SEMTECH CORP
Form 10-K
March 27, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended January 27, 2008

OR

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

Commission file number 1-6395

SEMTECH CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	95-2119684
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

200 Flynn Road, Camarillo, California, 93012-8790

(Address of principal executive offices, Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock par value $.01 per share	The NASDAQ Stock Market LLC
Rights to Purchase Series X Junior Participating Preferred Stock	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer x Accelerated Filer ¨ Non-accelerated filer ¨

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

The aggregate market value of the common stock held by non-affiliates of the registrant as of July 29, 2007 was approximately $841 million. Stock held by directors, officers and shareholders owning 5% or more of the outstanding common stock (as reported by shareholders on Schedules 13D and 13G) were excluded as they may be deemed affiliates. This determination of affiliate status is not a conclusive determination for any other purpose.

The number of shares of the Registrant s common stock outstanding at March 24, 2008 was 61,480,489.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference in Part III of this report: Definitive Proxy Statement in connection with registrant s annual meeting of shareholders on June 26, 2008.

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Forward Looking and Cautionary Statements

This Annual Report on Form 10-K (the Form 10-K) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). We may also make forward-looking statements in other reports filed with the Securities and Exchange Commission (SEC), in materials delivered to shareholders and in press releases. In addition, Company representatives may make oral forward-looking statements from time to time. Forward-looking statements are statements other than historical information or statements of current condition and relate to matters such as our future financial performance, future operational performance, and our plans, objectives and expectations. Some forward-looking statements may be identified by use of terms such as expects, anticipates, intends, estimates, believes, projects, should, will, plans and similar words.

Forward-looking statements should be considered in conjunction with the cautionary statements contained 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. In light of the risks and uncertainties inherent in all such projected matters, forward-looking statements should not be regarded as a representation by the Company or any other person that our objectives or plans will be achieved or that any of our operating expectations or financial forecasts will be realized. Financial results could differ materially from those projected in forward-looking statements due to known or unknown risks. We assume no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

PART I

ITEM 1. BUSINESS

General

We are a leading supplier of analog and mixed-signal semiconductor products and were incorporated in Delaware in 1960. We design, develop and market a broad range of products that are sold principally to customers in the computer, consumer product, communications and industrial markets. Our products are designed into a wide variety of end applications, including notebook and desktop computers, handheld devices such as cellular phones and personal digital assistants, wired communication networks, high-end consumer devices, industrial systems and semiconductor test platforms. Our end-customers are primarily original equipment manufacturers (OEMs) and their suppliers, including Apple, Cisco, Samsung, Compal Electronics, Curitel Communications, Dell, Hewlett Packard, Intel, LG Electronics, Motorola, Nortel, Panasonic, Quanta Computer and Phonak.

Overview of the Semiconductor Industry

The semiconductor industry is broadly divided into analog and digital semiconductor products. Analog semiconductors condition and regulate real world functions such as temperature, speed, sound and electrical current. Digital semiconductors process binary information, such as that used by computers. Mixed-signal devices incorporate both analog and digital functions into a single chip and provide the ability for digital electronics to interface with the outside world.

The market for analog and mixed-signal semiconductors differs from the market for digital semiconductors. The analog and mixed-signal industry is typically characterized by longer product life cycles than the digital industry. In addition, analog semiconductor manufacturers tend to have lower capital investment requirements for manufacturing because

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their facilities tend to be less dependent than digital producers on state-of-the-art production equipment to manufacture leading edge process technologies. The end-product markets for analog and mixed-signal semiconductors are more varied and more specialized than the relatively standardized digital semiconductor product markets.

Another difference between the analog and digital markets is the amount of available talented labor. The analog industry relies more heavily than the digital industry on design and applications talent to distinguish its products from one another. Digital expertise is extensively taught in universities due to its overall market size, while analog and mixed-signal expertise tends to be learned over time based on experience and hands-on training. Consequently, personnel with analog training are more scarce than digital trained engineers. This has historically made it more difficult for new suppliers to quickly develop products and gain significant market share.

The electronics market is characterized by several trends that we believe drive demand for our products. Electronic systems are being designed to operate at increasingly lower operating voltages, battery-powered systems such as handheld computers and cellular telephones are proliferating, and these systems are becoming smaller and requiring higher levels of integration. Our products are designed to address these needs by providing solutions that protect low voltage circuits, extend battery life, meet tighter voltage requirements, improve interfaces between systems, and support higher transmission and processor speeds. Additionally, as communications functions are increasingly integrated into a range of systems and devices, these products require analog sensing, processing and control capabilities, which increases the number and size of our end-markets. Finally, industrial, medical, consumer and other end-market applications have increasingly incorporated data processing and communications features into their end systems resulting in more complex power and protection requirements, which in turn has broadened the opportunities for selling our power and protection devices.

Advancements in digital processing technology typically drive the need for corresponding advancements in analog and mixed-signal solutions. We believe that the diversity of our applications allows us to take advantage of areas of relative market strength and reduces our vulnerability to competitive pressure in any one area.

Semtech End-Markets

A majority of our products are sold to customers in the computer, communications and industrial markets. Until the mid-1990s, we largely focused on serving the military and aerospace end-market. In the 1990 s, the majority of our revenues were derived from the computing sector driven by desktop computers and related applications. In recent years, we have seen relative growth from the handheld communications, communications infrastructure and industrial markets as a percentage of the total. We have also seen a greater diversification within our computer market segment, beyond our initial focus on desktop computer applications.

For the fiscal year ended January 27, 2008, our revenues from the computer end-market were 22% of net sales, the communications end-market, which includes cellular phones applications, was 40%, and the remaining 38% of net sales were from industrial, military and aerospace, and various other end-markets.

Computer market applications include notebook and desktop computers, computer graphics and PDAs. End-product applications for our products within the communication market include cellular phones and base stations, set-top-boxes, and local and wide-area networks. Industrial and other applications include automated test equipment (ATE), power supplies, hearing aids and other medical devices, meter reading and factory automation systems. We believe that our diversity in end-markets provides stability to our business and opportunity for growth. Presented below is our estimated breakdown of sales by various end-applications for the last three fiscal years.

(fiscal years, percentage of net sales)

End-Application	2008	2007	2006
Cell phone	23%	20%	27%
Computers	22%	24%	30%
Wireline equipment	17%	17%	19%
ATE	3%	7%	4%
Industrial/other	35%	32%	20%
	100%	100%	100%

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The following table depicts our main product lines and their end-product applications:

Semtech s Main Product Lines	Specific End-Product Applications		
	Computer	**Communications**	**Industrial / Other**
Power Management	Desktop PCs, servers, workstations, notebook computers, add-on cards, PDAs, computer gaming systems	Cellular phones, network cards, routers and hubs, telecom network boards	Power supplies, industrial systems
Protection	Notebook computers, PDAs, USB ports, LAN cards	Cellular phones, base stations, DSL equipment, routers and hubs	Handheld measurement or instrumentation devices
Test and Measurement	Workstations	Cellular base stations, routers and hubs, SONET networks	Automated test equipment
Advanced Communications and Sensing		SONET networks, routers, hubs, switches, fiber modems and wireless headsets	Automated metering reading, industrial control and hearing aids (medical)

Power Discretes	Military, aerospace, medical

Historically, our results have reflected some seasonality, with demand levels generally being higher in the computer and consumer products segments during the third and fourth quarters of our fiscal year in comparison to the first and second quarters.

Business Strategy

Our objective is to be a leading supplier of analog and mixed-signal semiconductor devices to the fastest growing segments of our target markets. We intend to leverage our pool of skilled technical personnel to develop new products, or, where appropriate, use acquisitions, to either accelerate our position in the fastest growing segments or to gain entry into these segments. In order to capitalize on our strengths in analog and mixed-signal processing design, developing and marketing, we intend to pursue the following strategies:

Leverage our rare analog design expertise

We have developed a strategy to invest heavily in human resources needed to define, design and market high-performance analog platform products. We have built a team of experienced engineers who combine industry expertise with advanced semiconductor design expertise to meet customer requirements and enable our customers to get their products to market rapidly. We intend to leverage this strategy to achieve new levels of integration, power reduction and performance, enabling our customers to achieve differentiation in their end systems.

Continue to release proprietary new products, achieve new design wins, and cross-sell products

We are focused on developing unique, new, proprietary products that bring value to our target customers in our target markets. These products typically are differentiated in performance but are priced competitively. We also focus on achieving design wins for our products with current and future customers. Design wins are indications by the customers that they intend to incorporate our products into new designs. Our technical talent works closely with our customers in securing design wins, defining new products and in implementing and integrating our products into their systems. We also focus on selling our complete portfolio of products to our existing customers, as we believe the technical expertise of our marketing and sales team allows it to identify and capitalize on cross-selling opportunities.

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Focus on fast-growing market segments

We have chosen to target the analog segments of some of the fastest growing end-markets. We participate in these markets by focusing on specific product areas within the analog and mixed-signal market, including products for handheld equipment, consumer equipment, and communications infrastructure and certain broad-based industrial markets. All these markets are characterized by their need for leading-edge, high-performance analog and mixed-signal semiconductor technologies.

Leverage outsourced semiconductor fabrication capacity

We outsource most of our manufacturing in order to focus more of our resources on defining, developing and marketing our products. We use outside wafer foundries that are based in Asia, the United States, Canada and Europe. Our largest wafer source is a foundry based in China. We believe that outsourcing provides us numerous benefits, including capital efficiency, the flexibility to adopt and leverage emerging process technologies without significant investment risk and a more variable cost of goods, which provides us with greater operating flexibility.

Increase sales efforts in certain geographic areas

We believe that certain geographic markets, such as China, Japan and Europe represent opportunities for added sales and end-customer diversity. China is an emerging market with opportunities that range from portable consumer devices up to high-end networking equipment. Our subsidiary, Semtech International AG, has developed a local presence in China to provide qualified activities, such as marketing, technical advice and monitoring and analyzing market trends and has leveraged its relationship with its Taiwanese and Korean-based customers that are transferring business into China. Japan and Europe have been major consumers of analog and mixed-signal components for many years. We have bolstered our sales efforts in these regions in hopes of finding success in these large markets.

Product Segments

We have two product segments, both of which are comprised of semiconductor products: Standard Semiconductor Products and Rectifier, Assembly and Other Products. A majority of our sales come from our Standard Semiconductor Products, which we consider to be our most strategic product segment. The balance of sales come from our Rectifier, Assembly and Other Products segment. The products in that segment are older-technology products, in many cases dating back to the earliest days of our Company when our focus was primarily the military and aerospace end-markets.

Standard Semiconductor Products. Included in Standard Semiconductor Products are integrated circuits (ICs) and discrete components designed for use in standard and specific applications. Standard Semiconductor Products represented approximately 91% of our overall net sales in fiscal year 2008 and 94% and 96% of our overall net sales in fiscal years 2007 and 2006, respectively. The main product lines within our Standard Semiconductor Products are described below.

Power Management Products. Power management products control, alter, regulate and condition the power supplies within electronic systems. The highest volume product types within the power management product line are switching voltage regulators, combination switching and linear regulators, smart regulators and charge pumps. The primary application for these products is power regulation for computer, communications, consumer and industrial systems.

Protection Products. We design, develop and market high performance protection devices, which are often referred to as transient voltage suppressors (TVS). TVS devices provide protection for electronic systems where voltage spikes (called transients), such as electrostatic discharge generated by the human body, can permanently damage voltage-sensitive components. Our portfolio includes filter and termination devices that can be sold as a complement to TVS devices. Our protection products can be found in a broad range of applications including computer, data-communications, telecommunications and industrial applications.

Test and Measurement Products. We design, develop and market a wide variety of test and measurement products. These products drive the pin electronics, timing circuits, clock distribution circuits and parametric measurement circuits in automatic test equipment (ATE) systems, workstations and communication infrastructure equipment.

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Advanced Communication and Sensing Products. We design, develop and market a portfolio of proprietary advanced wired communication, wireless communication and sensing ICs. These ICs perform specialized timing and synchronization functions used in high-speed networks, specialized radio frequency (RF) functions used in a wide variety of industrial, medical and networking applications, and specialized sensing functions used in industrial applications.

Rectifier, Assembly and Other Products. We design, develop, and market a line of power discrete products comprised of rectifiers, assemblies (packaged discrete rectifiers) and other products. These products are typically used to convert alternating currents (AC) into direct currents (DC) and to protect circuits against very high voltage spikes or high current surges. These products are used in a broad range of military, aerospace, medical, and industrial applications. Rectifier, Assembly and Other Products represented approximately 9% of our overall net sales in fiscal year 2008 and 6% and 4% of our overall net sales in fiscal years 2007 and 2006, respectively.

For further financial information on these segments, refer to the information contained in Note 16 to the Consolidated Financial Statements included in Item 8.

Intellectual Capital and Product Development

The design of intellectual property (IP) and the resulting development of proprietary products is a critical success factor for us. The recruiting and retaining of key technical talent is the foundation for designing, developing and selling this IP, in the form of new proprietary products, in the global marketplace. One of our strategies to recruit this talent is the establishment of multiple design center locations. We have design centers in San Jose and San Diego, California; Raleigh, North Carolina; Neuchatel, Switzerland and the United Kingdom.

Circuit design engineers, layout engineers, product and test engineers, applications engineers and field application engineers are our most valuable employees. Together they perform the critical tasks of designing and laying out integrated circuits, turning these circuits into silicon devices, and conferring with customers about designing these devices into their applications. The majority of our engineers fit into one of these categories. Most of these engineers have many years of experience in the design, development and layout of circuits targeted for use in power management, protection, test and measurement and communication and sensing applications. We also employ a number of software engineers and systems engineers that specialize in the development of software and systems architecture, who enable us to develop systems oriented products in select markets.

$43.1 million of product development and engineering expense was incurred in fiscal year 2008. This represents 15% of net sales. Product development and engineering costs were $41.3 million or 16% of net sales and $37.9 million or 16% of net sales in fiscal years 2007 and 2006, respectively. We intend to make further investments in research and development in the future, which may include increasing our employee headcount and investing in design and development equipment.

Sales and Marketing

Sales made directly to customers during fiscal year 2008 were approximately 37% of net sales. The remaining 63% of net sales were made through independent distributors. We have direct sales personnel located throughout the United States, Europe, Japan, and elsewhere in Asia who manage the sales activities of independent sales representative firms and independent distributors. We expense our advertising costs as they are incurred.

We operate internationally primarily through our wholly-owned Swiss subsidiary, Semtech International AG. Semtech International serves the European markets from its headquarters in St. Gallen, Switzerland and through its wholly-owned subsidiaries based in France, Germany, Neuchatel Switzerland, and the United Kingdom. Semtech International maintains branch sales offices, either directly or through one of its wholly owned subsidiaries, in Taiwan, Korea and Japan. Semtech International also has representative offices located in Shanghai and Shenzhen, China. Independent representatives and distributors are also used to serve customers throughout the world. Some of our distributors and sales representatives also offer products from our competitors, as is customary in the industry.

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Customers, Sales Data and Backlog

As a result of the breadth of our products and markets, we have a broad range of customers.

Representative Customers by End-Markets:

Computer	Communications	Industrial/Other
Apple	Alcatel	Credence
Dell	Motorola	LTX
Hewlett Packard	Nortel	Rockwell
Intel	Samsung	Siemens
LG Electronics	Sony	Phonak

Our customers include major OEMs and their subcontractors in the computer, communications, industrial, military, and consumer segments. Our products are typically purchased by these customers for our performance, price, or technical support, as compared to our competitors.

During fiscal year 2008, 2007 and 2006, U.S. sales contributed 19%, 23%, and 18%, respectively to our net sales. Conversely, during fiscal years 2008, 2007, and 2006, foreign sales constituted 81%, 77%, and 82%, respectively, of our net sales. A majority of foreign sales were to customers located in the Asia-Pacific region, with sales to customers located in Korea and Japan comprising 9% of our net sales.

A summary of net sales by region follows:

(fiscal years, in thousands)

	2008		2007		2006	
North America	$ 53,367	19%	$ 56,710	23%	$ 42,611	18%
Asia-Pacific	186,395	65%	157,687	62%	168,796	70%
Europe	45,028	16%	38,141	15%	27,931	12%
Total Net Sales	$ 284,790	100%	$ 252,538	100%	$ 239,338	100%

One end-customer that is a major manufacturer of handheld systems and consumer equipment, accounted for 13% of net sales in fiscal year 2008, and 10% of net sales in fiscal year 2007 and 11% of net sales in fiscal year 2006.

One of our Asian distributors accounted for approximately 16% of net sales in fiscal year 2008, 12% of net sales in fiscal year 2007, and 9% of net sales in fiscal year 2006. Another of our Asian distributors accounted for approximately 5%, 7%, and 12%, respectively, of net sales in fiscal years 2008, 2007 and 2006.

Our backlog of orders as of the end of fiscal years 2008, 2007 and 2006 was approximately $70.8 million, $54.4 million and $46.6 million, respectively. The majority of our backlog is typically requested for delivery within six months. In markets where the end system life cycles are relatively short, customers typically request delivery in four to eight weeks. A backlog analysis at any given time gives little indication of our future business except on a short-term basis, principally within the next 45 days. We do not have any significant contracts with our customers calling for shipments over a period of more than 18 months.

Manufacturing Capabilities

Our strategy is to outsource the majority of our manufacturing functions to third-party foundries and assembly and test contractors. The third-party foundries fabricate silicon wafers and the assembly and test contractors package and test our products. We believe this outsourcing permits us to take advantage of the best available technology, leverage the capital investment of others, and reduce our operating costs associated with manufacturing assets.

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We perform a very limited amount of probe and final test activities in our Camarillo and San Diego, California; Neuchatel, Switzerland; and Reynosa, Mexico facilities to accommodate situations in which the tight coupling with product design is desirable or where there are unique requirements. Our power discrete products are packaged and tested in-house in Reynosa. Almost all of our other products are packaged and tested by outside subcontractors.

In keeping with our mostly fabless business model, we have no wafer fabrication facilities except for our operation in Reynosa, Mexico. For fiscal year 2008, the Reynosa facility provided almost all of the silicon for our power discrete products, which were approximately 9% of our end product sales. The remaining 91% of our end products were supported with finished silicon wafers purchased from outside wafer foundries in Asia, the United States, Canada, Europe, and Israel. We anticipate that virtually all the silicon wafers we require will come from outside foundries in fiscal year 2009.

Despite our use of outside wafer foundries for sourcing a majority of our silicon needs, we do maintain internal process development capabilities. Our process engineers work closely with our outside foundries on the improvement and development of process capabilities. In fiscal year 2008, we purchased the vast majority of our wafers from eight different third-party wafer foundries and used more than 20 different manufacturing processes, including various Bipolar, High-Speed Bipolar, CMOS, RF-CMOS and Bi-CMOS processes.

While we do have some redundancy of fab processes by using multiple outside foundries, any interruption of supply by one or more of these foundries could materially impact us. Likewise, we maintain some amount of business interruption insurance to help reduce the risk of wafer supply interruption, but we are not fully insured against such risk.

Although our products are made from basic materials (principally silicon, metals and plastics), all of which are available from a number of suppliers, capacity at wafer foundries sometimes becomes constrained. The limited availability of certain materials, such as silicon wafer substrates, may impact our suppliers ability to meet our demand needs or impact the price we are charged. Certain other basic materials, such as metals, gases and chemicals used in the production of circuits have all increased in recent years as demand has grown for these basic commodities. In most cases we do not procure these materials ourselves but we are nevertheless reliant on such materials for producing our products because our outside foundry and package and test subcontractors must procure them. To help minimize risks associated with constrained capacity, we use multiple foundries and have taken other steps to reserve capacity at certain foundries.

Our largest wafer source is a foundry in China. In fiscal year 2008, this Chinese foundry provided 39% of our total silicon requirements in terms of cost of wafers purchased. We have consigned certain equipment to this foundry to support our specialized processes run at the foundry and to ensure a specified level of capacity over the next few years. The provision of these assets to the wafer foundry is factored into our pricing arrangement with the foundry.

In fiscal year 2005, we made a prepayment for wafers at our second largest wafer source, a foundry based in Germany. This foundry provided 17% of our total silicon requirements in terms of cost of wafers purchased in fiscal year 2008. In exchange for the prepayment, the foundry reserved a specified level of capacity for us through calendar year 2006. A portion of the unused capacity at the end of calendar year 2006 was, and continues to be, applied against purchases. The remainder of the prepayment is due to be returned in April 2008. The balance of our unsecured prepaid account with this foundry is included in other current assets.

We use third-party contractors to perform almost all of our assembly and test operations. A majority of our assembly and test activity is conducted by third-party contractors based in Malaysia, the Philippines and China. Our subsidiary, Semtech International AG, has an operations office located in the Philippines that supports and coordinates some of the worldwide shipment of products. We have installed our own test equipment at some of our packaging and testing subcontractors in order to ensure a certain level of capacity, assuming the subcontractor has ample employees to operate the equipment.

Our arrangements with both outside wafer foundries and package and test subcontractors are designed to provide some assurance of capacity but are not expected to assure access to all the manufacturing capacity we may need in the future.

For further information regarding our arrangements with suppliers and the location of our long-lived assets, see Notes 5 and 9 to the Consolidated Financial Statements included in Item 8.

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Competition

The analog and mixed-signal semiconductor industry is highly competitive, and we expect competitive pressures to continue. Our ability to compete effectively and to expand our business will depend on our ability to continue to recruit key engineering talent, our ability to execute on new product developments and our ability to persuade customers to design in these new products into their applications. Our industry is characterized by decreasing unit selling prices over the life of a product as the volumes typically increase. However, price decreases can sometimes be quite rapid and faster than the rate of increase of the associated product volumes. We believe we compete effectively based upon our ability to capitalize on efficiencies and economies of scale in production and sales, and our ability to maintain or improve our productivity and product yields to reduce manufacturing costs.

