term B Loans. The first excess cash flow payment is estimated to be $26.6 million. The earliest date that any such payment may be due is 95 days after the last day of the fiscal year ending closest to January 31, 2013. The Company has classified the potential early payment of $26.6 million from "Long term debt" to "Current portion - long term debt" in the consolidated balance sheets as of January 27, 2013.

The Company may decide to replace and refinance its Facilities associated with the Gennum acquisition. The Company does not believe the terms associated with the new facilities will have a significant impact on the Company's liquidity or operations.

For fiscal year 2013, cash proceeds from the exercise of stock options were $12.9 million compared to $42.7 million in fiscal year 2012.

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

We currently have in effect a stock repurchase program. This program represents one of our principal efforts to return value to our shareholders. In fiscal year 2013 and fiscal year 2012, we repurchased 0.3 million and 2.3 million shares, respectively, under this program for $7.5 million and $50 million, respectively. On August 24, 2011, we announced a $36 million expansion of our existing stock repurchase program. Refer to Exhibit 99.1 of our current report on Form 8-K filed with the SEC on

August 24, 2011 for the complete announcement. On November 30, 2011, we announced an additional $50 million expansion of our existing stock repurchase program. Refer to Exhibit 99.1 of our current report on Form 8-K filed with the SEC on November 30, 2011 for the complete announcement.

In addition to the stock repurchase program, shares valued at$0.3 million and $0.7 million were withheld in connection with the vesting of restricted stock to cover statutory tax withholding obligations in the fiscal years 2013 and 2012, 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 27, 2013.

Contractual Obligations

Presented below is a summary of our contractual obligations as of January 27, 2013.

(in thousands)	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
Long-term debt	$ 49,100	$ 45,000	$ 239,025	$ —	$ 333,125
Operating leases	8,743	10,269	6,461	11,383	36,856
Open capital purchase commitments	1,451	—	—	—	1,451
Other open purchase commitments	57,314	7,327	—	—	64,641
Other vendor commitments	1,200	300	—	—	1,500
Deferred compensation	760	2,369	494	12,118	15,741
Stock-based compensation	3,241	5,738	—	—	8,979
Total contractual cash obligations	$ 121,809	$ 71,003	$ 245,980	$ 23,501	$ 462,293

Capital purchase commitments, other open purchase commitments and other vendor 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 27, 2013, as we have not yet received the related goods or taken title to the property.

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 $13.9 million and $11.1 million as of January 27, 2013 and January 29, 2012, 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.

In addition, during the fiscal year ended January 27, 2013, the Company recognized $1.8 million deferred compensation liability related to the payment of Cycleo earn-out liability which is contingent upon employment at the end of the four-year period beginning on April 30, 2012.

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 our costs of the deferred compensation plan. The cash surrender value of our Company-owned life insurance was $10.0 million as of January 27, 2013 and $10.2 million as of January 29, 2012, and is included in other assets.

We have $11.1 million of accrued taxes for uncertain tax positions. We believe that it is reasonably possible that the amount of unrecognized tax benefits will decrease by approximately $0.2 million within twelve months as a result of expiring statutes.

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 is recognized during the period in which services are performed. We include revenue related to granted technology licenses as part of "Net sales." Historically, revenue from these arrangements has not been significant though it is part of our recurring ordinary business. In the third quarter of fiscal year 2013, we entered into a single licensing arrangement that resulted in the recognition of $7.5 million of revenue.

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 2013 or fiscal year 2012.

The following table summarizes the deferred net revenue balance:

(in thousands)	January 27, 2013	January 29, 2012
Deferred revenues	$ 4,467	$ 4,964
Deferred cost of revenues	1,099	1,243
Deferred revenue, net	3,368	3,721
Deferred product design and engineering recoveries	377	132
Total deferred revenue	$ 3,745	$ 3,853

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 statement 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.

Interest Rate Derivative

We manage interest expense using variable rate debt. To manage its interest rate risk, we occasionally hedge the future cash flows of its variable rate debt, principally through interest rate contracts with major financial institutions. Interest rate cap contracts involve the receipts of variable amounts from a counterparty when one-month LIBOR exceeds the capped interest rate in exchange for an upfront payment from us, capping our one-month LIBOR floating interest payments at the strike rate on its interest rate cap contract. Interest rate contracts that meet specific criteria are accounted for as cash flow hedges.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income, net of taxes, and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on our variable-rate debt.

The assessment of effectiveness is based on the total changes in an option’s cash flows such that the assessment will include the interest rate caps entire change in fair value. The interest rate cap is considered a highly effective hedge since the key features and terms match with the hedged item at inception. Key features and terms are notional amount, cap effective date, rate threshold, index, repricing dates, payments dates, and maturity dates.

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 is 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 the Company; the development of the Company's legal defense strategy and structure in light of the scope of its litigation; the number of cases being brought against the Company; 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 the Company is unable to determine the best estimate within the range of loss, it 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 a valuation model, which considers, among other things, estimates and assumptions on the rate of forfeiture, expected life of options and stock price volatility. 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

We test goodwill and other indefinite-lived intangible assets for impairment in the fourth quarter of each fiscal year or more frequently if we believe indicators of impairment exist. 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. For our annual impairment review, we primarily use a multi-period excess earnings approach methodology of valuation that includes the discounted cash flow method as well as other generally accepted valuation methodologies to determine the fair value of the assets. 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 the forecasts of future operating results that are used in the discounted cash flow method of valuation. The estimates we have used are consistent with the plans and estimates that we use to manage our business. It is possible, however, that the plans and estimates used may be incorrect. If our actual results, or the plans and estimates used in future impairment analysis, are lower than the original estimates used to assess the recoverability of these assets, we could incur impairment charges in a future period.

Goodwill is tested for impairment as of November 30 , the date of our annual impairment review. We estimated the fair values of our reporting units using the income approach, which requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, estimation of the useful life over which cash flows will occur, and determination of our weighted average cost of capital. Our analysis included 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 noting the fair value of the goodwill associated with the Advanced Communications, the Wireless and Sensing, and Gennum reporting units exceeded their respective carrying values and no impairment existed as of January 27, 2013.

The Company reviews indefinite-lived intangible assets for impairment annually or whenever events or changes in circumstances indicate the carrying value may not be recoverable. Recoverability of indefinite-lived intangible assets is measured by comparing the carrying amount of the asset to the future discounted cash flows that asset is expected to generate. Acquired in-process research and development projects (“IPR&D”) is tested for impairment as of November 30, the date of the Company’s annual goodwill impairment review.

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.

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 statement 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. 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 exceed 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.