We are in direct and active competition, with respect to one or more of our product lines, with at least 30 manufacturers of varying size, technical capability and financial strength. A number of these competitors are dependent on semiconductor products as their principal source of income, and some are much larger than we are. The number of our competitors has grown due to expansion of the market segments in which we participate. We consider our primary competitors with respect to our power management products to include Texas Instruments, National Semiconductor, Linear Technology, Maxim Integrated Products, Advanced Analogic Technologies, and Monolithic Power Systems. With respect to our protection products, our primary competitors are ST Microelectronics N.V., Philips (now NXP), ON Semiconductor, Protek and California Micro Devices. With respect to our test and measurement products, our primary competitors are Analog Devices and Maxim Integrated Products and our primary competitors with respect to our advanced communications and sensing products are Silicon Laboratories, IDT, Zarlink Semiconductor, and Micrel Semiconductor. With respect to our power discrete products, there is one primary competitor, Microsemi Corporation.

Intellectual Property and Licenses

We own many U.S. and foreign patents and have numerous patent applications pending with respect to our products and to technologies associated with our business. The expiration dates of issued patents range from 2009 to 2026. Although we consider patents to be helpful in maintaining a competitive advantage, we do not believe they create definitive competitive barriers to entry. There can be no assurance that our patent applications will lead to issued patents, that others will not develop or patent similar or superior products or technologies, or that our patents will not be challenged, invalidated, or circumvented by others.

Semtech Neuchatel, a subsidiary of Semtech International AG, licenses certain patents and other intellectual property to others in exchange for use of the other party s intellectual property and/or royalties or other fees which, in the aggregate, were not material in fiscal year 2008.

We license some intellectual property from other companies and we believe the duration and other terms of the licenses are appropriate for our needs. At January 27, 2008, other current liabilities includes approximately $17,000 of fees payable in connection with the license of certain intellectual property.

We have registered many of our trademarks in the U.S. and in various foreign jurisdictions. Registration generally provides rights in addition to basic trademark protections and are typically renewable upon proof of continued use. We have registered, or are in the process of registering, our SEMTECH trademark in many jurisdictions. In one location use of this trademark is prohibited, but we are permitted to use our Semtech International trade name. This restriction has not had a material impact on our business to date and we do not anticipate it will have a material impact in the future.

We also register certain materials in which we have copyright ownership, which provides additional protection for this intellectual property.

Employees

As of January 27, 2008, we had 781 full-time employees. There were 130 employees in research and development, 98 in sales, marketing and field services, and 95 in general, administrative and finance. The remaining employees support operational activities, including product and test engineering, assembly, manufacturing, distribution and quality functions. Approximately 59% of our employees are assigned to the Standard Semiconductor Products segment and approximately 29% are assigned to the Rectifier, Assembly and Other Products segment, with the remaining employees, approximately 12%, serving both segments.

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We have not had a work stoppage in at least the last decade and the only unionized employees are approximately 147 Mexican nationals who work at our Reynosa facility, a part of our Rectifier, Assembly and Other Products segment. Our employee relations during the last fiscal year have been, and remain, satisfactory.

We readjust our workforce from time to time to meet the changing needs of our business. Competition for key design engineering talent globally is significant.

Government Regulations

We are required to comply, and it is our policy to comply, with numerous government regulations that are normal and customary to businesses in our industry and that operate in our markets and operating locations.

Our sales that serve the military and aerospace markets primarily consist of products from the Rectifier, Assembly, and Other Products segment that have been qualified to be sold in these markets by the U.S. Department of Defense (DOD). In order to maintain these qualifications, we must comply with certain specifications promulgated by the DOD. As part of maintaining these qualifications, we are routinely audited by the DOD. Based on current specifications, we believe we can maintain our qualifications for the foreseeable future. However, these specifications could be modified by the DOD in the future or we could become subject to other government requirements, which could make the manufacturing of these products more difficult and thus could adversely impact our profitability in the power discretes product line. The U.S. State Department has determined that a small number of special assemblies from the Rectifier, Assembly, and Other Products segment are subject to the International Traffic in Arms Regulations (ITAR). We have a Technical Assistance Agreement in place that permits us to assemble these products in Mexico. International shipments of these products require a State Department license. Sales of products subject to ITAR are not material relative to the total sales of the Company.

Our facilities throughout the world are subject to various environmental laws and regulations and we believe our operations are in substantial compliance with those laws and regulations. Due to our limited manufacturing operations, the expense related to environmental compliance for our ongoing operations was immaterial for fiscal years 2008, 2007 and 2006 and has not had any material adverse effect on our capital expenditures, net income, or competitive position. New laws or regulations or changes to existing laws or regulations could subject our ongoing operations to different or additional environmental standards that could increase our cost of compliance in the future. In addition, our cost of doing business could increase if our suppliers increase prices to recoup the cost of their compliance with environmental laws or regulations.

We have incurred, and may continue to incur, liabilities under various statutes for the cleanup of pollutants at locations we have operated and at third-party disposal and recycling sites (see Note 13 to our consolidated financial statements included in Item 8). During fiscal years 2008, 2007 and 2006, the expense incurred with respect to these clean up matters was not material.

We used an environmental firm, specializing in hydrogeology, to perform monitoring of the groundwater at the facility in Newbury Park, California that we leased for approximately forty years. We vacated the building in May 2002. Certain contaminants have been found in the local groundwater. Monitoring results over a number of years indicate that contaminants are from adjacent facilities. It is currently not possible to determine the ultimate amount of future clean-up costs, if any, that may be required of us for this site. There are no claims pending with respect to environmental matters at the Newbury Park site. Accordingly, no reserve for clean-up has been provided at this time.

Available Information

General information about us can be found on our website at www.semtech.com. The information on our website is for information only and should not be relied on for investment purposes. The information on our website is not incorporated by reference into this report and should not be considered part of this or any other report filed with the Securities and Exchange Commission (SEC).

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We make available free of charge, either by direct access on our website or a link to the SEC website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC. Our reports filed with, or furnished to, the SEC are also available directly at the SEC s website at www.sec.gov.

Financial statements and the related reports of our independent public accountants, earnings press releases, and similar communications issued prior to July 20, 2006 should no longer be relied upon and have been superseded by the information contained in the Form 10-K/A for fiscal year 2006 filed on March 29, 2007 (Form 10-K/A) that was filed to reflect additional non-cash stock-based compensation following a review of our historical stock option practices (the restatement); our Quarterly Reports on Form 10-Q for the quarterly periods ended April 30, 2006, July 30, 2006, and October 29, 2006 which were filed concurrently with the Form 10-K/A (the FY2007 Form 10-Qs); and in reports filed with the SEC subsequent to the filing of the Form 10-K/A.

ITEM 1A. RISK FACTORS

You should carefully consider and evaluate all of the information in this report, including the risk factors listed below. The risks described below are not the only ones facing our company. Additional risks not now known to us or that we currently deem immaterial may also impair our business operations. If any of these risks actually occur, our business could be materially harmed. If our business is harmed, the trading price of our common stock could decline.

As discussed earlier in Forward Looking and Cautionary Statements, this report contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward looking statements as a result of certain factors including the risks faced by us described below and elsewhere in this report, 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.

Economic decline may have adverse consequences for our business

We sell our products into several commercial markets, primarily the computer, communication and industrial end-markets, whose performance is tied to the overall economy. Many of these industries were severely impacted in calendar years 2001 and 2002 due to an economic slowdown in the United States and globally. Our business during these periods reflected the weak economic conditions. Market research analysts have claimed that historically the semiconductor industry is impacted by broad economic factors, such as United States gross domestic product (GDP) and worldwide oil prices.

If economic conditions were to once again worsen or a wider global slowdown were to occur, demand for our products may be reduced. In addition, economic slowdowns may also affect our customers ability to pay for our products. Accordingly, economic slowdowns may harm our business.

The cyclical nature of the electronics and semiconductor industries may limit our ability to maintain or increase revenue and profit levels during industry downturns

The semiconductor industry is highly cyclical and has experienced significant downturns, which are characterized by reduced product demand, production overcapacity, increased levels of inventory, industry-wide fluctuations in the demand for semiconductors and the significant erosion of average selling prices. The occurrence of these conditions has adversely affected our business in the past. In fiscal year 2002, our net sales declined by 26% compared to the prior year as a result of a dramatic slowdown in the industry. Past downturns in the semiconductor industry have resulted in a sudden impact on the semiconductor and capital equipment markets. Consequently, any future downturns in the semiconductor industry may harm our business.

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We compete against larger, more established entities and our market share may be reduced if we are unable to respond to our competitors effectively

The semiconductor industry is intensely competitive and is characterized by price erosion, rapid technological change, and design and other technological obsolescence. We compete with domestic and international semiconductor companies, many of which have substantially greater financial and other resources with which to pursue engineering, manufacturing, marketing and distribution of their products. Some of these competitors include: Texas Instruments, National Semiconductor, Linear Technology, Maxim Integrated Products, Advanced Analogic Technologies, and Monolithic Power Systems, with respect to our power management products; ST Microelectronics N.V., Philips (now NXP), ON Semiconductor, Protek and California Micro Devices, with respect to our protection products; Analog Devices and Maxim Integrated Products, with respect to our test and measurement products; Silicon Laboratories, IDT, Zarlink Semiconductor, and Micrel Semiconductor, with respect to our advanced communications and sensing products. With respect to our power discrete products, there is one primary competitor, Microsemi Corporation. We expect continued competition from existing competitors as well as competition from new entrants in the semiconductor market. Our ability to compete successfully in the rapidly evolving area of integrated circuit technology depends on several factors, including:

- success in designing and manufacturing new products that implement new technologies;
- protection of our processes, trade secrets and know-how;
- maintaining high product quality and reliability;
- pricing policies of our competitors;
- performance of competitors products;
- ability to deliver in large volume on a timely basis;
- marketing, manufacturing and distribution capability; and
- financial strength.

To the extent that our products achieve market success, competitors typically seek to offer competitive products or lower prices, which, if successful, could harm our business.

A majority of our net sales are into larger, vertical end-market applications. Fluctuations, seasonality and economic downturns in any of our end-markets may have adverse consequences for our business

A majority of our net sales are into larger, vertical end-market applications such as notebook computers, desktop computers and cellular phones. Vertical end-market applications tend to be highly cyclical over time and highly competitive given the significant unit opportunities they represent. Horizontal markets tend to be less cyclical, but unit volume opportunities are much lower. We consider the industrial market to be a horizontal end-market, because it is much more broad-based and comprised of many non-standardized end-applications.

Many of our products are used in personal computers and related peripherals. For fiscal year 2008, we estimate that 22% of our sales were used in computer applications. Industry-wide fluctuations in demand for computers have in the past, and may in the future, harm our business. In addition, our past results have reflected some seasonality, with demand levels being higher in computer segments during the third and fourth quarters of the year in comparison to the first and second quarters.

We estimate that sales related to cellular phone applications represented 23% of our sales in fiscal year 2008. In fiscal year 2007, sales tied to cellular phone applications were estimated at 20% of our sales. Any decline in the number of cellular phones made, especially feature-rich phones with color displays, could adversely affect our business.

We sell and trade with foreign customers, which subjects our business to increased risks applicable to international sales

Sales to foreign customers accounted for approximately 81% of net sales in the fiscal year ended January 27, 2008. Sales to our customers located in Taiwan and Korea constituted 15% and 5%, respectively, of net sales for fiscal year

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2008. International sales are subject to certain risks, including unexpected changes in regulatory requirements, tariffs and other barriers, political and economic instability, difficulties in accounts receivable collection, difficulties in managing distributors and representatives, difficulties in staffing and managing foreign subsidiary and branch operations and potentially adverse tax consequences. These factors may harm our business. Our use of the Semtech name may be prohibited or restricted in some countries, which may negatively impact our sales efforts. In addition, substantially all of our foreign sales are denominated in U.S. dollars and currency exchange fluctuations in countries where we do business could harm us by resulting in pricing that is not competitive with prices denominated in local currencies.

We receive a significant portion of our revenues from a small number of customers and the loss of any one of these customers or failure to collect a receivable from them could adversely affect our operations and financial position

The identity of our largest customers has varied from year to year. Historically, we have had significant customers that individually accounted for 10% or more of consolidated revenues in certain quarters or represented 10% or more of net accounts receivables at any given date. One of our end-customers, a major manufacturer of cellular phone handsets and other electronic equipment, accounted for 13% of net sales in fiscal year 2008. In addition, we had several end-customers in fiscal year 2008 that on an annual basis accounted for more than 5% of net sales, but less than 10% of net sales.

Several of our authorized distributors have regularly accounted for more than 10% of net sales on an annual basis. Depending on the authorized distributor and their strategic focus, they can support anywhere from a few end-customers to many end-customers. For fiscal year 2008, two of our Asian distributors accounted for approximately 16% and 7%, respectively, of net sales. As of the end of fiscal year 2008, these two Asian distributors accounted for approximately 14% and 4%, respectively, of our net accounts receivable.

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

We primarily conduct our sales on a purchase order basis, rather than pursuant to long-term contracts. The loss of any significant customer, any material reduction in orders by any of our significant customers, the cancellation of a significant customer order or the cancellation or delay of a customer s significant program or product could harm our business.

Most of our authorized distributors, which together represent more than half of our net sales, can terminate their contract with us with little or no notice. The termination of a distributor could negatively impact our business, including net sales and accounts receivable

In fiscal year 2008, authorized distributors accounted for approximately 63% of our net sales. We generally do not have long-term contracts with our distributors and most can terminate their agreement with us with little or no notice. For fiscal year 2008, our two largest distributors were based in Asia.

The termination of any distributor could impact our net sales and limit our access to certain end-customers. It could also result in the return of excess inventory of our product they hold as the distributor. Since many distributors simply resell finished products, they generally operate on very thin profit margins. If a distributor were to terminate an agreement with us or go out of business, our unsecured accounts receivable from the particular distributor would be subject to significant collection risk.

Our foreign currency exposures may change over time as the level of activity in foreign markets grows and could have an adverse impact upon financial results

As a global enterprise, we face exposure to adverse movements in foreign currency exchange rates. Certain of our assets, including certain bank accounts, exist in non U.S. dollar-denominated currencies, which are sensitive to foreign currency exchange rate fluctuations. The non U.S. dollar-denominated currencies are principally the Euro, Swiss Franc, and British Pound Sterling. We also have a significant number of employees that are paid in foreign currency, the largest groups being United Kingdom-based employees who are paid in British Pound Sterling and Swiss-based employees who are paid in Swiss Francs.

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If the value of the U.S. dollar weakens relative to these specific currencies, as it has done in recent years, the cost of doing business in terms of U.S. dollars rises. With the growth of our international business, our foreign currency exposures may grow and under certain circumstances, could harm our business.

Changes in foreign currency exchange rates, particularly the Swiss Franc, also impacts our provision for income taxes and other tax-related balance sheet accounts. By impacting our provision for income taxes, foreign currency exchange rates also impact our reported earnings per share.

From time to time, we do a limited amount of hedging of our foreign exchange exposure. As of January 27, 2008 we had no foreign exchange hedge contracts in place. As a means of managing our foreign exchange exposure, we routinely convert U.S. dollars into foreign currency in advance of the expected payment. Any future use of forward contracts to hedge foreign exchange exposure may be required to be marked-to-market each quarter and can create volatility in net income not directly tied to our operating results.

We obtain many essential components and materials and certain critical manufacturing services from a limited number of suppliers and subcontractors, which are principally foreign-based entities

Our reliance on a limited number of outside subcontractors and suppliers for silicon wafers, packaging, test and certain other processes involves several risks, including potential inability to obtain an adequate supply of required components and reduced control over the price, timely delivery, reliability and quality of components. These risks are attributable to several factors, including limitations on resources, labor problems, equipment failures or the occurrence of natural disasters. The good working relationships we have established with our suppliers and subcontractors could be disrupted, and our supply chain could suffer, if a supplier or subcontractor were to experience a change in control. There can be no assurance that problems will not occur in the future with suppliers or subcontractors. Disruption or termination of our supply sources or subcontractors could significantly delay our shipments and harm our business. Delays could also damage relationships with current and prospective customers. Any prolonged inability to obtain timely deliveries or quality manufacturing or any other circumstances that would require us to seek alternative sources of supply or to manufacture or package certain components internally could limit our growth and harm our business.

We are subject to risk from fluctuating market prices of certain commodity raw materials, particularly gold, that are incorporated into our end products or used by our suppliers to process our end products. Increased commodity prices are passed on to us in the form of higher prices from our suppliers, either in the form of general price increases or a commodity surcharges. Although we generally deal with our suppliers on a purchase order basis rather than on a long-term contract basis, we generally attempt to obtain firm pricing for volumes consistent with planned production. Our gross margins may decline if we are not able to increase selling prices of our products or obtain manufacturing efficiencies to offset the increased cost. We do not enter into formal hedging arrangements to mitigate against commodity risk.

Most of our outside subcontractors and suppliers, including third-party foundries that supply silicon wafers, are located in foreign countries, including China, Malaysia, Korea, the Philippines and Germany. For fiscal year 2008, approximately 39% of our silicon in terms of cost of wafers, was supplied by a third-party foundry in China, and this percentage could be even higher in future periods. For fiscal year 2007, approximately 43% of our silicon in terms of cost of wafers was supplied by this third-party foundry in China. While we do have some redundancy of fab processes by using multiple outside foundries, any interruption of supply by one or more of these foundries could materially impact us. Likewise, we maintain some amount of business interruption insurance to help reduce the risk of wafer supply interruption, but we are not fully insured against such risk.

A majority of our package and test operations are performed by third-party contractors based in Malaysia, Korea, the Philippines and China. Our international business activities, in general, are subject to a variety of potential risks resulting from political and economic uncertainties. Any political turmoil or trade restrictions in these countries, particularly China, could limit our ability to obtain goods and services from these suppliers and subcontractors. The effect of an economic crisis or a political turmoil on our suppliers located in these countries may impact our ability to meet the demands of our customers. If we find it necessary to transition the goods and services received from our existing suppliers or subcontractors to other firms, we would likely experience an increase in production costs and a delay in production associated with such a transition, both of which could have a significant negative effect on our operating results, as these risks are substantially uninsured.

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We must commit resources to product production prior to receipt of purchase commitments and could lose some or all of the associated investment

Sales are made primarily on a current delivery basis, pursuant to purchase orders that may be revised or cancelled by our customers without penalty, rather than pursuant to long-term contracts. Some contracts require that we maintain inventories of certain products at levels above the anticipated needs of our customers. As a result, we must commit resources to the production of products without binding purchase commitments from customers. Our inability to sell products after we devote significant resources to them could harm our business.

We may be unsuccessful in developing and selling new products required to maintain or expand our business

We operate in a dynamic environment characterized by price erosion, rapid technological change, and design and other technological obsolescence. Our competitiveness and future success depend on our ability to achieve design wins for our products with current and future customers and introduce new or improved products that meet customer needs while achieving favorable margins. A failure to achieve design wins, to introduce these new products in a timely manner, or to achieve market acceptance for these products could harm our business.

The introduction of new products presents significant business challenges because product development commitments and expenditures must be made well in advance of product sales. The success of a new product depends on accurate forecasts of long-term market demand and future technological developments, as well as on a variety of specific implementation factors, including:

timely and efficient completion of process design and development;

timely and efficient implementation of manufacturing and assembly processes;

product performance;

the quality and reliability of the product; and

effective marketing, sales and service.

The failure of our products to achieve market acceptance due to these or other factors could harm our business.

We face risks associated with companies we have acquired in the past and may acquire in the future

We have expanded our operations through strategic acquisitions, such as the acquisition of XEMICS SA in June 2005, and we may continue to expand and diversify our operations with additional acquisitions. Acquisitions could use a significant portion of our available liquid assets and/or we could incur debt or issue equity securities to fund acquisitions. Issuance of equity securities could be dilutive to existing shareholders. Debt financing could subject us to restrictive covenants that could have an adverse effect on our business. Although we undertake detailed reviews of proposed acquisition candidates and attempt to negotiate acquisition terms favorable to us, we may encounter difficulties or incur liabilities for which we have no recourse against the selling party. We cannot provide any assurance that any acquisition will have a positive impact on our future performance.

If we are unsuccessful in integrating acquired companies into our operations or if integration is more difficult than anticipated, then we may not achieve anticipated cost savings or synergies and may experience disruptions that could harm our business. Some of the risks that may affect our ability to successfully integrate acquired companies include those associated with:

conforming the acquired company s standards, processes, procedures and controls with our operations;

coordinating new product and process development, especially with respect to highly complex technologies;

assuring acquired products meet our quality standards;

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loss of key employees or customers of the acquired company;

hiring additional management and other critical personnel;

increasing the scope, geographic diversity and complexity of our operations;

consolidation of facilities and functions; and

the geographic distance between the companies; and disparate corporate cultures.

Acquisitions could have a negative impact on our future earnings by way of poor performance by the acquired company or, if we later conclude we are unable to use or sell an acquired product or technology, we could be required to write down the related intangible assets and goodwill.

The loss of any of our key personnel or the failure to attract or retain specialized technical and management personnel could impair our ability to grow our business

Our future success depends upon our ability to attract and retain highly qualified technical, marketing and managerial personnel. We are dependent on a relatively small group of key technical personnel with analog and mixed-signal expertise. Personnel with highly skilled managerial capabilities, and analog and mixed-signal design expertise, are scarce and competition for personnel with these skills is intense. There can be no assurance that we will be able to retain key employees or that we will be successful in attracting, integrating or retaining other highly qualified personnel in the future. If we are unable to retain the services of key employees or are unsuccessful in attracting new highly qualified employees, our business could be harmed.

If our stock price declines below the exercise price of stock options held by employees, which is now the case for many options held by many employees, the retention incentive aspect of the stock options is lost and there is a greater likelihood we will be unable to retain key talent.

Our products may be found to be defective, product liability claims may be asserted against us and we may not have sufficient liability insurance

One or more of our products may be found to be defective after shipment, requiring a product replacement, recall, or a software solution that would cure the defect but impede performance of the product. We may also be subject to product returns which could impose substantial costs and harm our business. Beyond the potential direct cost associated with product failures, loss of confidence by major customers could cause sales of our other products to drop significantly.

Product liability claims may be asserted with respect to our technology or products. Our products are typically sold at prices that are significantly lower than the cost of the modules or end-products into which they are incorporated. A defect or failure in our product could give rise to failures in the module or the ultimate end-product, so we may face claims for damages that are disproportionately higher than the revenues and profits we receive from the products involved, especially if our customer seeks to recover for damage claims made against it by its own customers. While we maintain some insurance for such events, there can be no assurance that we have obtained a sufficient amount of insurance coverage, that asserted claims will be within the scope of coverage of the insurance, or that we will have sufficient resources to satisfy any asserted claims not covered by insurance.

The costs associated with our general product warranty policy and our indemnification of certain customers, distributors, and other parties could be higher in future periods

Our general warranty policy provides for repair or replacement of defective parts. In some cases a refund of the purchase price is offered. In certain instances, we have agreed to other warranty terms, including some indemnification provisions, which could prove to be significantly more costly than repair, replacement or refund. If there is a substantial increase in the rate of customer claims, if our estimate of probable losses relating to identified warranty exposures prove inaccurate, or if our efforts to contractually limit liability prove inadequate, we may record a charge against future cost of sales.

In the normal course of our business, we indemnify other parties, including customers, distributors, and lessors, with respect to certain matters. These obligations typically arise pursuant to contracts under which we agree to hold the other

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party harmless against losses arising from a breach of representations and covenants related to certain matters, such as acts or omissions of our employees, infringement of third-party intellectual property rights, and certain environmental matters. We have not incurred any significant expense as a result of agreements of this type in at least a decade, but there can be no assurances that the Company will not incur expense under these indemnification provisions in the future.

We have also entered into agreements with our current and former directors and certain of our current and former executives indemnifying them against certain liabilities incurred in connection with their duties. Our Certificate of Incorporation and Bylaws contain similar indemnification obligations with respect to our current and former directors and employees, as does the California Labor Code. In some cases there are limits on and exceptions to our potential indemnification liability. We cannot estimate the amount of potential future payments, if any, that we might be required to make as a result of these agreements. Prior to fiscal year 2007, we had not incurred any significant expense as a result of agreements of this type for at least a decade. In fiscal years 2007 and 2008, in conjunction with the review of our historical stock option practices and related litigation, we incurred significant expense by advancing legal expenses to current and former directors, officers and executives under pre-existing indemnification agreements and to other current and former employees under the California Labor Code and a resolution of the Board authorizing such advances. We expect that these expenses will continue to be significant until the government inquiries and option-related litigation are resolved. See Note 13 to the consolidated financial statements included in Item 8 of this report for information regarding indemnification expenses associated with the restatement and its underlying circumstances. The Company cannot estimate the amount of potential future payments, if any, that it might be required to make with respect to other matters as a result of these agreements, corporate documents, and statutes.

We may be unable to adequately protect our intellectual property rights

We pursue patents for some of our new products and unique technologies, but we rely primarily on a combination of nondisclosure agreements and other contractual provisions, as well as our employees commitment to confidentiality and loyalty, to protect our know-how and processes. We intend to continue protecting our proprietary technology, including through trademark and copyright registrations and patents. Despite this intention, we may not be successful in achieving adequate protection. Our failure to adequately protect our material know-how and processes could harm our business. There can be no assurance that the steps we take will be adequate to protect our proprietary rights, that our patent applications will lead to issued patents, that others will not develop or patent similar or superior products or technologies, or that our patents will not be challenged, invalidated, or circumvented by others. Furthermore, the laws of the countries in which our products are or may be developed, manufactured or sold may not protect our products and intellectual property rights to the same extent as laws in the United States.

The semiconductor industry is characterized by frequent claims of infringement and litigation regarding patent and other intellectual property rights. Due to the number of competitors, intellectual property infringement is an ongoing risk since other companies in our industry could have intellectual property rights that may not be identifiable when we initiate development efforts. Litigation may be necessary to enforce our intellectual property rights and we may have to defend ourselves against infringement claims. Any such litigation could be very costly and may divert our management s resources. If one of our products is found to infringe, we may have liability for past infringement and may need to seek a license going forward. If a license is not available or if we are unable to obtain a license on terms acceptable to us, we would either have to change our product so that it does not infringe or stop making the product.

We are subject to review by taxing authorities, including the Internal Revenue Service

We are subject to review by domestic and foreign taxing authorities, including the Internal Revenue Service (IRS). Tax years prior to 2004 (fiscal year 2005) are generally not subject to examination by the Internal Revenue Service (IRS) except for items with tax attributes that could impact open tax years. The IRS has established a task force to focus on issues relating to stock option grants. At the end of the fourth quarter of fiscal year 2008, the IRS contacted us in connection with this program and commenced an examination of tax years 2004 (fiscal year 2005) through 2006 (fiscal year 2007). Although we do not expect this examination to have a significant impact on our effective income tax rate or income tax payable, this examination and future audits by taxing authorities could result in increases to tax expense.

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We could be required to register as an investment company and become subject to substantial regulation that would interfere with our ability to conduct our business

The Investment Company Act of 1940 requires the registration of companies which are engaged primarily in the business of investing, reinvesting or trading in securities, or which are engaged in the business of investing, reinvesting, owning, holding or trading in securities and which own or propose to acquire investment securities with a value of more than 40% of the company s assets on an unconsolidated basis (other than U.S. government securities and cash). We are not engaged primarily in the business of investing, reinvesting or trading in securities, and we intend to invest our cash and cash equivalents in U.S. government securities to the extent necessary to take advantage of the 40% safe harbor. To manage our cash holdings, we invest in short-term instruments consistent with prudent cash management and the preservation of capital and not primarily for the purpose of achieving investment returns. U.S. government securities generally yield lower rates of income than other short-term instruments in which we have invested to date. Accordingly, investing substantially all of our cash and cash equivalents in U.S. government securities could result in lower levels of interest income and net income.

If we were deemed an investment company and were unable to rely upon a safe harbor or exemption under the Investment Company Act, we would among other things be prohibited from engaging in certain businesses or issuing certain securities. Certain of our contracts might be voidable, and we could be subject to civil and criminal penalties for noncompliance.

We are subject to government regulations and other standards that impose operational and reporting requirements

We, our suppliers, and our customers are subject to a variety of United States federal, foreign, state and local governmental laws, rules and regulations, including those related to the use, storage, handling, discharge or disposal of certain toxic, volatile or otherwise hazardous chemicals and the incorporation of such substances into products available for sale. If we or our suppliers were to incur substantial additional expenses to acquire equipment or otherwise comply with environmental regulations, product costs could significantly increase, thus harming our business. We are also subject to laws, rules, and regulations related to export licensing and customs requirements, including the North American Free Trade Agreement and State Department and Commerce Department rules.

The SEC and NASDAQ have revised, and continue to revise, their regulations and listing standards. These developments have increased, and may continue to increase, our legal compliance and financial reporting costs. These developments also may make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. This, in turn, could make it more difficult for us to attract and retain qualified members of our board of directors, or qualified executive officers.

Failure to comply with present or future laws, rules and regulations of any kind that govern our business could result in suspension of all or a portion of production, cessation of all or a portion of operations, or the imposition of significant administrative, civil, or criminal penalties, any of which could harm our business.

Failure to maintain effective internal controls or disclosure controls could have a material adverse effect on our business and stock price.

Section 404 of the Sarbanes-Oxley Act requires an annual management assessment of the effectiveness of internal controls over financial reporting and an annual report by our independent registered public accounting firm addressing the assessment. Management is similarly required to review disclosure controls, which are controls established to ensure that information required to be disclosed in SEC reports is recorded, processed, summarized and reported in a timely manner.

Management s report on internal controls as of the end of fiscal year 2008 is included in Item 9A of this report and the required attestation report of our independent registered public accounting firm is included in Part II, Item 8 of this report. Our disclosure controls and procedures are also discussed in Item 9A of this report.

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If we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting. Effective internal controls are necessary for us to produce reliable financial reports and are important in the prevention of financial fraud. If we cannot produce reliable financial reports or prevent fraud, our business and operating results could be harmed, investors could lose confidence in our reported financial information, and there could be a material adverse effect on our stock price. If we fail to maintain adequate disclosure controls, the reports we file with the SEC, including the financial statements contained therein, could be inaccurate or misleading.

We are subject to an SEC inquiry, a Federal Grand Jury subpoena, and shareholder litigation related to our historical stock option practices

See Note 13 to the consolidated financial statements included in Item 8 of this report for information regarding inquiries into our historical stock option practices being conducted by the SEC and under a Federal Grand Jury subpoena. The filing of the Form 10-K/A does not resolve these matters. In the event that either or both of these investigations lead to action against any of our current or former directors, officers, or employees, or the Company itself, the trading price of our common stock may be adversely impacted. If we are subject to adverse findings in either of these matters, we could be required to pay damages or penalties or have other remedies imposed upon us which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Also see Note 13 with respect to shareholder derivative and class action litigation and other matters related to the restatement and its underlying circumstances that could have a material adverse effect on our business and the price of our common stock.

If one or more of these matters continues for a prolonged period of time, they may have the same impact regardless of the ultimate outcome.

We may be required to further amend our financial statements

With the filing of the Form 10-K/A and the FY2007 Form 10-Qs in March 2007, we believe we have corrected the accounting errors arising from our past stock option practices. However, if the SEC disagrees with the accounting methods we used, objects to the manner in which we disclosed the restated financial information or related qualitative information, or otherwise imposes additional requirements with respect to our restated financial statements or stock option restatements in general, we could be required to further amend these filings. Further restatement could also be required if new facts become available as a result of the SEC inquiry, the Federal Grand Jury subpoena, the shareholder litigation or through other means. A further revision of our financial statements could negatively affect our business and the price of the Company s common stock. Also, a further revision of our financial statements could delay the filing of subsequent SEC reports which, in turn, might result in the delisting of our stock from the Nasdaq Stock Market.

We could face claims by individuals prevented from exercising stock options due to the restatement

The exercise of stock options was prohibited during the restatement process because our filings with the SEC were not current. We could face claims from optionees who were prevented from exercising expiring options or with options that lapsed because exercise was prohibited during the short post-termination period provided for by their award agreements. In fiscal year 2007, the Compensation Committee considered this situation and authorized cash payments to some optionees and we made an accrual for certain other potential claims. See Note 17 to the financial statements included in Item 8 of this report. During fiscal year 2008, all but one of the optionees who were effected released the Company from related claims and were paid the authorized amounts. Negotiations continue with the remaining individual, a former employee.

We could also face claims from individuals whose options have been cancelled or repriced by the Special Litigation Committee of the Board (Special Litigation Committee) that was charged with determining the consequences of the behavior of certain individuals who were found by a separate Special Committee of the Board (Special Committee) to have various degrees of culpability with regard to past improper stock option practices.

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Our future results may fluctuate, fail to match past performance or fail to meet expectations

Our results may fluctuate in the future, may fail to match our past performance or fail to meet the expectations of analysts and investors. Our results and related ratios, such as gross margin, operating income percentage and effective tax rate may fluctuate as a result of:

- general economic conditions in the countries where we sell our products;
- seasonality and variability in the computer market and our other end-markets;
- the timing of new product introductions by us and our competitors;
- product obsolescence;
- the scheduling, rescheduling or cancellation of orders by our customers;
- the cyclical nature of demand for our customers products;
- our ability to develop new process technologies and achieve volume production;
- changes in manufacturing yields;
- capacity utilization;
- product mix and pricing;
- movements in exchange rates, interest rates or tax rates;
- the availability of adequate supply commitments from our outside suppliers;
- the manufacturing and delivery capabilities of our subcontractors; and
- litigation and regulatory matters.

As a result of these factors, our past financial results are not necessarily indicative of our future results.

Our share price could be subject to extreme price fluctuations, and shareholders could have difficulty trading shares

The market for the stock of high technology companies has been volatile, and the market price of our common stock has been and may continue to be subject to significant fluctuations. Fluctuations could be in response to items such as operating results, announcements of technological innovations, or market conditions for technology stocks in general. Additionally, the stock market in recent years has experienced extreme price and volume fluctuations that often have been unrelated to the operating performance of individual companies. These market fluctuations, as well as general economic conditions, may adversely affect the price of our common stock.

In the past, securities class action litigation has often been instituted against a company following periods of volatility in the company s stock price. See Note 13 to the consolidated financial statements included in Item 8 of this report for information regarding a class action suit filed in fiscal year 2008 relating to the company s past stock option practices. This type of litigation could result in substantial costs and divert our management s attention and resources.

In addition, the future sale of a substantial number of shares of common stock by us or by our existing stockholders or option holders (including directors, officers, and employees, many of whom hold stock options that are approaching their expiration date) may have an adverse impact on the market price of the shares of common stock. There can be no assurance that the trading price of our common stock will remain at or near its current level. The market price of our common stock may be adversely affected by the restatement and matters arising from its underlying circumstances, including the aforementioned SEC investigation, grand jury subpoena, and derivative and class action litigation, as well as by press commentary on the Company s situation and option granting practices in general.

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Terrorist attacks, war and other acts of violence may negatively affect our operations and your investment

Terrorist attacks, such as the attacks that took place on September 11, 2001, wars, such as the war in Iraq, and other acts of violence, such as those that may result from the tension in the Middle East and the Korean peninsula, or any other national or international crisis, calamity or emergency, may result in interruption to the business activities of many entities, business losses and overall disruption of the U.S. economy at many levels. These events may directly impact our physical facilities or those of our customers and suppliers. Additionally, these events or armed conflicts may cause some of our customers or potential customers to reduce the level of expenditures on their services and products that ultimately may reduce our revenue. The consequences of these reductions are unpredictable, and we may not be able to foresee events that could have an adverse effect on our business. For example, as a result of these events, insurance premiums for businesses may increase and the scope of coverage may be decreased. Consequently, we may not be able to obtain adequate insurance coverage for our business and properties. A high or Orange or severe or Red threat condition announced by the Homeland Security Advisory System or similar agency and any consequent effect on the transportation industry may adversely affect our ability to timely import materials from our suppliers located outside the United States or impact our ability to deliver our products to our customers without incurring significant delays. To the extent that these disruptions result in delays or cancellations of customer orders, a general decrease in corporate spending, or our inability to effectively market our services and products, our business and results of operations could be harmed.

The outbreak of an avian influenza (bird flu) pandemic, severe acute respiratory syndrome (SARS), or other heath related issues, could impact our customer or supply base, especially in Asia

A large percentage of our sales are to customers located in Asia and a large percentage of our products are manufactured in Asia. One of our largest customer bases in Asia is located in Taiwan. Our largest wafer source is located in China. SARS or other health related issues, such as an avian influenza (bird flu) pandemic, could have a negative impact on consumer demand, on travel needed to secure new business or manage our operations, on transportation of our products from our suppliers or to our customers, or on workers needed to sell or manufacture our products or our customers products.

Earthquakes or other natural disasters may cause us significant losses

Our corporate headquarters, a portion of our assembly and research and development activities and certain other critical business operations are located near major earthquake fault lines. We do not maintain earthquake insurance and could be harmed in the event of a major earthquake. We generally do not maintain flood coverage, including in our Asian locations where we have certain operations support and sales offices. Such flood coverage has become very expensive; as a result the Company has elected not to purchase this coverage.

Our business could be harmed if natural disasters interfere with production of wafers by our suppliers, assembly and testing of products by our subcontractors, or our distribution network. We maintain some business interruption insurance to help reduce the effect of such business interruptions, but we are not fully insured against such risks. Likewise, our business could be adversely impacted if a natural disaster were to shut down or significantly curtail production at one or more of our end customers. Any such loss of revenue due to a slowdown or cessation of end customer demand is uninsured.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the information in this report and in the documents that are incorporated by reference, including the risk factors in this section, contains forward-looking statements. Forward-looking statements are statements other than historical information or statements of current condition and relate to matters such as our future financial performance, future operational performance, and our plans, objectives and expectations. Some forward-looking statements may be identified by use of terms such as expects, anticipates, intends, estimates, believes, projects, should, plans and similar words. In light of the risks and uncertainties inherent in all such projected matters, forward-looking statements should not be regarded as a representation by the Company or any other person that our objectives or plans will be achieved or that any of our operating expectations or financial forecasts will be realized. Financial results could differ materially from those projected in forward-looking statements. We assume no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our headquarters is located in Camarillo, California where we own an approximately 85,000 square foot facility that was completed in 2002. The original parcel on which the headquarters is located will accommodate substantial expansion, and we purchased a vacant lot adjacent to the headquarters when it became available in fiscal year 2003. The Camarillo facility houses a very limited amount of test and probe activity, as well as inside sales, marketing and administrative offices. The Camarillo facility serves as the business headquarters for our Rectifier, Assembly and Other Products segment and all of the product lines that make up the Standard Semiconductor Products segment, with the exception of our test and measurement product line that is headquartered in San Diego, California and our advanced communication and sensing (AC&S) product line that is headquartered in Neuchatel, Switzerland.

We own a 30,000 square foot building in Reynosa, Mexico that supports the assembly and production needs of our rectifier and assembly product lines.

We also leased a 44,000 square foot facility in Corpus Christi, Texas, which housed a wafer fabrication line, production testing and certain engineering functions for our protection product line (part of the Standard Semiconductor Products segment). In December 2002, we stopped production in the Corpus Christi facility as part of the strategic move to obtain nearly all of our silicon wafers from outside sources. The Corpus Christi lease ran through December 2021, but in the fourth quarter of fiscal year 2008 we entered into an agreement for early termination. See Note 13 to the financial statements included in this report.

Our San Diego, California facility is an approximately 25,000 square foot building that houses design, test and administrative functions and serves as the business headquarters for our test and measurement product line (part of the Standard Semiconductor Product segment). The lease on this facility runs through September 2009, with an option to extend for an additional five years.

We lease a facility in St. Gallen, Switzerland which serves as corporate headquarters for our Semtech International AG subsidiary and houses finance, administrative and other general functions. The lease on this facility runs through June 2011. In addition, we lease office and warehouse space in Neuchatel, Switzerland, the headquarters for our AC&S product line, which is part of the Standard Semiconductor Product segment. The leases on these facilities run through 2008 and 2013, respectively.

We also lease space to house certain of our other design, sales and marketing and operations in San Jose, California; Raleigh, North Carolina; China; France; Germany; Japan; Korea; the Philippines; Taiwan; and the United Kingdom. The space in New York City that previously housed our HID product group has been sublet.

In the fourth quarter of fiscal year 2007, we entered into a contract to sell a parcel of land in San Diego, California. Based on the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 144, we reclassified this parcel of land as held for sale in the fourth quarter of fiscal year 2007. The sale was completed in the first quarter of fiscal year 2008, resulting in a net gain of approximately $1.3 million. The gain on the sale is in Interest and other income, net within the Consolidated Statement of Income for fiscal year ended January 27, 2008. See Note 6 to the financial statements included in this report.

We believe that our existing leased and owned space is more than adequate for our current operations, and that suitable replacement and additional space will be available in the future on commercially reasonable terms.

ITEM 3. LEGAL PROCEEDINGS

The descriptions of the legal proceedings in Note 13 to the financial statements included in this report are incorporated by reference to this Item 3. These legal proceedings include shareholder derivative suits in which certain current and former directors, officers, and executives are adverse to the Company in that they are named as individual defendants from whom various forms of monetary damages are sought on the Company s behalf.

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During fiscal year 2008 we were not subjected to any penalties requiring disclosure under Section 6707A(e) of the Internal Revenue Code.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of the fiscal year covered by this report, no matter was submitted to a vote of security holders through the solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

During fiscal year 2007 and for most of fiscal year 2008, our common stock traded on the NASDAQ Global Market under the symbol SMTC. On January 2, 2008, our common stock began trading on the NASDAQ Global Select Market under the same symbol. The following table sets forth, for the periods indicated, the high and low sale prices of our common stock, as reported on the applicable NASDAQ market, giving effect to all stock splits through the date hereof.

	High	Low
Fiscal year ending January 28, 2007:		
First Quarter	$ 20.26	$ 17.17
Second Quarter	$ 21.06	$ 11.51
Third Quarter	$ 13.84	$ 11.00
Fourth Quarter	$ 13.77	$ 12.36
Fiscal year ending January 27, 2008:		
First Quarter	$ 15.47	$ 13.12
Second Quarter	$ 18.37	$ 14.23
Third Quarter	$ 21.11	$ 15.04
Fourth Quarter	$ 17.62	$ 11.66

Holders

On March 24, 2008, the reported last sale price of our common stock on the NASDAQ Global Select Market was $14.93 per share. As of March 24, 2008, we had 393 stockholders of record.

Dividends

The payment of dividends on our common stock is within the discretion of our board of directors. Currently, we intend to retain earnings to finance the growth of our business. We have not paid cash dividends on our common stock during the two most recent fiscal years and our board of directors has not indicated an intent to declare a cash dividend on the common stock in the foreseeable future.

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Securities Authorized for Issuance Under Equity Compensation Plans

See the information set forth in Part III, Item 12 of this Form 10-K.

Sales of Unregistered Securities

We did not make any unregistered sales of equity securities during fiscal year 2008.

Purchases of Equity

This table provides information with respect to purchases by the Company of shares of common stock during the fourth quarter of fiscal year 2008.

Issuer Purchases of Equity Securities

Fiscal Month	Total Number of Shares Purchased (1) (2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (1) (2)	Approximate Dollar Value of Shares That May Yet Be Purchased Under The Program (1) (2) (3)
November (10-28-07 to 11-25-07)				$ 50.3 million
December (11-26-07 to 12-23-07)	3,036,400	$ 16.57	3,036,400	$
January (12-24-07 to 01-27-08)				$
Total fourth quarter fiscal year 2008	3,036,400		3,036,400	

(1) In the first quarter of fiscal year 2005, the Company announced that the Board of Directors authorized the repurchase of up to $50 million of the Company s common stock from time to time through negotiated or open market transactions (the 2004 Program). In the second quarter of fiscal year 2006, the Company announced that it had exhausted the initial authorization and that its Board of Directors had approved an additional $50.0 million for the 2004 Program. In the second quarter of fiscal year 2007, the Company announced that its Board of Directors again had authorized increasing the existing buyback program by an additional $50.0 million, bringing the total authorized under the program to $150 million. The 2004 Program was concluded on December 12, 2007.

(2) The table does not include shares surrendered to the Company in connection with the cashless exercise of stock options by employees and directors or shares surrendered to the Company to cover tax withholding upon vesting of restricted stock.

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

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Performance Graph

This chart and graph show the value of a $100 cash investment on the last day of fiscal year 2002 in (i) the Company s Common Stock, (ii) the NASDAQ Stock Market U.S., and (iii) the NASDAQ Electronic Components Stocks. All values assume reinvestment of all dividends and are calculated as of the last day of each of our fiscal years. Note that historic stock price performance is not necessarily indicative of future stock price performance.

Fiscal year	2002	2003	2004	2005	2006	2007	2008
Semtech Corporation	$ 100	$ 39	$ 77	$ 54	$ 57	$ 39	$ 37
Nasdaq Stock Market - U.S.	$ 100	$ 70	$ 110	$ 106	$ 121	$ 128	$ 121
Nasdaq Electronic Components Stock	$ 100	$ 53	$ 106	$ 73	$ 83	$ 85	$ 78

The information contained in this Item 5 under the heading Performance Graph (i) is being furnished and shall not be deemed filed for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section, and (ii) shall not be incorporated by reference into any registration statement or other document pursuant to the Securities Exchange Act of 1934, as amended, or the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing to this Item 5 Performance Graph information.

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ITEM 6. SELECTED FINANCIAL DATA

The consolidated statement of income data set forth below for fiscal years 2008, 2007 and 2006 and the consolidated balance sheet data as of the end of fiscal years 2008 and 2007, are derived from, and qualified by reference to, the audited consolidated financial statements in Item 8 of this report. The consolidated statement of income data for fiscal years 2005 and 2004 and the consolidated balance sheet data as of the end of fiscal years 2006, 2005 and 2004 is derived from the audited financial statements in our Form 10-K/A.

This information should be read in conjunction with Management s Discussion and Analysis contained in Item 7 of this report, the audited financial statements and accompanying notes included in Item 8 of this report, and the corresponding items included in our Form 10-K/A. Information that has been previously filed or otherwise reported for the periods presented in this Item 6 (and opinions of our independent public accounting firms thereon), other than as reported in our Form 10-K/A or subsequently filed reports, should no longer be relied upon.

The fiscal year ended January 30, 2005 consisted of fifty-three weeks and all other fiscal years presented consisted of fifty-two weeks. Our past results are not necessarily indicative of our future performance.

Income Statement Data

Consolidated Statement of Income

	Fiscal Year Ended				
(In thousands, except earnings per share data)	**Jan 27 2008 (1)**	**Jan 28 2007 (1)**	**Jan 29 2006 (1)**	**Jan 30 2005 (1)**	**Jan 25 2004 (1)**
Net sales	$ 284,790	$ 252,538	$ 239,338	$ 253,612	$ 192,079
Cost of sales	128,513	115,564	105,236	106,407	82,635
Gross profit	156,277	136,974	134,102	147,205	109,444
Operating costs and expenses:					
Selling, general & administrative	74,263	70,249	45,600	46,935	42,190
Product development & engineering	43,064	41,256	37,928	35,312	33,319
Intangible amortization (2)	1,102	1,192	4,954	0	0
(Insurance recovery) legal expenses, net (3)	(5,339)	412	(129)	629	0
Total operating costs and expenses	113,090	113,109	88,353	82,876	75,509
Operating income	43,187	23,865	45,749	64,329	33,935
Interest and other income (expense), net (4)	15,120	13,546	7,286	6,304	(451)
Income before taxes	58,307	37,411	53,035	70,633	33,484
Provision for taxes	10,524	6,283	11,084	15,725	7,686
Net income	$ 47,783	$ 31,128	$ 41,951	$ 54,908	$ 25,798
Earnings per share:					
Basic	$ 0.72	$ 0.43	$ 0.57	$ 0.74	$ 0.35
Diluted	$ 0.71	$ 0.42	$ 0.55	$ 0.70	$ 0.33
Weighted average number of shares:					
Basic	66,424	72,372	73,436	74,187	73,570
Diluted	67,709	74,017	76,114	78,257	77,634

(1) Beginning with fiscal year 2007, we are required by Statement of Financial Accounting Standards No. 123 (revised 2004), Share Based Payment (SFAS 123(R)), to measure compensation cost for all share-based payments (including stock options) at fair value. We have adopted the new standard using the modified prospective transition method.

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(2) Intangible amortization is related to the June 2005 acquisition of XEMICS SA.
(3) The (insurance recovery) legal expenses, net for fiscal years 2008, 2007, 2006 and 2005 relate to litigation against our insurers to recoup costs related to a customer dispute settled in fiscal year 2004 and paid by the Company in fiscal years 2004 and 2005.
(4) Interest and other income (expense) for the fiscal year ended January 25, 2004 includes one-time cost of $6.8 million for the retirement of debt and $2.9 million of gain on the extinguishment of debt.

Balance Sheet Data

	Balances as of				
(In thousands)	27-Jan 2008	28-Jan 2007	29-Jan 2006	30-Jan 2005	25-Jan 2004
Cash, cash equivalents and investments	$ 213,397	$ 338,480	$ 275,493	$ 299,590	$ 273,621
Working capital	255,562	325,443	236,486	222,886	218,345
Total assets	396,046	521,654	472,946	458,984	410,136
Other long-term liabilities	10,569	7,450	5,478	2,410	
Total stockholders equity	348,710	481,181	437,653	425,329	381,177

Certain prior year balances have been reclassified to be consistent with current year presentation.

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 Selected Consolidated Financial Data and our audited consolidated financial statements and related notes included elsewhere in this Form 10-K.

As discussed in 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.

Management s discussion and analysis set forth below reflects the restatement of prior year financial statements. As a result, the information set forth in this Item 7 may not be comparable to discussions and data in our previously filed reports. Financial statements and the related reports of our independent public accountants, earnings press releases, and similar communications issued prior to July 20, 2006 should no longer be relied upon and have been superseded by the information contained in the Form 10-K/A; the FY2007 Form 10-Qs; and in reports filed with the SEC subsequent to the filing of the Form 10-K/A.

Overview

We design, develop and market a broad range of products that are sold principally to customers in the computer, consumer product, communications and industrial markets for a wide variety of end applications. Computer end market applications include notebook and desktop computers, computer graphics, personal digital assistants (PDAs) and servers. Products within the communications market include products for set-top boxes, local area networks, metro and wide area networks, cellular phones and base stations. Industrial and other applications include military and aerospace equipment, power supplies, hearing aids and other medical devices, meter reading and factory automation systems and automated test equipment (ATE). Our end-customers are primarily original equipment manufacturers and their suppliers, including Apple, Cisco, Hewlett Packard, IBM, Intel, LG Electronics, Motorola, Nortel, Phonak, Quanta Computer, Samsung, Siemens, RIM, and Sony.

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We recognize product revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectibility is probable. Product design and engineering revenue is recognized during the period in which services are performed. We defer revenue recognition on shipment of certain products to distributors where return privileges exist until the products are sold through to end-users. Gross profit is equal to our net sales less our cost of sales. Our cost of sales includes materials, depreciation on fixed assets used in the manufacturing process, shipping costs, direct labor and overhead. We determine the cost of inventory by the first-in, first-out method. Our operating costs and expenses generally consist of selling, general and administrative (SG&A), product development and engineering costs (R&D), costs associated with acquisitions, and other operating related charges.

Most of our sales to customers are made on the basis of individual customer purchase orders. Many customers include liberal cancellation provisions in their purchase orders. Trends within the industry toward shorter lead-times and just-in-time deliveries have resulted in our reduced ability to predict future shipments. As a result, we rely on orders received and shipped within the same quarter for a significant portion of our sales. Sales made directly to customers during fiscal year 2008 were 37% of net sales. The remaining 63% of net sales were made through independent distributors.

We divide and operate our business based on two reportable segments: Standard Semiconductor Products and Rectifier, Assembly and Other Products. We evaluate segment performance based on net sales and operating income of each segment. We do not track segment data or evaluate segment performance on additional financial information. We do not track balance sheet items by individual reportable segments. As such, there are no separately identifiable segment assets nor are there any separately identifiable statements of income data (below operating income). The Standard Semiconductor Products segment makes up the vast majority of overall sales and includes our power management, protection, test and measurement, and advanced communications and sensing (AC&S) product lines. It also includes the small human interface device (HID) product line, which we are exiting. The Rectifier, Assembly and Other Products segment includes our line of power discrete products, such as assembly and rectifier devices. This is the product line on which we were founded to supply the military and aerospace market.

Our business involves reliance on foreign-based entities. Most of our outside subcontractors and suppliers, including third-party foundries that supply silicon wafers, are located in foreign countries, including China, Taiwan, Malaysia, Korea, the Philippines, Germany, Israel and Canada. For the fiscal year ended January 27, 2008, approximately 39% of our silicon, in terms of cost of wafers purchased, was manufactured in China. Foreign sales for fiscal year 2008 constituted approximately 63% of our net sales. Approximately 44% of foreign sales in fiscal year 2008 were to customers located in the Asia-Pacific region. The remaining foreign sales were primarily to customers in Europe, Canada, and Mexico.

Acquisition

On June 23, 2005, we acquired through our wholly-owned Swiss subsidiary, Semtech International AG, all of the outstanding shares of XEMICS SA (XEMICS) in a cash-for-stock transaction pursuant to a share purchase and sales agreement. Following the acquisition we changed the name of the company from XEMICS SA to Semtech Neuchatel SA (Semtech Neuchatel).

Semtech Neuchatel is a research and development intensive company based in Switzerland that applies low-power, low-voltage design expertise across its core technologies, namely sensor interfacing/data acquisition, 8-bit RISC microcontrollers, radio frequency transceivers and audio converters. These capabilities are aimed at adding value in next generation, highly integrated battery powered wireless and sensing applications. Semtech Neuchatel, which continues to operate from its Switzerland location, is part of our advanced communication and sensing (AC&S) product line and is included in the Standard Semiconductor Products Segment.

The former XEMICS shareholders made certain representations, warranties and covenants with respect to the financial condition of XEMICS and other matters. A portion of the purchase price was not immediately disbursed to the selling shareholders but was held in escrow for fifteen months after the closing to ensure the availability of some funds in the event liability attached to the selling shareholders as a result of a breach of the representations and warranties. This

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fifteen-month escrow period ended in September 2006. No claims were made against this escrow account and the escrowed funds were released to the selling shareholders. However, six of the selling shareholders continue to remain liable for five years after the closing as to certain representations related to organization, capital structure, and tax matters. The share purchase and sales agreement provides for certain conditions and limitations on the selling shareholders liability. We continue to monitor and assess whether there are any qualifying items in excess of the threshold for making a claim against the six selling shareholders. Any successful claim will be accrued as a reduction of the cost of the acquisition.

Consistent with purchase accounting treatment of the acquisition, we included XEMICS results of operations subsequent to the close of the transaction on June 23, 2005 in our consolidated results of operations. We also assumed the assets and liabilities of XEMICS as of the closing date.

During the second quarter of fiscal year 2006 a one-time acquisition related charge to earnings of $4.0 million was recorded for the write-off of in-process research and development. From the close date of June 23, 2005 until the end of our fiscal year 2006 on January 29, 2006, we incurred $954,000 of expense for amortization of other intangible items. The remaining $5.5 million balance of other intangible items as of end the end of fiscal year 2006 will be amortized over future periods. The amount amortized in fiscal year 2008 was $1.1 million. There are no tax-related benefits from these acquisition related costs.

Insurance Settlements

In March 2003, we announced that we had resolved a customer dispute. The terms of the settlement agreement called for the Company to pay the customer $12.0 million in cash in fiscal years 2004 and 2005. At the time of the customer settlement, we stated that we would vigorously pursue insurance coverage for the full value of the settlement. We subsequently filed lawsuits against, and reached settlement with, three of our insurance companies.

We reached settlements with two of the three insurance companies in the second quarter of fiscal year 2006 and reported a $3.0 million gain for these insurance settlements. In the fourth quarter of fiscal year 2008, we reached settlement with the third insurance company and recorded a $6.5 million gain which is included in the Consolidated Statements of Income in (Insurance recovery) legal expenses, net . All amounts due under this settlement have been received as of March 13, 2008.

Legal fees and expenses related to the pursuit of the insurance recovery were expensed in the period incurred. The insurance recoveries and related legal fees and expenses for fiscal years 2008, 2007, and 2006 are included in (Insurance recovery) legal expenses, net within the Consolidated Statements of Income.

Legal expenses from the inception of this litigation through the end of fiscal year 2008 totaled approximately $5.2 million. On a net basis, we have recovered approximately $4.3 million of the $12 million paid to the customer

Additional information regarding the legal settlements is provided in Note 13 to the financial statements included in this report.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

On an ongoing basis, we evaluate and discuss with our audit committee our estimates, including those related to our allowance for doubtful accounts and sales returns, inventory reserves, asset impairments and income taxes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, which together form the basis for making judgments about the carrying values of assets and liabilities. Our critical accounting policies and estimates do not vary between our two reportable segments. Actual results may differ from these estimates under different assumptions or conditions.

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We believe the following critical accounting policies, among others, affect the significant judgments and estimates we use in the preparation of our consolidated financial statements:

Accounting for Temporary and Long-Term Investments

Our temporary and long-term investments consist of government, bank and corporate obligations. Temporary investments mature within twelve months of the balance sheet date. Long-term investments have maturities in excess of one year from the date of the balance sheet. We classify our investments as available for sale because we expect to possibly sell some securities prior to maturity. We include any unrealized gain or loss, net of tax, in the comprehensive income portion of our Consolidated Statements of Stockholders Equity.

Allowance for Doubtful Accounts

We evaluate the collectibility 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 Recognition

We recognize product revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectibility is probable. We defer revenue recognition on shipment of products to certain customers, principally distributors, where return privileges exist until these products are sold through to end-users or the return privilege lapses. The estimated deferred gross margin on these sales, where there are no outstanding receivables, are recorded on the balance sheet under the heading of Deferred 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.

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 reserves against our inventory. 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.

Contingencies and Litigation

We are involved in various disputes and litigation matters as a claimant and as defendant. We record any amounts recovered in these matters when collection is certain. We record liabilities for claims against us when the losses are probable and estimable. Any amounts recorded are based on reviews by outside counsel, in-house counsel and management. Actual results may differ from estimates.

Stock-Based Compensation

In fiscal years 1997 through 2006, we included in the Notes to our Consolidated Financial Statements a pro forma disclosure of the impact stock options would have on net income (loss) using the fair value stock option expense recognition method, as allowed under Statement of Financial Accounting Standards No. 123 and using an intrinsic value method, as prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees .

A revised standard, SFAS No.123 (revised 2004), Share Based Payment (SFAS 123(R)), which requires all companies to measure compensation cost for all share-based payments (including stock options) at fair value, is effective beginning with a company s first interim or annual reporting period of the first fiscal year beginning on or

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after June 15, 2005. This means SFAS 123(R) is effective for us beginning with the first quarter of fiscal year 2007, which began on January 30, 2006. The adoption of SFAS 123(R) requires us to apply a valuation model, which includes estimates and assumptions on the rate of forfeiture and expected life of options and stock price volatility. See Note 1 to the Consolidated Financial Statements for additional information regarding the adoption of SFAS 123 (R). 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.

Goodwill and Intangible Assets

The Company accounts for goodwill and other intangible assets in accordance with SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142). Goodwill is recorded at the time of an acquisition and is calculated as the difference between the aggregate consideration paid for an acquisition and the fair value of the net tangible and intangible assets acquired.

Accounting for acquisitions requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair value of the net tangible and intangible assets acquired, including in-process research and development (IPR&D). Goodwill and intangible assets deemed to have indefinite lives are not amortized but are subject to annual impairment tests. The amounts and useful lives assigned to other intangible assets impact the amount and timing of future amortization, and the amount assigned to IPR&D is expensed immediately. If the assumptions and estimates used to allocate the purchase price are not correct, or if business conditions change, purchase price adjustments or future asset impairment charges could be required.

Impairment of Goodwill and Other Intangible Assets

In accordance with SFAS 142, the Company tests goodwill for impairment on an annual basis or more frequently if the Company believes 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. We evaluate these assets, including purchased intangible assets deemed to have indefinite lives, on an annual basis or more frequently if indicators of impairment exist. In the process of our annual impairment review, we primarily use the income 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. 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 additional impairment charges in a future period.

The Company accounts for other purchased intangible assets, in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144), which requires impairment losses to be recorded 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 consistent with the guidance provided in FASB Concepts Statement No. 7, Using Cash Flow Information and Present Value in Accounting Measurements. Impairment is based on the excess of the carrying amount over the fair value of those assets.

Accounting for Income Taxes

We adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109 (FIN 48) in the first quarter of fiscal year 2008.

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

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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 the valuation allowance in a period, the change is recorded through the tax provision in the statement of operations. If a valuation allowance relates to benefits from stock option exercise activity, any adjustment to the valuation allowance would be recorded to paid-in-capital in the period of the adjustment. Any release of a valuation allowance established against a pre-acquisition XEMICS net operating loss carryforward will be recorded to goodwill. Management periodically evaluates our deferred tax assets to assess whether it is likely that the deferred tax assets will be realized.

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. As a result of the adoption of FIN 48 in the first quarter of fiscal year 2008, we recognize liabilities for uncertain tax positions based on the two-step process prescribed within the interpretation. 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.

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.

Under SFAS 123(R), 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. SFAS 123(R) prohibits recognition of 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.

Results of Operations

Fiscal Year 2008 Compared With Fiscal Year 2007

Net Sales. Net sales for fiscal year 2008 were $284.8 million, an increase of 12.8% from $252.5 million for fiscal year 2007.

The semiconductor and electronics industry showed signs of improvement in the second half of fiscal year 2007. This strength continued throughout most of fiscal year 2008 exiting the year with only a modest slowing. The year over year sales growth reflected improvements in the Company s overall execution coupled with favorable market conditions.

Presented below is our estimate of sales by end-market. End-products in the computer end-market include notebook and desktop computers, graphics applications, servers, PDAs, and computer gaming systems. Communications end products include cellular phone handsets, wireless base stations, set-top boxes, and networking, broadband and long-haul communications infrastructure equipment. Industrial and other applications include military and aerospace equipment, power supplies, hearing aids and other medical devices, meter reading and factory automation systems and automated test equipment (ATE).

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End-Markets

(fiscal years, in thousands)	2008 Net Sales	2008 % total	2007 Net Sales	2007 % total	Change
Computer	$ 62,921	22%	$ 59,619	24%	6%
Communications	112,949	40%	94,170	37%	20%
Industrial/Other	108,920	38%	98,749	39%	10%
Net sales	$ 284,790	100 %	$ 252,538	100 %	13 %

Within the computer end-market category, sales to computer customers increased 6% during fiscal year 2008, driven largely by sales of products used in notebook computers and servers. Sales in the communications category grew 20% during fiscal year 2008. The increase in this segment was driven by strength in sales of the Company s Protection and Power parts into cellular handsets. Sales for cellular handset applications increased in excess of 25% in fiscal year 2008. Sales in networking and communications infrastructure applications were up 10% for the fiscal year 2008. The increase in the industrial end-market category was driven by a 52% increase in sales for the company s military and aerospace products as well as a 17% increase for general industrial and medical products for the fiscal year 2008. This increase was offset by a greater than 50% decline in sales into the automated test equipment (ATE) market.

Standard Semiconductor Products represented 91% of net sales in fiscal year 2008, with the Rectifier, Assembly and Other Products segment contributing the remaining 9%.

Details on net sales by reportable segment are presented below.

Reportable Segment

(fiscal years, in thousands)	2008 Net Sales	2008 % total	2007 Net Sales	2007 % total	Change
Standard Semiconductor Products	$ 260,035	91%	$ 236,220	94%	10%
Rectifier, Assembly and Other Products	24,755	9%	16,318	6%	52%
Net Sales	$ 284,790	100 %	$ 252,538	100 %	13 %

The 10% increase in sales of Standard Semiconductor Products reflected the broad based strength in the overall Semiconductor and electronic industry for the fiscal year 2008. For the fiscal year 2008 all end markets serviced by the company grew with the exception of sales into the automated test equipment (ATE) end market.

Sales of our Rectifier, Assembly and Other Products increased by 52% in fiscal year 2008 due to strong demand for these products used mostly in military, medical and certain industrial applications.

Gross Profit. Gross profit for fiscal year 2008 was $156.3 million, compared to $137.0 million for the prior year. Gross profit was positively impacted by a 13% increase in net sales for the fiscal year 2008. Our gross margin was 54.9% for fiscal year 2008, up from 54.2% in fiscal year 2007. Our margins were positively impacted by favorable product revenue mix for the year as well as higher absorption of fixed overhead manufacturing costs related to higher production volumes for fiscal year 2008. Additionally, for fiscal year 2007 the Company took a significant write down of obsolete and excessive inventory relating to the decline in our Power Management business year over year of nearly 30%. For fiscal year 2008 the write down for obsolete and excessive inventory was down significantly. Our strategy is to develop new products that offer more advanced and more complex features than the competition, which in turn generally provides for higher gross margin. However, margin improvements may be offset by price erosion due to competition and other factors tied to industry conditions.

Operating Costs and Expenses. Operating costs and expenses were $113.1 million for fiscal year 2008, flat compared to fiscal year 2007. Detailed below are the operating costs and expenses for fiscal years 2008 and 2007. Fiscal years 2008 and 2007 include $14.7 million and $14.9 million of stock-based compensation expense, respectively.

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Operating Costs & Expenses

(fiscal years, in thousands)	2008 Costs/Exp.	2008 % sales	2007 Costs/Exp.	2007 % sales	Change
Selling, general and administrative	$ 74,263	26%	$ 70,249	28%	6%
Product development and engineering	43,064	15%	41,256	16%	4%
Acquisition related items	1,102	%	1,192	1%	8%
Insurance related legal expenses	(5,339)	(1)%	412	%	(1,396)%
Total operating costs and expenses	$ 113,090	40%	$ 113,109	45%	(0) %

Selling, general and administrative expenses for fiscal years 2008 and 2007 include approximately $6.2 million and $12.1 million, respectively, for legal, accounting, tax and other professional services in connection with matters related to our historical stock option practices, including the internal investigation (completed in fiscal year 2007), the government inquiries, the preparation of the restated financial statements, the related litigation, and other matters associated with or stemming from the restatement and the underlying circumstances. These expenses include claims for advancement of legal expenses to current and former directors, officers and employees. These expenses also include charges related to compensating optionees who were prevented from exercising expiring or lapsing options during the restatement process. See Notes 13 and 17 to the financial statements included in this report for additional information regarding expenses related to the restatement.

Operating costs and expenses for fiscal years 2008 and 2007 include $1.2 million and $412,000, respectively, of legal fees and expenses related to litigation by the Company seeking insurance recovery of amounts associated with resolution of a past customer dispute. Also included in fiscal year 2008 operating expenses is a $6.5 million gain associated with the settlement by the remaining insurance company defendants. See Insurance Settlements above and Note 13 to the financial statements included in this report.

Operating expenses in absolute spending, net of the insurance recovery expense noted above, increased as a percentage of sales. Overall operating expenses declined by 3% in fiscal year 2008 as compared to fiscal year 2007.

Operating Income. Operating income was $43.2 million in fiscal year 2008, up from operating income of $23.9 million in fiscal year 2007. Operating income benefited from a 13% increase in sales and slightly higher margins due to favorable product mix, favorable manufacturing absorption and less obsolete and excess inventory reserves taken in fiscal year 2008.

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

Reportable Segment

(fiscal years, in thousands)	2008 Op. Income	2008 % total	2007 Op. Income	2007 % total	Change
Standard Semiconductor Products	$ 32,793	76%	$ 18,948	79%	73%
Rectifier, Assembly and Other Products	10,394	24%	4,917	21%	111%
Total operating income	$ 43,187	100%	$ 23,865	100%	81%

Certain corporate level expenses not directly attributable to a segment are allocated to the segments based on percentage of sales. Beginning with the second quarter of fiscal year 2007, these allocated expenses include expenses associated with the Company s investigation into its historical stock option practices, the restatement of its historical financial statements, and related matters. See Notes 13 and 17 to the financial statements included in this report for additional information regarding these expenses.

Operating income for the Standard Semiconductor Products increased in fiscal year 2008 by 73% due to a 10% increase in sales levels and improved gross margins. For fiscal year 2008, operating expenses included $14.7 million of stock-based compensation. Operating income for the Rectifier, Assembly and Other Products increased by 111% in fiscal year 2008 largely due to an increase in sales of greater than 50% and

improved manufacturing efficiencies in the company s Reynosa manufacturing facility.

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Interest and Other Income (Expense), Net. Interest and other income (expense), net was income of $15.1 million for fiscal year 2008, up from income of $13.5 million in fiscal year 2007. For fiscal years 2008 and 2007, a vast majority of interest and other income was interest income from investments. The improvement in fiscal year 2008 was due primarily to higher rates of return on investments.

Provision for Taxes. The provision for income taxes was $10.5 million for fiscal year 2008 compared to $6.3 million for fiscal year 2007. The effective tax rates for fiscal year 2008 and fiscal year 2007 were 18% and 17%, respectively. The increase in income and the regional mix of income resulted in increased tax expense in fiscal year 2008.

Fiscal Year 2007 Compared With Fiscal Year 2006

Net Sales. Net sales for fiscal year 2007 were $252.5 million, an increase of 5.5% from $239.3 million for fiscal year 2006. Included in net sales for fiscal year 2007 and 2006 were $29.4 million and $14.8 million, respectively, of incremental sales as a result of the June 2005 acquisition of XEMICS.

Semiconductor and electronics industry conditions weakened in the second half of fiscal year 2007 compared to the first half of fiscal year 2007. Fiscal year 2006 was characterized by a strong second half, but a weaker first half of fiscal year 2006. Our quarterly sales levels reflected these periods of strength and weakness.

Presented below is our estimate of sales by end-market. End-products in the computer end-market include notebook and desktop computers, graphics applications, PDAs and computer gaming systems. Communications end products include cellular phone handsets, wireless base stations, set-top boxes, and networking, broadband and long-haul communications infrastructure equipment. The industrial/other products category includes traditional industrial and automation equipment, power supplies, military, aerospace and medical applications.

End-Markets

	2007		2006		
(fiscal years, in thousands)	**Net Sales**	**% total**	**Net Sales**	**% total**	**Change**
Computer	$ 59,619	24%	$ 71,079	30%	(16)%
Communications	94,170	37%	110,366	46%	(15)%
Industrial/Other	98,749	39%	57,893	24%	71%
Net sales	$ 252,538	100%	$ 239,338	100%	6%

Within the computer end-market category, sales to notebook computer customers decreased by 10% during fiscal year 2007, sales of products used in desktop computers and servers were down 23% and sales related to computer graphics/gaming systems were down about 51%. Sales in the communications category were most impacted by a 24% decline in sales of products used in cellular handsets. Sales in networking and communications infrastructure applications were relatively flat. The increase in the industrial end-market category reflected a 74% increase in sales into the automated test equipment (ATE) market and a 70% increase in other industrial/other applications (primarily as a result of a full year of sales related to the June 2005 XEMICS acquisition, which contributed only eight months of sales to fiscal year 2006).

Standard Semiconductor Products represented 94% of net sales in fiscal year 2007, with the Rectifier, Assembly and Other Products segment contributing the remaining 6%. Included in Standard Semiconductor Products net sales for fiscal year 2007 and 2006 were $29.4 million and $14.8 million, respectively, of incremental sales as a result of the June 2005 acquisition of XEMICS.

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Details on net sales by reportable segment are presented below.

Reportable Segment

(fiscal years, in thousands)	2007 Net Sales	2007 % total	2006 Net Sales	2006 % total	Change
Standard Semiconductor Products	$ 236,220	94%	$ 229,425	96%	3%
Rectifier, Assembly and Other Products	16,318	6%	9,913	4%	65%
Net Sales	$ 252,538	100%	$ 239,338	100%	6%

The 3% increase in sales of Standard Semiconductor Products reflected the full year impact of the XEMICS acquisition for fiscal year 2007, compared to eight months in fiscal year 2006, as well as strength in wireline and industrial applications. This increase in revenue was somewhat offset by a decline in our Power business, specifically in the, notebook computer and cellular phone end markets.

Sales of our Rectifier, Assembly and Other Products increased by 65% in fiscal year 2007 due to strong demand for these products used mostly in military and certain industrial applications.

Gross Profit. Gross profit for fiscal year 2007 was $137.0 million, compared to $134.1 million for the prior year. Although net sales increased by 6% compared to fiscal year 2006, margins were negatively impacted for fiscal year 2007. Our gross margin was 54% for fiscal year 2007, down from 56% in fiscal year 2006. Our margins were negatively impacted by two key components, both of which were concentrated in our Power Management Group: 1) a significant write down of obsolete and excessive inventory relating to the decline in our Power Management business year over year of nearly 30% and 2) under absorption of manufacturing overhead expenses related to the reduction in production volumes at our vendors. Production volumes were impacted by the overall slowdown in the semiconductor market in the second half of fiscal year 2007 and also by the decline in our Power Management business. Our strategy is to develop new products that offer more advanced or more complex features than the competition, which in turn generally provides for higher gross margin. However, margin improvements may be offset by price erosion due to competition and other factors tied to industry conditions.

In fiscal year 2007 and fiscal year 2006, we sold $125,000 and $200,000, respectively, of inventory of the Standard Semiconductor Products segment that had been written-off during the second quarter of fiscal year 2002.

Operating Costs and Expenses. Operating costs and expenses were $113.1 million for fiscal year 2007, up from $88.4 million in fiscal year 2006. Detailed below are the operating costs and expenses for fiscal years 2007 and 2006. Fiscal years 2007 and 2006 include $14.9 million and $1.5 million of stock-based compensation expense, respectively.

Operating Costs & Expenses

(fiscal years, in thousands)	2007 Costs/Exp.	2007 % sales	2006 Costs/Exp.	2006 % sales	Change
Selling, general and administrative	$ 70,249	28%	$ 45,600	19%	54%
Product development and engineering	41,256	16%	37,928	16%	9%
Acquisition related items	1,192	1%	4,954	2%	(76)%
Insurance related legal expenses	412	%	(129)	%	(419)%
Total operating costs and expenses	$ 113,109	45%	$ 88,353	37%	28%

Selling, general and administrative expenses for fiscal year 2007 include approximately $12.1 million for legal, accounting, tax and other professional services in connection with the investigation of our historical stock option practices, the government inquiries regarding the same, the preparation of the restated financial statements, the related derivative litigation, and other matters associated with or stemming from the restatement and the underlying circumstances. These expenses include claims for advancement of legal expenses to current and former directors, officers and employees. These expenses also include charges related to compensating optionees who were prevented from exercising expiring or

lapsing options during the restatement process. See Notes 13 and 17 to the financial statements included in this report for additional information regarding expenses related to the restatement.

The 9% increase in spending in the area of product development and engineering, also referred to as research and development (R&D), was largely a result of the full year impact related to the June 2005 acquisition of XEMICS.

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Also impacting fiscal year 2007 and 2006 operating expenses were acquisition related expense items, most notably $4.0 million of in-process research and development expense was written-off in fiscal year 2006. In fiscal years 2007 and 2006 there was also $1.2 million and $954,000, respectively, of amortization of intangibles, all resulting from the acquisition of XEMICS. See Acquisition above.

Operating costs and expenses for fiscal years 2007 and 2006 include $412,000 and $2.9 million, respectively, of legal fees and expenses related to litigation by the Company seeking insurance recovery of amounts associated with resolution of a past customer dispute. Also included in fiscal year 2006 operating expenses is a $3.0 million recovery of expenses associated with settlements with two of the three insurance company defendants. See Insurance Settlements above and Note 13 to the financial statements included in this report.

As a percentage of net sales, higher absolute spending also contributed to higher operating costs in fiscal year 2007 as compared to fiscal year 2006.

Operating Income. Operating income was $23.9 million in fiscal year 2007, down from operating income of $45.7 million in fiscal year 2006. Operating income benefited from a 6% increase in sales. However, lower gross margins along with increased legal and other expenses related to the restatement significantly increased operating costs and expenses.

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

Reportable Segment

	2007		2006		
(fiscal years, in thousands)	**Op. Income**	**% total**	**Op. Income**	**% total**	**Change**
Standard Semiconductor Products	$ 18,948	79%	$ 44,006	96%	(57)%
Rectifier, Assembly and Other Products	4,917	21%	1,743	4%	182%
Total operating income	$ 23,865	100%	$ 45,749	100%	(48)%

Certain corporate level expenses not directly attributable to a segment are allocated to the segments based on percentage of sales. Beginning with the second quarter of fiscal year 2007, these allocated expenses include expenses associated with the Company s investigation into its historical stock option practices, the restatement of its historical financial statements, and related matters. See Notes 13 and 17 to the financial statements included in this report for additional information regarding these expenses.

Operating income for the Standard Semiconductor Products decreased in fiscal year 2007 by 57% due to lower sales levels and higher operating costs and expenses, including $14.6 million of stock-based compensation. Operating income for the Rectifier, Assembly and Other Products increased by 182% in fiscal year 2007 due to increased sales and improved manufacturing efficiencies.

Interest and Other Income (Expense). Net. Interest and other income (expense), net was income of $13.5 million for fiscal year 2007, up from income of $7.3 million in fiscal year 2006. For fiscal years 2007 and 2006, a vast majority of interest and other income was interest income from investments. The improvement in fiscal year 2007 was mostly due to continued generation of cash from operating activities coupled with higher rates of return on investments.

Provision for Taxes. The provision for income taxes was $6.3 million for fiscal year 2007 compared to $11.1 million for fiscal year 2006. The effective tax rates for fiscal year 2007 and fiscal year 2006 were 17% and 21%, respectively. The decline is due to increased sales by our foreign-based subsidiaries that are in lower tax jurisdictions, as a percentage of total sales. Specifically, in fiscal year 2007, reduced tax rates were enacted in a foreign jurisdiction that resulted in a benefit of approximately $687,000. The benefit received from domestic territorial income exclusion provisions increased by approximately $363,000 in fiscal year 2007. The overall decline in the effective tax rate was also influenced by the deduction for restatement related expenses. Specifically, the deduction for restatement related expenses is benefited at a rate substantially higher than our overall tax rate.

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Liquidity and Capital Resources

We evaluate segment performance based on net sales and operating income of each segment. We do not track segment data or evaluate segment performance or additional financial information. As such, there are no separately identifiable segment assets and liabilities.

As of January 27, 2008, we had working capital of $255.6 million, compared with $325.4 million as of January 28, 2007 and $236.5 million as of January 29, 2006. The ratio of current assets to current liabilities as of January 27, 2008 was 8.0 to 1, compared to 11.7 to 1 as of January 28, 2007 and 8.9 to 1 as of January 29, 2006. The decrease in working capital as of January 27, 2008 compared to the prior year was primarily due to the $219.9 million stock repurchase transactions in the fiscal year. The increase in working capital as of January 28, 2007 compared to the prior year was primarily due to the sale and maturities of investments net of purchases amounting to $35 million and reclassification of land held for sale from the long-term portion of the balance sheet into current assets.

Cash provided by operating activities was $61.3 million for fiscal year 2008, primarily due to net income of $47.8 million adjusted for non-cash expenses including depreciation and amortization of $10.2 million and stock-based compensation of $14.7 million. This activity was offset by an increase in accounts receivable and inventories of $8.0 million and $8.2 million, respectively, offset by an increase in accounts payable of $4.0 million and accrued liabilities of $4.5 million. The increase in accounts receivable was primarily driven by the increase in sales in the fourth quarter of fiscal year 2008 compared to fiscal year 2007. The increase in inventory was primarily driven by the overall increase in product demand. The increase in accounts payable was due to increases in manufacturing costs to build up inventory and operations expense in support of the increase in sales. The increase in accrued liabilities was primarily driven by the increase in supplemental compensation recorded in fiscal year 2008 and paid in the first quarter of fiscal year 2009.

Cash provided by operating activities was $74.2 million for fiscal year 2007 primarily due to net income of $31.1 million adjusted for non-cash expenses including depreciation and amortization of $11.8 million, stock-based compensation of $12.9 million, and the tax benefit related to stock-based compensation of $9.7 million.

Cash provided by operating activities was $64.7 million for fiscal year 2006 primarily due to net income of $42.0 million adjusted for non-cash expenses including depreciation and amortization of $11.8 million, stock-based compensation of $1.4 million, and the tax benefit related to stock-based compensation of $3.3 million.

Investing activities provided $142.3 million in fiscal year 2008 compared to net cash provided by investing activities of $32.5 million in fiscal year 2007 and $45.6 million used in fiscal year 2006. In fiscal year 2008, the decrease in available-for-sale investments reflects proceeds from sales and maturities net of purchases and contributed $136.0 million to our cash position. We spent $3.8 million on the acquisition of property, plant and equipment. In fiscal year 2007, the decrease in available-for-sale investments reflects proceeds from sales and maturities net of purchases and contributed $35.0 million to our cash position. We spent $3.2 million on the acquisition of property, plant and equipment. The largest cash outlay related to investing activities in fiscal year 2006 was the use of $42.4 million to acquire XEMICS in June of 2005. We spent $10.6 million on capital purchases in fiscal year 2006. The decrease in available-for sale investments reflects proceeds from sales and maturities net of purchases and contributed $7.4 million to our cash position.

Our financing activities used $193.4 million during fiscal year 2008, as compared to using $9.6 million and $35.9 million during fiscal years 2007 and 2006, respectively. The increase in use of cash for financing activities, as compared to the prior two years, was primarily due to the accelerated stock buyback program in June 2007 and the stock buyback program started and completed in December 2007. In fiscal year 2008, $219.9 million was spent on the repurchase of common stock, as compared to $14.2 million and $46.9 million in fiscal years 2007 and 2006, respectively. Proceeds from stock option exercises was $8.0 million in fiscal year 2008 compared to $2.2 million and $9.5 million in fiscal years 2007 and 2006, respectively. Treasury stock was utilized in lieu of newly issued shares for issuance of stock resulting from the exercise of stock options. The use of treasury stock for this purpose amounted to $8.7 million, $0.9 million, and $3.0 million for fiscal years 2008, 2007, and 2006 respectively. For fiscal year 2006 $1.4 million was used to payoff notes payable acquired as part of the XEMICS acquisition.

In order to develop, design and manufacture new products, we have incurred significant expenditures during the past five years. 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 will require continued, and perhaps additional, investment in 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.

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A meaningful portion of our capital resources, and the related liquidity they represent, are held by our foreign subsidiaries. As of January 27, 2008, approximately $143.5 million of our cash, cash equivalents and short-term investments were held in Switzerland, compared to $109.3 million held in Switzerland as of January 28, 2007. If we needed these funds for investment in domestic operations, any repatriation could have negative tax implications.

For all periods presented, the purchases of new capital equipment were made to expand our test capacity, support engineering functions, including product design and qualification and information technology equipment needed to run our business. These purchases were funded from our operating cash flows and existing cash balances.

We believe that operating cash flows together with existing cash balances are sufficient to fund operations and capital expenditures for the foreseeable future.

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, 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, that are not recorded as liabilities on our balance sheet because we have not yet received the related goods or services as of January 27, 2008.

Contractual Obligations

Presented below is a summary of our contractual obligations as of January 27, 2008.

	Payments due by period				
(in thousands)	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
Operating leases	$ 2,998	$ 2,814	$ 1,015	$ 589	$ 7,416
Open capital purchase commitments	662				662
Other open purchase commitments	21,818				21,818
Other long-term liabilities		1,013		6,156	7,169
Total contractual cash obligations	$ 25,478	$ 3,827	$ 1,015	$ 6,745	$ 37,065

As of January 27, 2008, we had approximately $7.4 million in operating lease commitments that extend over a seven year period. The portion of these operating lease payments due during fiscal year fiscal 2009 is approximately $3.0 million.

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 27, 2008, 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 allows participants to defer a portion of their compensation for future distribution at various times permitted by the plan. A portion of the employee s deferral is matched by the Company, with the match subject to a vesting period. Compensation expense under this plan for fiscal years 2008, 2007 and 2006 totaled approximately $345,000 (net of $206,000 of forfeitures), $62,000 (net of $640,000 of forfeitures) and $744,000 (net of $77,000 of forfeitures), respectively.

Our liability for deferred compensation under this plan was $6.2 million as of January 27, 2008 and $6.6 million as of January 28, 2007, and is included in other long-term liabilities on the balance sheet and in the table above. We have

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purchased whole life insurance on the lives of certain 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 $6.2 million as of January 27, 2008 and $6.4 million as of January 28, 2007, and is included in other assets.

In addition to the amounts reflected in the contractual obligations table above, the Company has $11.1 million of FIN 48 non-current accrued taxes for uncertain tax positions. The Company expects that any tax increases from audits would be substantially offset by carryforward tax attributes (i.e., tax credits). Due to the high degree of uncertainty regarding the amounts and timing of possible future cash outflows associated with these FIN 48 liabilities, and the likelihood that any tax liability would be substantially offset by utilizing carryforward tax attributes, we are unable to make reasonable estimates of the period of possible cash settlement.

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.

Recently Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and enhances fair value measurement disclosure. The measurement and disclosure requirements are effective for the Company beginning in fiscal year 2009. The Company is currently evaluating the impact of SFAS No. 157.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 permits companies to choose to measure certain financial instruments and other items at fair value. The standard requires unrealized gains and losses to be reported in earnings for items measured using the fair value option. SFAS No. 159 is effective for the Company beginning in fiscal year 2009. The Company is currently evaluating the impact of SFAS No. 159.

In May 2007, Emerging Issues Task Force No. 07-3, Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities (EITF 07-3) was issued. This EITF clarifies the accounting for the costs of advance payments for goods or services that are non-refundable and to be used in future research and development activities (Advance Payments). The conclusion is that the Advance Payments should be deferred and capitalized to be subsequently recognized as an expense as the goods are delivered or the services are performed. EITF 07-3 is effective for fiscal years beginning after December 15, 2007 and should be adopted as a change in accounting principle through a cumulative effect adjustment to retained earnings. The measurement and disclosure requirements are effective for the Company beginning in fiscal year 2009. The Company is currently evaluating the impact of EITF 07-3, but does not expect the impact of the adoption to be material.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. This standard requires all entities to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements. Its intention is to eliminate the diversity in practice regarding the accounting for transactions between an entity and noncontrolling interests. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The impact of this statement will be a balance sheet reclassification of minority interests to stockholders equity.

In December 2007, the FASB issued SFAS No. 141(R), which revises SFAS No. 141, Business Combinations, to simplify existing guidance and converge rulemaking under US GAAP with international accounting standards. SFAS No. 141(R) applies prospectively to business combinations where the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 31, 2008. Earlier adoption is prohibited. The Company is currently evaluating whether the adoption of this statement will have a material effect on its financial condition, results of operations, or liquidity.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to a variety of market risks, such as the foreign exchange and interest rate risks that are detailed below. Many of the factors that can impact on our market risk are external to the company, and so we are unable to fully predict them.

Foreign Currency Risk

As a global enterprise, we face exposure to adverse movements in foreign currency exchange rates and we could experience currency gains or losses. Historically, we have not considered our foreign currency exposure to be material, and therefore have not used forward contracts to mitigate foreign currency risks. Our foreign currency exposures may change over time as the level of activity in foreign markets grows and changes in the rates could have an adverse impact upon our financial results.

Certain of our bank accounts and current assets exist in non-U.S. dollar currencies. The non-U.S. dollar currencies are principally the Swiss Franc, Euro, Mexican Peso, and British Pound Sterling. Additionally, certain of our liabilities are denominated in Swiss Francs and British Pounds Sterling subjecting them to fluctuations in foreign currency exchange rates that may result in transaction gain or losses.

All of our foreign sales, which amounted to $181.9 million in fiscal year 2008, are denominated in United States dollars. Currency exchange rate fluctuations in foreign countries where we do business could harm our business by resulting in pricing that is not competitive with prices denominated in local currencies.

For the fiscal year ended January 27, 2008, approximately $8.7 million of expenses were settled in British Pound Sterling, $17.8 million of expenses were settled in Swiss Francs, $3.9 million of expenses were settled in Euros and $4.9 million of expenses were settled in Mexican Pesos. Had rates of these various foreign currencies strengthened by 10% relative to the U.S. dollar in fiscal year 2008, our costs would have increased approximately $435,000 related to expenses settled in British Pound Sterling, $ 891,000 related to expenses settled in Swiss Francs, $ 195,000 related to expenses settled in Euros and $247,000 related to expenses settled in Mexican pesos.

As of the end of fiscal year 2008, we held cash funds of $463,000 in British Pound Sterling, $769,000 in Swiss Francs, $660,000 in Euros and $65,000 in Mexican Pesos. If rates of these foreign currencies were to strengthen or weaken relative to the U.S. dollar, the Company would realize gains or losses in converting these funds back into U.S. dollars.

Interest Rate and Market Risk

As of January 27, 2008, we had no long-term debt outstanding. We do not currently hedge any potential interest rate exposure.

Interest rates affect our return on excess cash and investments. As of January 27, 2008, we had $172.9 million of cash and cash equivalents and $40.5 million of temporary and long-term investments. A majority of our cash and cash equivalents and investments generate interest income based on prevailing interest rates. Investments and cash and cash equivalents generated interest income of $13.5 million in fiscal year 2008. A significant change in interest rates would impact the amount of interest income generated from our excess cash and investments. It would also impact the market value of our investments.

Our investments are subject to market risks, primarily interest rate and credit risk. Our investments are managed by a limited number of outside professional managers following investment guidelines set by us. Such guidelines include prescribing credit quality, permissible investments, diversification, and maturity restrictions. These restrictions are intended to limit risk by restricting our investments to high quality debt instruments with relatively short-term duration. For fiscal year 2008, we implemented an investment strategy to invest new and maturing securities in Federal agency issues lowering the overall credit risk of the portfolio.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by Item 8 is presented in the following order:

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The report called for by Item 308(a) of Regulation S-K is incorporated herein by reference to the *Report of Management on Internal Control Over Financial Reporting* that is included in Part II, Item 9A of this report.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Semtech Corporation

We have audited Semtech Corporation s internal control over financial reporting as of January 27, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Semtech Corporation s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control Over Financial Reporting set forth in Item 9A of this Form 10-K. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Semtech Corporation maintained, in all material respects, effective internal control over financial reporting as of January 27, 2008, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Semtech Corporation and subsidiaries as of January 27, 2008 and January 28, 2007, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended January 27, 2008 of Semtech Corporation and our report dated March 24, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Woodland Hills, California

March 24, 2008

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Semtech Corporation

We have audited the accompanying consolidated balance sheets of Semtech Corporation and subsidiaries as of January 27, 2008 and January 28, 2007, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended January 27, 2008. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Semtech Corporation and subsidiaries at January 27, 2008 and January 28, 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 27, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, Semtech Corporation changed its method of accounting for Share-Based Payments in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004) on January 30, 2006.

Additionally, as discussed in Note 12 to the consolidated financial statements, Semtech Corporation changed its method of accounting for uncertain tax positions in accordance with FASB Interpretation No. 48 on January 29, 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Semtech Corporation s internal control over financial reporting as of January 27, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 24, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Woodland Hills, California

March 24, 2008

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SEMTECH CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except earnings per share data)

	Year Ended		
	January 27, 2008	**January 28, 2007**	**January 29, 2006**
Net Sales	**$ 284,790**	$ 252,538	$ 239,338
Cost of sales	**128,513**	115,564	105,236
Gross profit	**156,277**	136,974	134,102
Operating costs and expenses:			
Selling, general and administrative	**74,263**	70,249	45,600
Product development and engineering	**43,064**	41,256	37,928
Intangible amortization	**1,102**	1,192	4,954
(Insurance recovery) legal expenses, net	**(5,339)**	412	(129)
Total operating costs and expenses	**113,090**	113,109	88,353
Operating income	**43,187**	23,865	45,749
Interest and other income, net	**15,120**	13,546	7,286
Income before taxes	**58,307**	37,411	53,035
Provision for taxes	**10,524**	6,283	11,084
NET INCOME	**$ 47,783**	$ 31,128	$ 41,951
Earnings per share:			
Basic	**$ 0.72**	$ 0.43	$ 0.57
Diluted	**$ 0.71**	$ 0.42	$ 0.55
Weighted average number of shares used in computing earnings per share:			
Basic	**66,424**	72,372	73,436
Diluted	**67,709**	74,017	76,114

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

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SEMTECH CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF JANUARY 27, 2008 AND JANUARY 28, 2007

(In thousands, except share data)

	January 27, 2008	January 28, 2007
Assets		
Current assets:		
Cash and cash equivalents	**$ 172,889**	$ 162,674
Temporary investments	**36,142**	125,979
Receivables, less allowances of $369 in 2008 and $336 in 2007	**33,609**	25,588
Inventories	**28,902**	20,493
Deferred income taxes	**4,350**	3,495
Assets held for sale	**65**	8,222
Other current assets	**16,261**	9,476
Total current assets	**292,218**	355,927
Property, plant and equipment, net	**30,569**	40,573
Investments, maturities in excess of 1 year	**4,366**	49,827
Deferred income taxes	**26,307**	28,190
Goodwill	**32,418**	32,687
Other intangibles, net	**3,182**	4,284
Other assets	**6,986**	10,166
TOTAL ASSETS	**$ 396,046**	$ 521,654
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	**$ 13,922**	$ 9,909
Accrued liabilities	**19,477**	14,635
Income taxes payable	**290**	1,974
Deferred revenue	**1,466**	2,151
Deferred income taxes	**1,501**	1,500
Other current liabilities		315
Total current liabilities	**36,656**	30,484
Deferred income taxes	**111**	2,539
Accrued taxes	**3,400**	
Other long-term liabilities	**7,169**	7,450
Commitments and contingencies		
Stockholders equity:		
Common stock, $0.01 par value, 250,000,000 shares authorized, 78,079,894 issued and 61,190,587 outstanding on January 27, 2008 and 77,061,426 issued and 72,304,877 outstanding on January 28, 2007	**784**	774
Treasury stock, at cost, 16,889,307 shares as of January 27, 2008 and 4,756,549 shares as of January 28, 2007	**(291,605)**	(85,955)
Additional paid-in capital	**342,736**	315,972
Retained earnings	**296,226**	250,517
Accumulated other comprehensive income (loss)	**569**	(127)

Total stockholders' equity	**348,710**	481,181
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 396,046**	$ 521,654

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

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SEMTECH CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands, except share amounts)

	Common Stock		Additional Paid- in Capital	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Income (Loss)	Stock-holders' Equity
	Number of Shares	Amount					
Balance at January 30, 2005	**73,845,130**	**$ 758**	**$ 276,753**	**$ 183,820**	**$ (35,060)**	**$ (942)**	**$ 425,329**
Comprehensive income:							
Net income				41,951			41,951
Change in net unrealized holding gain (loss) on available-for-sale investments						(72)	(72)
Translation adjustment						170	170
Comprehensive income							42,049
Stock-based compensation			4,730				4,730
Repurchase of outstanding common stock	(2,682,100)				(46,869)		(46,869)
Treasury stock reissued	365,306			(5,024)	7,966		2,942
Exercise of stock options	1,165,468	12	3,983				3,995
Tax benefit from exercised stock options			5,466				5,466
Other				11			11
Balance at January 29, 2006	**72,693,804**	**$ 770**	**$ 290,932**	**$ 220,758**	**$ (73,963)**	**$ (844)**	**$ 437,653**
Comprehensive income:							
Net income				31,128			31,128
Change in net unrealized holding gain (loss) on available-for-sale investments						871	871
Translation adjustment						(154)	(154)
Comprehensive income							31,845
Stock-based compensation			12,901				12,901
Repurchase of outstanding common stock	(790,700)				(14,240)		(14,240)
Treasury stock reissued	113,820			(1,342)	2,248		906
Exercise of stock options	287,953	4	2,236				2,240
Tax benefit from exercised stock options			9,748				9,748
Other			155	(27)			128
Balance at January 28, 2007	**72,304,877**	**$ 774**	**$ 315,972**	**$ 250,517**	**$ (85,955)**	**$ (127)**	**$ 481,181**
Comprehensive income:							
Net income				47,783			47,783
Cumulative effect related to the initial adoption of FIN48				(2,074)			(2,074)
Change in net unrealized holding gain (loss) on available-for-sale investments						696	696
Comprehensive income							46,405

Stock-based compensation			14,541				14,541
Repurchase of outstanding common stock	(12,889,354)				(219,933)		(219,933)
Treasury stock reissued	756,596		(5,558)		14,283		8,725
Exercise of stock options	1,018,468	10	8,031				8,041
Tax benefit from exercised stock options			9,750				9,750
Balance at January 27, 2008	**61,190,587**	**$ 784**	**$ 342,736**	**$ 296,226**	**$ (291,605)**	**$ 569**	**$ 348,710**

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

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SEMTECH CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	January 27, 2008	January 28, 2007	January 29, 2006
Cash flows from operating activities:			
Net income	**$ 47,783**	$ 31,128	$ 41,951
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation and amortization	**10,226**	11,812	11,752
Deferred income taxes	**(2,140)**	(2,623)	7,118
Stock-based compensation	**14,719**	12,901	1,442
Tax benefit on stock based compensation	**9,750**	9,748	3,289
Excess tax benefits	**(9,750)**	(1,529)	
Write-off of in-process research and development			4,000
(Gain) Loss on disposition of property, plant and equipment	**(1,392)**	39	27
Changes in assets and liabilities:			
Receivables	**(8,021)**	1,589	(1,977)
Inventories	**(8,231)**	3,173	4,154
Other assets	**538**	2,573	(178)
Accounts payable	**4,013**	(2,430)	(1,019)
Accrued liabilities	**4,527**	3,790	(4,052)
Deferred revenue	**(685)**	791	(1,519)
Income taxes payable	**730**	1,273	(2,794)
Other liabilities	**(718)**	1,943	2,477
Net cash provided by operations	**61,349**	74,178	64,671
Cash flows from investing activities:			
Purchase of available-for-sale investments	**(111,300)**	(175,998)	(97,296)
Proceeds from sales and maturities of available-for-sale investments	**247,298**	211,035	104,717
Proceeds from sale of property, plant and equipment	**10,050**	752	
Purchases of property, plant and equipment	**(3,765)**	(3,249)	(10,564)
Acquisition of XEMICS SA, net of cash acquired			(42,445)
Net cash provided by (used in) investing activities	**142,283**	32,540	(45,588)
Cash flows from financing activities:			
Repayment of notes payable to bank			(1,400)
Excess tax benefit received on stock options	**9,750**	1,529	
Exercise of stock options	**8,041**	2,240	9,458
Repurchase of outstanding common stock	**(219,933)**	(14,240)	(46,869)
Reissuance of treasury stock	**8,725**	906	2,955
Net cash used in financing activities	**(193,417)**	(9,565)	(35,856)
Effect of exchange rate changes on cash and cash equivalents		1	170
Net increase (decrease) in cash and cash equivalents	**10,215**	97,154	(16,603)
Cash and cash equivalents at beginning of period	**162,674**	65,520	82,123

patients experience adverse side effects;

- patients die during a clinical trial, even though their death may not be related to our products;
- institutional review boards ("IRBs") and third-party clinical investigators may delay or reject our trial protocol;
- third-party clinical investigators decline to participate in a trial or do not perform a trial on our anticipated schedule or consistent with the investigator agreements, clinical trial protocol, good clinical practices or other FDA or IRB requirements;
- DexCom or third-party organizations do not perform data collection, monitoring and analysis in a timely or accurate manner or consistent with the clinical trial protocol or investigational or statistical plans;
- third-party clinical investigators have significant financial interests related to DexCom or the study that the FDA deems to make the study results unreliable, or DexCom or investigators fail to disclose such interests;
- regulatory inspections of our clinical trials or manufacturing facilities may, among other things, require us to undertake corrective action or suspend or terminate our clinical trials;
- changes in governmental regulations, policies or administrative actions applicable to our trial protocols;
- the interim or final results of the clinical trial are inconclusive or unfavorable as to safety or efficacy; and
- the FDA concludes that our trial design is inadequate to demonstrate safety and efficacy.

The results of pre-clinical studies do not necessarily predict future clinical trial results, and prior clinical trial results might not be repeated in subsequent clinical trials. Additionally, the FDA may disagree with our interpretation of the data from our pre-clinical studies and clinical trials, or may find the clinical trial design, conduct or results inadequate to prove safety or efficacy, and may require us to pursue additional pre-clinical studies or clinical trials, which could further delay the approval of our products. If we are unable to demonstrate the safety and efficacy of our products in our clinical trials to the FDA's satisfaction, we will be unable to obtain regulatory approval to market our products in the United States. In addition, the data we collect from our current clinical trials, our pre-clinical studies and other clinical trials may not be sufficient to support FDA approval, even if our endpoints are met.

We may also conduct clinical studies to demonstrate the relative or comparative effectiveness of continuous glucose monitoring devices for the treatment of diabetes. These types of studies, which often require substantial investment and effort, may not show adequate, or any, clinical benefit for the use of continuous glucose monitoring devices.

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We conduct business in a heavily regulated industry and if we fail to comply with applicable laws and government regulations, we could become subject to penalties or be required to make significant changes to our operations.

The healthcare industry generally, and our business specifically, is subject to extensive foreign, federal, state and local laws and regulations, including those relating to:

- the pricing of our products and services;
- the distribution of our products and services;
- billing for services;
- financial relationships with physicians and other referral sources;
- inducements and courtesies given to physicians and other health care providers and patients;
- labeling products;
- the characteristics and quality of our products and services;
- confidentiality, maintenance and security issues associated with medical records and individually identifiable health and other personal information;
- medical device reporting;
- prohibitions on kickbacks, also referred to as anti-kickback laws or regulations;
- any scheme to defraud any healthcare benefit program;
- physician payment disclosure requirements;
- personal health information;
- privacy;
- data protection;
- mobile communications;
- false claims; and
- professional licensure.

These laws and regulations are extremely complex and, in some cases, still evolving. If our operations are found to violate any of the foreign, federal, state or local laws and regulations which govern our activities, we may be subject to litigation, government enforcement actions, the applicable penalty associated with the violation, including civil and criminal penalties, damages, fines or curtailment of our operations. The risk of being found in violation of these laws and regulations is increased by the fact that many of them have not been fully interpreted by the regulatory authorities or the courts, and their provisions are open to a variety of interpretations. Any action against us for violation of these laws or regulations, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our management's time and attention from the operation of our business.

The FDA, the Office of Inspector General for the Department of Health and Human Services, the Department of Justice, states' attorneys general and other governmental authorities actively enforce the laws and regulations discussed above. In the United States, medical device manufacturers have been the target of numerous government prosecutions and investigations alleging violations of law, including claims asserting impermissible off-label promotion of pharmaceutical products, payments intended to influence the referral of federal or state healthcare business, and submission of false claims for government reimbursement. As part of our compliance program, we have reviewed our sales contracts and marketing materials and practices to reduce the risk of non-compliance with these federal and state laws, and inform employees and marketing representatives of the Anti-Kickback Statute and their obligations thereunder. However, we cannot rule out the possibility that the government or other third parties could interpret these laws differently and challenge our practices under one or more of these laws.

In addition, the laws and regulations impacting or affecting our business may change significantly in the future. Any new laws or regulations may adversely affect our business. A review of our business by courts or regulatory authorities may result in a determination that could adversely affect our operations. Also, the regulatory environment applicable to our business may change in a way that restricts or adversely impacts our operations.

We are not aware of any governmental investigations involving our executives or us. However, any future investigations of our executives, our managers or us could result in significant liabilities or penalties to us, as well as adverse publicity.

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Laws and regulations governing the export of our products could adversely impact our business.

The U.S. Department of the Treasury's Office of Foreign Assets Control, and the Bureau of Industry and Security at the U.S. Department of Commerce, administer certain laws and regulations that restrict U.S. persons and, in some instances, non-U.S. persons, in conducting activities, and transacting business with or making investments in certain countries, governments, entities and individuals subject to U.S. economic sanctions. Due to our international operations, we are subject to such laws and regulations, which are complex, restrict our business dealings with certain countries and individuals, and are constantly changing. Further restrictions may be enacted, amended, enforced or interpreted in a manner that materially impacts our operations.

Violations of these regulations are punishable by civil penalties, including fines, denial of export privileges, injunctions, asset seizures, debarment from government contracts and revocations or restrictions of licenses, as well as criminal fines and imprisonment. We have established procedures designed to assist with our compliance with such laws and regulations. However, we have only limited experience dealing with these laws and regulations and we cannot guaranty that our procedures will effectively prevent us from violating these regulations in every transaction in which we may engage. Any such violation could adversely affect our reputation, business, financial condition and results of operations.

If our manufacturing capabilities are insufficient to produce an adequate supply of product at appropriate quality levels, our growth could be limited and our business could be harmed.

We currently have limited resources, facilities and experience in commercially manufacturing sufficient quantities of product to meet expected demand. In the past, we have had difficulty scaling our manufacturing operations to provide a sufficient supply of product to support our commercialization efforts. From time to time, we have also experienced brief periods of backorder and, at times, have had to limit the efforts of our sales force to introduce our products to new customers. We have focused significant effort on continual improvement programs in our manufacturing operations intended to improve quality, yields and throughput. We have made progress in manufacturing to enable us to supply adequate amounts of product to support our commercialization efforts; however, we cannot guaranty that supply will not be constrained in the future. In order to produce our products in the quantities we anticipate will be necessary to meet market demand, we will need to increase our manufacturing capacity by a significant factor over the current level. In addition, we will have to modify our manufacturing design, reliability and process if and when our next generation sensor technologies are approved and commercialized. There are technical challenges to increasing manufacturing capacity, including equipment design and automation, materials procurement, manufacturing site expansion, problems with production yields and quality control and assurance. Developing commercial-scale manufacturing facilities will require the investment of substantial additional funds and the hiring and retention of additional management, quality assurance, quality control and technical personnel who have the necessary manufacturing experience. Also, the scaling of manufacturing capacity is subject to numerous risks and uncertainties, and may lead to variability in product quality or reliability, increased construction timelines, as well as resources required to design, install and maintain manufacturing equipment, among others, all of which can lead to unexpected delays in manufacturing output. In addition, any changes to our manufacturing processes may require FDA submission and approval and our facilities may have to undergo additional inspections by the FDA and corresponding state agencies. We may be unable to adequately maintain, develop and expand our manufacturing process and operations or obtain FDA and state agency approval of our facilities in a timely manner or at all. If we are unable to manufacture a sufficient supply of our current products or any future products for which we may receive approval, maintain control over expenses or otherwise adapt to anticipated growth, or if we underestimate growth, we may not have the capability to satisfy market demand and our business will suffer.

Additionally, the production of our products must occur in a highly controlled and clean environment to minimize particles and other yield- and quality-limiting contaminants. Weaknesses in process control or minute impurities in materials may cause a substantial percentage of defective products. If we are not able to maintain stringent quality controls, or if contamination problems arise, our clinical development and commercialization efforts could be delayed, which would harm our business and our results of operations.

We also require the suppliers and business partners of components or services for our products to comply with law and certain of our policies regarding sourcing practices, but we do not control them or their practices. If any supplier or business partner violates laws or implements unethical practices, there could be disruptions to our supply chain, cancellation of our orders, terminations of the relationship with the partner or damage to our reputation.

In the future, if our products have material defects or errors, this could result in loss or delay of revenues, delayed market acceptance, damaged reputation, diversion of development resources, legal claims, increased insurance costs or increased service and warranty costs, any of which could harm our business. Such defects or errors could also prompt us to amend certain warning labels or narrow the scope of the use of our products, either of which could hinder our success in the market.

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Since our commercial launch in 2006, we have had periodic field failures related to our products, including reports of sensor errors, sensor failures, broken sensors, receiver malfunctions and transmitter failures. To comply with the FDA's medical device reporting requirements, we have filed reports of all such broken or lodged sensors. Although we believe we have taken and are taking appropriate actions aimed at reducing or eliminating field failures, we cannot guaranty that we will not have additional failures going forward.

Our manufacturing operations depend upon third-party suppliers, making us vulnerable to supply problems and price fluctuations, which could harm our business.

We rely on OnCore Manufacturing Services to manufacture and supply circuit boards for our receiver and transmitter; we rely on ON Semiconductor Corp. to manufacture and supply the application specific integrated circuit that is incorporated into the transmitter; we rely on DSM PTG, Inc. to manufacture certain polymers used to synthesize our polymeric biointerface membranes for our products; and we rely on The Tech Group to supply our injection molded components. Each of these suppliers is a single-source supplier. In some cases, our agreements with these and our other suppliers can be terminated by either party upon short notice. Our contract manufacturers also rely on single-source suppliers to manufacture some of the components used in our products. Our manufacturers and suppliers may encounter problems during manufacturing for a variety of reasons, including failure to follow specific protocols and procedures, failure to comply with applicable regulations, failed FDA audit or inspection, equipment malfunction and environmental factors, any of which could delay or impede their ability to meet our demand. If our single-source suppliers shift their manufacturing and assembly sites to other locations, these new sites may require additional FDA approval and inspection. Should any such FDA approval be delayed, or such inspection requires corrective action, our supply of critical components may be constrained or unavailable. Our reliance on these outside manufacturers and suppliers also subjects us to other risks that could harm our business, including:

- we may not be able to obtain adequate supply in a timely manner or on commercially reasonable terms;
- our products are technologically complex and it is difficult to develop alternative supply sources;
- we are not a major customer of many of our suppliers, and these suppliers may therefore give other customers' needs higher priority than ours;
- our suppliers may make errors in manufacturing components that could negatively affect the efficacy or safety of our products or cause delays in shipment of our products;
- we may have difficulty locating and qualifying alternative suppliers for our single-source supplies;
- switching components may require product redesign and submission to the FDA of a PMA supplement or possibly a separate PMA, either of which could significantly delay production;
- our suppliers manufacture products for a range of customers, and fluctuations in demand for the products these suppliers manufacture for others may affect their ability to deliver components to us in a timely manner;
- our suppliers may make obsolete components that are critical to our products; and
- our suppliers may encounter financial hardships unrelated to our demand for components, including those related to changes in global economic conditions, which could inhibit their ability to fulfill our orders and meet our requirements.

We may not be able to quickly establish additional or replacement suppliers, particularly for our single-source components, in part because of the FDA inspection and approval process and because of the custom nature of various parts we design. Any interruption or delay in the supply of components or materials, or our inability to obtain components or materials from alternate sources at acceptable prices in a timely manner, could impair our ability to meet the demand of our customers and cause them to cancel orders or switch to competitive products.

Potential long-term complications from our current or future products or other continuous glucose monitoring systems under development may not be revealed by our clinical experience to date.

Based on our experience, complications from use of our products may include sensor errors, sensor failures, broken sensors, lodged sensors or skin irritation under the adhesive dressing of the sensor. Inflammation or redness, swelling, minor infection, and minor bleeding at the sensor insertion site are also possible risks with an individual's use of our products. However, if unanticipated long-term side-effects result from the use of our products or other glucose monitoring systems under development, we could be subject to liability and the adoption of our systems may become more limited. With respect to our G4 PLATINUM and G5 Mobile systems, our clinical trials have been limited to

seven days of continuous use. It is possible that the results from our clinical studies and trials may not be indicative of the clinical results obtained when we examine the patients at later dates. We cannot assure you that repeated, long-term use would not result in unanticipated adverse effects, potentially even after the sensor is removed.

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If we or our suppliers or distributors fail to comply with ongoing regulatory requirements, or if we experience unanticipated problems with our products, the products could be subject to restrictions or withdrawal from the market. Any product for which we obtain marketing approval will be subject to continual review and periodic inspections by the FDA and other regulatory bodies, which may include inspection of our manufacturing processes, post-approval clinical data and promotional activities for such product. The FDA's MDR regulations require that we report to the FDA any incident in which our product may have caused or contributed to a death or serious injury, or in which our product malfunctioned and, if the malfunction were to recur, it would likely cause or contribute to a death or serious injury. An example of the difficulty of complying with the regulatory requirements associated with the manufacture of our products, on February 23, 2016, we issued a customer notification via the DexCom website and certified mail regarding the audible alarms and alerts associated with our receivers (Dexcom G4 PLATINUM and Dexcom G5 Mobile) and was classified as a voluntary Class 1 recall by the FDA. The issue with the audible alarms and alerts was identified as a result of our continuous review of complaints received from our customers. A failure of the audible alarms and alerts may cause our customers to not detect a severe hypoglycemic (low glucose) or hyperglycemic (high glucose) event. We are working to implement a solution for the audible alarms and alerts issue identified in the customer notification. The FDA is aware of this notification and a copy of this notification is available on our website at http://www.dexcom.com/notification. In the customer notification we have recommended that customers test the alarms and alerts on their receiver(s) every few days to make sure that the alarms and alerts are functioning properly. On April 11, 2016, we issued a press release supplementing our previous customer notification and reminding patients to periodically test the audible alarms and alerts on their receiver.

We and our suppliers are also required to comply with the FDA's Quality System Regulation (“QSR”) and other regulations, which cover the methods and documentation of the design, testing, production, control, selection and oversight of suppliers or contractors, quality assurance, labeling, packaging, storage, complaint handling, shipping and servicing of our products. The FDA enforces the QSR through unannounced inspections. We currently manufacture our products at our headquarters facilities in San Diego, California. In these facilities we have more than 8,000 square feet of laboratory space and approximately 18,000 square feet of controlled environment rooms. During a routine FDA post-approval facility inspection ending on November 7, 2013, the FDA issued a Form 483 with several observations regarding DexCom MDR procedures and complaint reportability determinations. DexCom responded to the observations on November 26, 2013. On March 14, 2014, we received the 2014 Warning Letter from the FDA related to administrative deficiencies in filing MDRs. On April 2, 2014, we responded to the 2014 Warning Letter. On April 16, 2015, the FDA initiated an on-site inspection intended to both close out the 2014 Warning Letter and conduct our normal biennial quality system inspection. The FDA completed its inspection with no observations. On May 21, 2015, the FDA issued a letter closing the 2014 Warning Letter. During a routine FDA post-market inspection ending on March 29, 2016, the FDA issued a Form 483 with one observation regarding the DexCom MDR procedure specific to retrospective MDR filing when a change in complaint reportability is made. On April 19, 2016 DexCom responded to this observation.

Compliance with ongoing regulatory requirements can be complex, expensive and time-consuming. Failure by us or one of our suppliers or distributors to comply with statutes and regulations administered by the FDA, competent authorities and other regulatory bodies, or failure to take adequate response to any observations, could result in, among other things, any of the following actions:

- warning letters or untitled letters that require corrective action;
- delays in approving or refusal to approve our continuous glucose monitoring systems;
- fines and civil penalties;
- unanticipated expenditures;
- FDA refusal to issue certificates to foreign governments needed to export our products for sale in other countries;
- suspension or withdrawal of approval by the FDA or other regulatory bodies;
- product recall or seizure;
- interruption of production;
- interruption of the supply of components from our key component suppliers;
- operating restrictions;

- injunctions; and
- criminal prosecution.

The effect of these events can be difficult to quantify. If any of these actions were to occur, it would harm our reputation and cause our product sales and profitability to suffer. In addition, we believe events that could be classified as reportable events pursuant to MDR regulations are generally underreported by physicians and users, and any underlying problems could

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be of a larger magnitude than suggested by the number or types of MDRs filed by us. Furthermore, our key component suppliers may not currently be or may not continue to be in compliance with applicable regulatory requirements.

Even if regulatory approval or clearance of a product is granted, the approval or clearance may be subject to limitations on the indicated uses for which the product may be marketed or contain requirements for costly post-marketing testing or surveillance to monitor the safety or efficacy of the product. Later discovery of previously unknown problems with our products, including software bugs, unanticipated adverse events or adverse events of unanticipated severity or frequency, manufacturing problems, or failure to comply with regulatory requirements such as the QSR, MDR reporting, or other post-market requirements may result in restrictions on such products or manufacturing processes, withdrawal of the products from the market, voluntary or mandatory recalls, fines, suspension of regulatory approvals, product seizures, injunctions or the imposition of civil or criminal penalties. In addition, our distributors have rights to create marketing materials for their sales of our products, and may not adhere to contractual, legal or regulatory limitations that are imposed on their marketing efforts.

We are subject to claims of infringement or misappropriation of the intellectual property rights of others, which could prohibit us from shipping affected products, require us to obtain licenses from third parties or to develop non-infringing alternatives, and subject us to substantial monetary damages and injunctive relief. We may also be subject to other claims or suits.

Third parties have asserted, and may assert infringement or misappropriation claims against us with respect to our current or future products. We are aware of numerous patents issued to third parties that may relate to aspects of our business, including the design and manufacture of continuous glucose monitoring sensors and membranes, as well as methods for continuous glucose monitoring. Whether a product infringes a patent involves complex legal and factual issues, the determination of which is often uncertain. Therefore, we cannot be certain that we have not infringed the intellectual property rights of such third parties or others. Our competitors may assert that our continuous glucose monitoring systems or the methods we employ in the use of our systems are covered by U.S. or foreign patents held by them. This risk is exacerbated by the fact that there are numerous issued patents and pending patent applications relating to self-monitored glucose testing systems in the medical technology field. Because patent applications may take years to issue, there may be applications now pending of which we are unaware that may later result in issued patents that our products infringe. There could also be existing patents of which we are unaware that one or more components of our system may inadvertently infringe. As the number of competitors in the market for continuous glucose monitoring systems grows, the possibility of inadvertent patent infringement by us or a patent infringement claim against us increases.

On March 28, 2016, Agamatrix, Inc. filed a patent infringement lawsuit against us in the United States District Court for the District of Oregon, asserting that certain of our products infringe certain patents held by Agamatrix. It is our position that Agamatrix’s assertions of infringement have no merit. Neither the outcome of the litigation nor the amount and range of potential fees associated with the litigation can be assessed at this time. As of June 30, 2016, no amounts have been accrued in respect of this litigation.

Any infringement or misappropriation claim could cause us to incur significant costs, place significant strain on our financial resources, divert management's attention from our business and harm our reputation. If the relevant patents were upheld as valid and enforceable and we were found to infringe, we could be prohibited from selling our product that is found to infringe unless we could obtain licenses to use the technology covered by the patent or are able to design around the patent. We may be unable to obtain a license on terms acceptable to us, if at all, and we may not be able to redesign our products to avoid infringement. Even if we are able to redesign our products to avoid an infringement claim, we may not receive FDA approval for such changes in a timely manner or at all. A court could also order us to pay compensatory damages for such infringement, plus prejudgment interest and could, in addition, treble the compensatory damages and award attorney fees. These damages could be substantial and could harm our reputation, business, financial condition and operating results. A court also could enter orders that temporarily, preliminarily or permanently enjoin us and our customers from making, using, selling or offering to sell one or more of our products, or could enter an order mandating that we undertake certain remedial activities. Depending on the nature of the relief ordered by the court, we could become liable for additional damages to third parties.

Any adverse determination in litigation or interference proceedings to which we are or may become a party relating to patents could subject us to significant liabilities to third parties or require us to seek licenses from other third parties. Furthermore, if we are found to willfully infringe third-party patents, we could, in addition to other penalties, be required to pay treble damages and/or attorneys' fees for the prevailing party. Although patent and intellectual property disputes in the medical device area have often been settled through licensing or similar arrangements, costs associated with such arrangements may be substantial and would likely include ongoing royalties. We may be unable to obtain necessary licenses on satisfactory terms. If we do not obtain necessary licenses, we may not be able to redesign our products to avoid infringement and any redesign may not receive FDA approval in a timely manner if at all. Adverse determinations in a judicial or administrative proceeding or

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failure to obtain necessary licenses could prevent us from manufacturing and selling our products, which would have a significant adverse impact on our business.

In addition, from time to time, we are subject to various claims and suits arising out of the ordinary course of business, including commercial or employment related matters. Although individually we do not expect these claims or suits to have a material adverse effect on DexCom, in the aggregate they may divert significant time and resources from our staff.

Our inability to adequately protect our intellectual property could allow our competitors and others to produce products based on our technology, which could substantially impair our ability to compete.

Our success and our ability to compete depend, in part, upon our ability to maintain the proprietary nature of our technologies. We rely on a combination of patent, copyright and trademark law, and trade secrets and nondisclosure agreements to protect our intellectual property. However, such methods may not be adequate to protect us or permit us to gain or maintain a competitive advantage. Our patent applications may not issue as patents in a form that will be advantageous to us, or at all. Our issued patents, and those that may issue in the future, may be challenged, invalidated or circumvented, which could limit our ability to stop competitors from marketing related products. In addition, there are numerous recent changes to the patent laws and proposed changes to the rules of the U.S. Patent and Trademark Office, which may have a significant impact on our ability to protect our technology and enforce our intellectual property rights. For example, in September 2011, the United States enacted sweeping changes to the United States patent system under the Leahy-Smith America Invents Act, including changes that would transition the United States from a “first-to-invent” system to a “first-to-file” system and alter the processes for challenging issued patents. These changes could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents.

To protect our proprietary rights, we may in the future need to assert claims of infringement against third parties. The outcome of litigation to enforce our intellectual property rights in patents, copyrights, trade secrets or trademarks is highly unpredictable, could result in substantial costs and diversion of resources, and could have a material adverse effect on our financial condition and results of operations regardless of the final outcome of such litigation. In the event of an adverse judgment, a court could hold that some or all of our asserted intellectual property rights are not infringed, invalid or unenforceable, and could award attorney fees.

Despite our efforts to safeguard our unpatented and unregistered intellectual property rights, we may not succeed in doing so or the steps taken by us in this regard may not be adequate to detect or deter misappropriation of our technology or to prevent an unauthorized third party from copying or otherwise obtaining and using our products, technology or other information that we regard as proprietary. In addition, third parties may be able to design around our patents. Furthermore, the laws of foreign countries may not protect our proprietary rights to the same extent as the laws of the United States.

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We operate in a highly competitive market and face competition from large, well-established medical device manufacturers with significant resources, and, as a result, we may not be able to compete effectively.

The market for glucose monitoring devices is intensely competitive, subject to rapid change and significantly affected by new product introductions and other market activities of industry participants. In selling the G4 PLATINUM and G5 Mobile systems, we compete directly with Roche Diabetes Care, a division of Roche Diagnostics; LifeScan, Inc., a division of Johnson & Johnson; the Diabetes Care division of Abbott Laboratories, and Panasonic Healthcare Holdings' Ascensia Diabetes Care (formerly Bayer Diabetes Care), each of which manufactures and markets products for the single-point finger stick device market. Collectively, these companies currently account for substantially all of the worldwide sales of self-monitored glucose testing systems. Several companies are developing or marketing short-term continuous glucose monitoring products that will compete directly with our products. To date, in addition to us, two other companies, Medtronic, Inc. ("Medtronic") and Abbott Diabetes Care, Inc. ("Abbott"), have received approval from the FDA to market, and actively market, continuous glucose monitors. Abbott has discontinued selling its Freestyle Navigator glucose monitoring system in the United States; however, Abbott filed a clinical study for home use of the Navigator II system in the United States and in October 2012 Abbott initiated a limited launch of the Navigator II system in Europe. We believe that Abbott is also conducting clinical studies on a new glucose monitoring platform and has commercialized this new system in Europe. We also believe Abbott has submitted a professional use version of this new system to the FDA for review. In addition, we believe that Roche and others, are developing invasive and non-invasive continuous glucose monitoring systems. Also, Medtronic, and other third parties, have developed, or are developing, insulin pumps augmented with continuous glucose monitoring systems that provide, among other things, the ability to suspend insulin administration while the user's glucose levels are low. Most of the companies developing or marketing competing devices are publicly traded or divisions of publicly traded companies, and these companies possess several competitive advantages, including:

- significantly greater name recognition;
- established relations with healthcare professionals, customers and third-party payors;
- established distribution networks;
- additional lines of products, and the ability to offer rebates or bundle products to offer higher discounts or incentives to gain a competitive advantage;
- greater experience in conducting research and development, manufacturing, clinical trials, obtaining regulatory approval for products and marketing approved products;
- the ability to integrate multiple products to provide additional features beyond continuous glucose monitoring; and
- greater financial and human resources for product development, sales and marketing, and patent litigation.

As a result, we may not be able to compete effectively against these companies or their products, which may adversely impact our business.

We enter into collaborations with third parties that may not result in the development of commercially viable products or the generation of significant future revenues.

In the ordinary course of our business, we enter into collaborative arrangements to develop new products and to pursue new markets, such as our agreements with Animas and Tandem, to integrate our continuous glucose monitoring technology into their respective insulin delivery systems, and our agreement with Verily to develop a series of next-generation continuous glucose monitoring products. We also have entered into an OUS Commercialization Agreement with Animas pursuant to which Animas retains the right to develop and market outside the United States an ambulatory insulin pump that is combined with our continuous glucose monitoring technology which has been branded the Vibe. In May 2011, we, together with Animas, received CE Mark certification for the Vibe, allowing it to be marketed in the countries that recognize CE Mark approval. Animas received FDA approval for the Vibe system in December 2014. On September 9, 2015 Tandem received FDA approval for its sensor augmented insulin delivery system, the t:slim G4™ Insulin Pump. We also previously entered into collaborative agreements with Insulet and Roche neither of which resulted in the successful development of a commercially viable product nor is anticipated to result in significant additional revenues for the foreseeable future.

As a result of these development relationships, our operating results depend, to some extent, on the ability of our development partners to successfully commercialize their insulin delivery systems. Any factors that may limit our

partners' ability to achieve widespread adoption of their systems, including competitive pressures, technological breakthroughs for the treatment or prevention of diabetes, adverse regulatory or legal actions relating to insulin pump products, or changes in reimbursement rates or policies of third-party payors relating to insulin pumps or similar products, could have an adverse impact on our operating results. For example, UnitedHealthcare announced, effective July 1, 2016, that UnitedHealthcare Community Plan and Commercial members will no longer have an in-network choice among providers of insulin pumps, and designated Medtronic as its preferred, in-network provider. We do not have a development relationship with Medtronic, which

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has developed an insulin pump augmented with its proprietary continuous glucose monitoring system. The decision by UnitedHealthcare to establish Medtronic as its preferred provider of insulin pumps could result in a material reduction in the number of insulin pumps sold by other insulin pump manufacturers, including Animas and Tandem. In addition, it is possible that other large third-party payors will establish preferred providers of insulin pumps, which may or may not include the pumps produced by our development partners.

Many of the companies that we collaborate with are also competitors or potential competitors who may decide to terminate our collaborative arrangement. In the event of such a termination, we may be required to devote additional resources to product development and commercialization, we may need to cancel some development programs and we may face increased competition. Additionally, similar to the agreements with Roche, collaborations may not result in the development of products that achieve commercial success and could be terminated prior to developing any products. Former collaborators may use the experience and insights they develop in the course of their collaborations with us to initiate or accelerate their development of products that compete with our products, which may create competitive disadvantages for us. Accordingly, we cannot assure you that any of our collaborations will result in the successful development of a commercially viable product or result in significant additional future revenues.

In addition, our development timelines are highly dependent on our ability to achieve clinical endpoints and regulatory requirements and to overcome technology challenges, and may be delayed due to scheduling issues with patients and investigators, requests from institutional review boards, product performance and manufacturing supply constraints, among other factors. In addition, support of these clinical trials requires significant resources from employees involved in the production of our products, including research and development, manufacturing, quality assurance, and clinical and regulatory personnel. Even if our development and clinical trial efforts succeed, the FDA may not approve the combined products or may require additional product testing and clinical trials before approving the combined products, which would result in product launch delays and additional expense. If approved by the FDA, the combined products may not achieve acceptance in the marketplace by physicians and people with diabetes.

To date, no continuous glucose monitoring system has received FDA clearance as a replacement for single-point finger stick devices, and our current and future generation products may never be approved for that indication.

Our products do not eliminate the need for single-point finger stick devices and our future products may not be approved for that indication. Notwithstanding the favorable ruling made at the FDA’s Clinical Chemistry and Clinical Toxicology Devices Panel of the Medical Devices Advisory Committee on July 21, 2016, as of the date of filing of this quarterly report, no precedent for FDA approval of continuous glucose monitoring systems as a replacement for single-point finger stick devices has been established. Accordingly, there is no established study design or agreement regarding performance requirements or measurements in clinical trials for continuous glucose monitoring systems. If any of our competitors were to obtain replacement claim labeling for a continuous glucose monitoring system, our products may fail to compete effectively against that system and our business would suffer.

Technological breakthroughs by us or our competitors could materially impact sales of current or future generations of our products.

The glucose monitoring market is subject to rapid technological change and product innovation. Our products are based on our proprietary technology, but a number of companies and medical researchers are pursuing new technologies for the monitoring of glucose levels. FDA approval of a commercially viable continuous glucose monitor or sensor produced by one of our competitors could significantly reduce market acceptance of our systems. Several of our competitors are in various stages of developing continuous glucose monitors or sensors, including non-invasive and invasive devices, and the FDA has approved several of these competing products. In addition, the National Institutes of Health and other supporters of diabetes research are continually seeking ways to prevent, cure or improve treatment of diabetes. Therefore, our products may be rendered obsolete by technological breakthroughs in diabetes monitoring, treatment, prevention or cure.

In addition, in the periods leading up to the launch of new or upgraded versions of our continuous glucose monitoring products, our customers’ anticipation of the release of those products may cause them to cancel, change or delay current period purchases of our current products, which could have a material adverse effect on our business operations, financial condition and results of operations in current periods.

We face the risk of product liability claims and may not be able to maintain or obtain insurance.

Our business exposes us to the risk of product liability claims that is inherent in the testing, manufacturing and marketing of medical devices, including those which may arise from the misuse (including system hacking or other unauthorized access by third parties to our systems) or malfunction of, or design flaws in, our products. We may be subject to product liability claims if our products cause, or merely appear to have caused, an injury. Claims may be made by customers, healthcare providers or others selling our products. The risk of product liability claims may increase if our products obtain approved

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labeling in the United States that allows for our patients to make diabetes treatment decisions. The risk of claims may also increase if our products are subject to a product recall or seizure. An example of the difficulty of complying with the regulatory requirements associated with the manufacture of our products we issued notifications to our customers regarding the audible alarms and alerts associated with our receivers, as discussed earlier in the risk factor entitled “If we or our suppliers or distributors fail to comply with ongoing regulatory requirements, or if we experience unanticipated problems with our products, the products could be subject to restrictions or withdrawal from the market.”

Although we have product liability and clinical trial liability insurance that we believe is appropriate, this insurance is subject to deductibles and coverage limitations. Our current product liability insurance may not continue to be available to us on acceptable terms, if at all, and, if available, the coverage may not be adequate to protect us against any future product liability claims. Further, if additional products are approved for marketing, we may seek additional insurance coverage. If we are unable to obtain insurance at an acceptable cost or on acceptable terms with adequate coverage or otherwise protect against potential product liability claims, we will be exposed to significant liabilities, which may harm our business. A product liability claim, recall or other claim with respect to uninsured liabilities or for amounts in excess of insured liabilities could result in significant costs and significant harm to our business.

We may be subject to claims against us even if the apparent injury is due to the actions of others or misuse of the device. Our customers, either on their own or following the advice of their physicians, may use our products in a manner not described in the products' labeling and that differs from the manner in which it was used in clinical studies and approved by the FDA. For example, our current systems are designed to be used by an individual continuously for up to seven days, but the individual might be able to circumvent the safeguards designed into the systems and use the products for longer than seven days. Off-label use of products by customers is common, and any such off-label use of our products could subject us to additional liability. The CE Mark for our G5 Mobile system includes an indication that allows patients to make diabetes treatment decisions based on the information generated by such systems, although it still requires finger stick calibrations twice per day. In addition, the FDA or other regulatory agencies may in the future approve similar diabetes treatment indications. We expect that such diabetes treatment indications could expose us to additional liability. These liabilities could prevent or interfere with our product commercialization efforts. Defending a suit, regardless of merit, could be costly, could divert management attention and might result in adverse publicity, which could result in the withdrawal of, or inability to recruit, clinical trial volunteers or result in reduced acceptance of our products in the market.

We may be subject to fines, penalties and injunctions if we are determined to be promoting the use of our products for unapproved off-label uses.

Although we believe our promotional materials and training methods are conducted in compliance with FDA and other regulations, if the FDA determines that our promotional materials or training constitutes promotion of an unapproved use, the FDA could request that we modify our training or promotional materials or subject us to regulatory enforcement actions, including the issuance of a warning letter, injunction, seizure, civil fine and criminal penalties. It is also possible that other federal, state or foreign enforcement authorities might take action if they consider promotional or training materials to constitute promotion of an unapproved use, which could result in significant fines or penalties under other statutory authorities, such as laws prohibiting false claims for reimbursement.

If we are found to have violated laws protecting the use and confidentiality of patient health or other personal information, we could be subject to civil or criminal penalties, which could increase our liabilities and harm our reputation or our business.

There are a number of foreign, federal and state laws and regulations protecting the use and confidentiality of certain patient health and personal information, including patient records, and restricting the use and disclosure of that protected information. These laws include foreign, federal and state medical privacy laws, breach notification laws and foreign, federal and state consumer protection laws. The Department of Health and Human Services has promulgated regulations implementing the privacy and electronic security requirements set forth in the Administrative Simplification provisions of HIPAA. These privacy rules protect medical records and other personal health information by limiting their use and disclosure, giving individuals the right to access, amend and seek accounting of their own health information and limiting most use and disclosures of health information to the minimum amount reasonably necessary to accomplish the intended purpose. We are also subject to laws and regulations in foreign

countries covering data privacy and other protection of health and employee information that may be more onerous than corresponding U.S. laws, including in particular the laws of Europe. If we are found to be in violation of the privacy rules under HIPAA or other laws, we could be subject to civil or criminal penalties, which could increase our liabilities, harm our reputation and have a material adverse effect on our business, financial condition and results of operations.

We are subject to complex and evolving U.S. and foreign laws and regulations regarding privacy, data protection, and other

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matters. Many of these laws and regulations are subject to change and uncertain interpretation, and could result in claims, changes to our business practices, monetary penalties, increased cost of operations, or declines in user growth or engagement, or otherwise harm our business.

We are subject to a variety of laws and regulations in the United States and abroad that involve matters central to our business, including laws and regulations relating to privacy and data protection, rights of publicity, content, intellectual property, advertising, marketing, distribution, data security, data retention and deletion, personal information, electronic contracts and other communications, competition, protection of minors, consumer protection, telecommunications, product liability, taxation, economic or other trade prohibitions or sanctions, corrupt practices, fraud waste and abuse restrictions, and securities law compliance. The introduction of new products or expansion of our activities in certain jurisdictions may subject us to additional laws and regulations. For example, data protection laws passed by the federal government, many states and foreign countries require notification to users when there is a security breach for personal data.

In addition, foreign data protection, privacy, and other laws and regulations can be more restrictive than those in the United States. For example, data localization laws in some countries generally mandate that certain types of data collected in a particular country be stored and/or processed within that country. We could be subject to audits in Europe and around the world, particularly in the areas of consumer and data protection, as we continue to grow and expand our operations. Legislators and regulators may make legal and regulatory changes, or interpret and apply existing laws, in ways that make our products less useful to our customers, require us to incur substantial costs, expose us to unanticipated civil or criminal liability, or cause us to change our business practices. These changes or increased costs could negatively impact our business and results of operations in material ways.

The failure to comply with U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws in non-U.S. jurisdictions could materially adversely affect our business and result in civil and/or criminal sanctions.

The U.S. Foreign Corrupt Practices Act, or FCPA, and similar worldwide anti-bribery laws in non-U.S. jurisdictions generally prohibit companies and their intermediaries from making improper payments to non-U.S. government officials for the purpose of obtaining or retaining business. Because of the predominance of government-sponsored healthcare systems around the world, most of our customer relationships outside of the United States are with governmental entities and are therefore potentially subject to such anti-bribery laws. Global enforcement of anti-corruption laws has increased substantially in recent years, with more frequent voluntary self-disclosures by companies, aggressive investigations and enforcement proceedings by U.S. and foreign governmental agencies, and assessment of significant fines and penalties against companies and individuals. Our international operations create the risk of unauthorized payments or offers of payments by one of our employees, consultants, sales agents, or distributors, because these parties are not always subject to our control. It is our policy to implement safeguards to educate our employees and agents on these legal requirements and discourage improper practices. However, our existing safeguards and any future improvements may prove to be less than effective, and our employees, consultants, sales agents, or distributors may engage in conduct for which we might be held responsible. In addition, the government may seek to hold us liable for successor liability FCPA violations committed by any companies in which we invest or that we acquire. Any alleged or actual violations of these regulations may subject us to government scrutiny, severe criminal or civil sanctions and other liabilities, including exclusion from government contracting, and could disrupt our business, and result in a material adverse effect on our reputation, results of operations, financial condition, and cash flows.

The majority of our operations are conducted at five facilities in San Diego, California. Any disruption at these facilities could increase our expenses.

We take precautions to safeguard our facilities, which include manufacturing protocols, insurance, health and safety protocols, and off-site storage of computer data. However, a natural disaster, such as a fire, flood, earthquake, an act of terrorism, cyber attack or other disruptive event could cause substantial delays in our operations, damage or destroy our manufacturing equipment, inventory, or records and cause us to incur additional expenses. Earthquakes are of particular significance since our primary manufacturing facilities in California are located in an earthquake-prone area. In the event our existing manufacturing facilities or equipment are affected by man-made or natural disasters, we may be unable to manufacture products for sale or meet customer demands or sales projections. If our manufacturing

operations were curtailed or ceased, it would seriously harm our business. The insurance we maintain against fires, floods, earthquakes and other natural disasters and similar events may not be adequate to cover our losses in any particular case. We are currently pursuing plans to establish a second facility outside of California to mitigate these risks.

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Failure to protect our information technology infrastructure against cyber-based attacks, network security breaches, service interruptions, or data corruption could significantly disrupt our operations and adversely affect our business and operating results.

We rely on information technology and telephone networks and systems, including the Internet, to process and transmit sensitive electronic information and to manage or support a variety of business processes and activities, including sales, billing, customer service, procurement and supply chain, manufacturing, and distribution. We use enterprise information technology systems to record, process, and summarize financial information and results of operations for internal reporting purposes and to comply with regulatory financial reporting, legal, and tax requirements. Our information technology systems, some of which are managed by third-parties, may be susceptible to damage, disruptions or shutdowns due to computer viruses, ransomware or other malware, attacks by computer hackers, failures during the process of upgrading or replacing software, databases or components thereof, power outages, hardware failures, telecommunication failures, user errors or catastrophic events. Although we have developed systems and processes that are designed to protect customer information and prevent data loss and other security breaches, including systems and processes designed to reduce the impact of a security breach at a third party vendor, such measures cannot provide absolute security. If our systems are breached or suffer severe damage, disruption or shutdown and we are unable to effectively resolve the issues in a timely manner, our business and operating results may significantly suffer and we may be subject to litigation, government enforcement actions and other actions for which we could face financial liability and other adverse consequences which may include:

- loss of existing customers;
- difficulty in attracting new customers;
- problems in determining product cost estimates and establishing appropriate pricing;
- difficulty in preventing, detecting, and controlling fraud;
- disputes with customers, physicians, and other health care professionals;
- increases in operating expenses, incurrence of expenses, including remediation costs;
- loss of revenues;
- product development delays;
- disruption of key business operations; and
- diversion of attention of management and key information technology resources.

If our efforts to protect the security of information about our patients are unsuccessful, we could become subject to costly government enforcement actions and private litigation and our sales and reputation could suffer.

The nature of our business involves the receipt and storage of information about our patients. We have implemented programs to detect and alert us to data security incidents. However, because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time, we may be unable to anticipate these techniques or implement adequate preventive measures. We believe that companies have been increasingly subject to a wide variety of security incidents, cyber-attacks and other attempts to gain unauthorized access. These threats can come from a variety of sources, ranging in sophistication from an individual hacker to malfeasance by employees, consultants or other service providers to state-sponsored attacks. Cyber threats may be generic, or they may be custom-crafted against our information systems. Over the past year, cyber-attacks have become more prevalent and much harder to detect and defend against. Our network and storage applications may be vulnerable to cyber-attack, malicious intrusion, malfeasance, loss of data privacy or other significant disruption and may be subject to unauthorized access by hackers, employees, consultants or other service providers. In addition, hardware, software or applications we develop or procure from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Unauthorized parties may also attempt to gain access to our systems or facilities through fraud, trickery or other forms of deceiving our employees, contractors and temporary staff. If there are significant breaches of our data security or we fail to detect and appropriately respond to significant data security breaches, we could be exposed to government enforcement actions and private litigation. In addition, our patients could further lose confidence in our ability to protect their information, which could cause them to discontinue using our products or purchasing from us altogether.

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Our products may not continue to achieve market acceptance.

We expect that sales of our G4 PLATINUM system, which consists of a handheld receiver, reusable transmitter and disposable sensor, and our G5 Mobile system which consists of a handheld receiver, reusable transmitter, disposable sensors and a smartphone application that securely identifies, receives, deciphers and displays information transmitted by the transmitter, will account for substantially all of our product revenue for the foreseeable future. If and when we receive FDA approval for and begin commercialization of our next generation continuous glucose monitoring systems and sensors, we expect most patients will migrate onto those systems. Notwithstanding our prior experience in selling our products, we might be unable to successfully expand the commercialization of our products on a wide scale for a number of reasons, including:

- the FDA approval of our G5 Mobile system in the United States in August 2015 and the approval to sell our G5 Mobile system in the countries that recognize our CE Mark means that we have relatively limited experience selling our G5 Mobile system;
- the approval for a Pediatric Indication of our G5 Mobile system in the United States and the countries that recognize our CE Mark means that we have limited experience selling and marketing the G5 Mobile system to persons aged two to 17 years or their legal guardians;
- widespread market acceptance of our products by physicians and people with diabetes will largely depend on our ability to demonstrate their relative safety, efficacy, reliability, cost-effectiveness and ease of use;
- the limited size of our sales force;
- we may not have sufficient financial or other resources to adequately expand the commercialization efforts for our products;
- our FDA and other regulatory submissions may be delayed, or approved with limited product labeling;
- we may not be able to manufacture our products in commercial quantities or at an acceptable cost;
- people with diabetes do not generally receive broad reimbursement from third-party payors for their purchase of our products since many payors require that a policy holder meet specific medical criteria to qualify for reimbursement, which may reduce widespread use of our products;
- the uncertainties associated with establishing and qualifying new manufacturing facilities;
- except for the G5 Mobile under the CE Mark, our systems are not labeled as a replacement for the information that is obtained from single-point finger stick devices;
- people with diabetes will need to incur the costs of our systems in addition to single-point finger stick devices;
- the relative immaturity of the continuous glucose monitoring market internationally, and the general absence of international reimbursement of continuous glucose monitoring devices by third-party payors and government healthcare providers outside the United States;
- the introduction and market acceptance of competing products and technologies;
- our inability to obtain sufficient quantities of supplies at appropriate quality levels from our single-source and other key suppliers;
- our inability to manufacture products that perform in accordance with expectations of consumers; and
- rapid technological change may make our technology and our products obsolete.

Our G4 PLATINUM and G5 Mobile systems are more invasive than current self-monitored glucose testing systems, including single-point finger stick devices, and people with diabetes may be unwilling to insert a sensor in their body, especially if their current diabetes management involves no more than two finger sticks per day. Moreover, people with diabetes may not perceive the benefits of continuous glucose monitoring and may be unwilling to change their current treatment regimens. In addition, physicians tend to be slow to change their medical treatment practices because of perceived liability risks arising from the use of new products. Physicians may not recommend or prescribe our products until (i) there is more long-term clinical evidence to convince them to alter their existing treatment methods, (ii) there are additional recommendations from prominent physicians that our products are effective in monitoring glucose levels and (iii) reimbursement or insurance coverage is more widely available. We cannot predict when, if ever, physicians and people with diabetes may adopt more widespread use of continuous glucose monitoring systems, including our systems. If our systems do not achieve an adequate level of acceptance by people with

diabetes, physicians and healthcare payors, we may not generate significant product revenue and we may not become profitable.

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Current uncertainty in global economic and political conditions makes it particularly difficult to predict product demand and other related matters and makes it more likely that our actual results could differ materially from expectations.

Our operations and performance depend on worldwide economic and political conditions. These conditions have been adversely impacted by continued global economic uncertainty, political instability and military hostilities in multiple geographies, concerns over the downgrade of U.S. sovereign debt and continued sovereign debt, monetary and financial uncertainties in Europe and other foreign countries. These include potential reductions in the overall stability and suitability of the Euro as a single currency, given the economic and political challenges facing individual Eurozone countries. These conditions have made and may continue to make it difficult for our customers and potential customers to afford our products, and could cause our customers to stop using our products or to use them less frequently. If that were to occur, our revenue may decrease and our performance may be negatively impacted. In addition, the pressure on consumers to absorb more of their own health care costs has resulted in some cases in higher deductibles and limits on durable medical equipment, which may cause seasonality in purchasing patterns. Furthermore, during economic uncertainty, our customers have had job losses and may continue to have issues gaining timely access to sufficient health insurance or credit, which could result in their unwillingness to purchase products or impair their ability to make timely payments to us. We cannot predict the reoccurrence of any economic slowdown or the strength or sustainability of the economic recovery, worldwide, in the United States, or in our industry. These and other economic factors could have a material adverse effect on our financial condition and operating results.

We depend on clinical investigators and clinical sites to enroll patients in our clinical trials and other third parties to manage the trials and to perform related data collection and analysis, and, as a result, we may face costs and delays that are outside of our control.

We rely on clinical investigators and clinical sites to enroll patients in our clinical trials and other third parties to manage the trial and to perform related data collection and analysis. However, we may not be able to control the amount and timing of resources that clinical sites may devote to our clinical trials. If these clinical investigators and clinical sites fail to enroll a sufficient number of patients in our clinical trials or fail to ensure compliance by patients with clinical protocols or fail to comply with regulatory requirements, we will be unable to complete these trials, which could prevent us from obtaining regulatory approvals for our products. Our agreements with clinical investigators and clinical sites for clinical testing place substantial responsibilities on these parties and, if these parties fail to perform as expected, our trials could be delayed or terminated. If these clinical investigators, clinical sites or other third parties do not carry out their contractual duties or obligations or fail to meet expected deadlines, or if the quality or accuracy of the clinical data they obtain is compromised due to their failure to adhere to our clinical protocols, regulatory requirements or for other reasons, our clinical trials may be extended, delayed or terminated, or the clinical data may be rejected by the FDA, and we may be unable to obtain regulatory approval for, or successfully commercialize, our products.

Healthcare reforms, changes in healthcare policies and changes to third-party reimbursements for our products may affect demand for our products.

Comprehensive healthcare legislation, signed into law in the United States in March 2010, imposes stringent compliance, recordkeeping, and reporting requirements on companies in various sectors of the life sciences industry, with which we may need to comply, and enhanced penalties for non-compliance with the new healthcare regulations. The impact of this legislation remains unclear, and costs of compliance with this legislation, or any future amendments thereto, could result in certain risks and expenses that we may have to assume.

Other legal, regulatory and commercial policy influences are subjecting our industry to significant changes, and we cannot predict whether new regulations or policies will emerge from U.S. federal or state governments, foreign governments, or third party payors. Government and payors may in the future consider healthcare policies and proposals intended to curb rising healthcare costs, including those that could significantly affect reimbursement for healthcare products such as our systems. These policies have included, and may in the future include: basing reimbursement policies and rates on clinical outcomes, the comparative effectiveness and costs of different treatment technologies and modalities; imposing price controls and taxes on medical device providers; and other measures.

Future significant changes in the healthcare systems in the United States or elsewhere could also have a negative impact on the demand for our current and future products. These include changes that may reduce reimbursement rates for our products and changes that may be proposed or implemented by the current or future laws or regulations. In addition, 2010's comprehensive U.S. healthcare reform legislation included an annual excise tax on the sale of medical devices equal to 2.3% of the price of the device starting on January 1, 2013, which does not include, under Internal Revenue Service (“IRS”) guidance, our existing systems as they are medical devices deemed to be generally purchased by the general public at retail under such legislation. The Protecting Americans from Tax Hikes Act of 2015 was enacted on December 18, 2015, which provides a two-year moratorium on the medical device excise tax.

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As a result, as of June 30, 2016, we believed that our current ambulatory products were exempt from the excise tax, except for our G4 PLATINUM system for professional use which is subject to the excise tax. The current tax liability related to our G4 PLATINUM system for professional use is immaterial, but may become material in the future. Notwithstanding our belief, if the IRS were to determine that this tax applies to any of our current or future products, our future operating results could be harmed, which in turn could cause the price of our stock to decline. In addition, because of the uncertainty surrounding these issues, the impact of this tax has not been reflected in our forward guidance.

We may be liable for contamination or other harm caused by materials that we handle, and changes in environmental regulations could cause us to incur additional expense.

Our research and development and clinical processes involve the handling of potentially harmful biological materials as well as hazardous materials. We are subject to federal, state and local laws and regulations governing the use, handling, storage and disposal of hazardous and biological materials and we incur expenses relating to compliance with these laws and regulations. If violations of environmental, health and safety laws occur, we could be held liable for damages, penalties and costs of remedial actions. These expenses or this liability could have a significant negative impact on our financial condition. We may violate environmental, health and safety laws in the future as a result of human error, equipment failure or other causes. Environmental laws could become more stringent over time, imposing greater compliance costs and increasing risks and penalties associated with violations. We are subject to potentially conflicting and changing regulatory agendas of political, business and environmental groups. Changes to or restrictions on permitting requirements or processes, hazardous or biological material storage or handling might require an unplanned capital investment or relocation. Failure to comply with new or existing laws or regulations could harm our business, financial condition and results of operations.

We are subject to a variety of market and financial risks due to our international operations that could adversely affect those operations or our profitability and operating results.

Our operations in countries outside the United States, which accounted for 13% of our revenues for the quarter ended June 30, 2016, are accompanied by certain financial and other risks. In addition to opening offices in the United Kingdom and Germany this year, in connection with distributor acquisitions and otherwise, we intend to continue to pursue growth opportunities in sales outside the United States, especially in Europe, which could expose us to greater risks associated with international sales and operations. Our profitability and international operations are, and will continue to be, subject to a number of risks and potential costs, including:

- local product preferences and product requirements;
- longer-term receivables than are typical in the United States;
- fluctuations in foreign currency exchange rates;
- less intellectual property protection in some countries outside the United States than exists in the United States;
- trade protection measures and import and export licensing requirements;
- workforce instability;
- political and economic instability; and
- the potential payment of U.S. income taxes on certain earnings of our subsidiaries outside the United States upon repatriation.

For example, the Obama Administration has announced potential legislative proposals to tax profits of U.S. companies earned abroad. While it is impossible for us to predict whether these and other proposals will be implemented, or how they will ultimately impact us, they may materially impact our results of operations if, for example, our profits earned abroad are subject to U.S. income tax, or we are otherwise disallowed deductions as a result of these profits.

As another example, changes in foreign currency exchange rates may reduce the reported value of our foreign currency revenues, net of expenses, and cash flows. We cannot predict changes in currency exchange rates, the impact

of exchange rate changes, nor the degree to which we will be able to manage the impact of currency exchange rate changes.

As a final example, on June 23, 2016, the United Kingdom, or U.K., held a referendum in which voters approved an exit from the European Union, commonly referred to as “Brexit”. As a result of the referendum, it is expected that the U.K. government will begin negotiating the terms of the U.K.’s future relationship with the European Union. Although it is unknown what those terms will be, it is possible that there will be greater restrictions on imports and exports and on the movement of people between the U.K. and European Union countries, and increased regulatory complexities.

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Failure to obtain regulatory approval in foreign jurisdictions will prevent us from marketing our products abroad. We conduct limited commercial and marketing efforts in Canada, Europe, Australia, New Zealand, Asia, Latin America, the Middle East and Africa with respect to our continuous glucose monitoring systems and may seek to market our products in other regions in the future. Outside the United States, we can market a product only if we receive a marketing authorization and, in some cases, pricing approval, from the appropriate regulatory authorities. The approval procedure varies among countries and can involve additional testing, and the time required to obtain approval may differ from that required to obtain FDA approval. The foreign regulatory approval process may include all of the risks associated with obtaining FDA approval in addition to other risks. We may not obtain foreign regulatory approvals on a timely basis, if at all. Approval by the FDA does not ensure approval by regulatory authorities in other countries, and approval by one foreign regulatory authority does not ensure approval by regulatory authorities in other foreign countries or by the FDA. In addition, in order to obtain the approval of our products in certain foreign jurisdictions, we may need to obtain a Certificate to Foreign Government from the FDA. The FDA may refuse to issue a Certificate to Foreign Government in certain instances, including without limitation, during the pendency of any outstanding warning letter. As a result, we may not be able to file for regulatory approvals and may not receive necessary approvals to commercialize our products in any market outside the United States on a timely basis, or at all.

Our success will depend on our ability to attract and retain our personnel.

We are highly dependent on our senior management, especially Terry Gregg, our Executive Chairman, Kevin Sayer, our President and Chief Executive Officer, Steven R. Pacelli, our Executive Vice President of Strategy and Corporate Development, Jorge Valdes, our Executive Vice President and Chief Technical Officer, Andrew K. Balo, our Executive Vice President of Clinical, Regulatory, and Global Access, and Richard Doubleday, our Executive Vice President and Chief Commercial Officer. Our success will depend on our ability to retain our current management and to attract and retain qualified personnel in the future, including sales persons, scientists, clinicians, engineers and other highly skilled personnel. Competition for senior management personnel, as well as sales persons, scientists, clinicians and engineers, is intense and we may not be able to retain our personnel. The loss of the services of members of our senior management, scientists, clinicians or engineers could prevent the implementation and completion of our objectives, including the commercialization of our current products and the development and introduction of additional products. The loss of a member of our senior management or our professional staff would require the remaining executive officers to divert immediate and substantial attention to seeking a replacement. Each of our officers may terminate their employment at any time without notice and without cause or good reason. Additionally, volatility or a lack of positive performance in our stock price may adversely affect our ability to retain key employees. We expect to continue to expand our operations and grow our research and development, manufacturing, sales and marketing, product development and administrative operations. We expect this expansion to place a significant strain on our management and it will require hiring a significant number of qualified personnel. Accordingly, recruiting and retaining such personnel will be critical to our success. There is intense competition from other companies and research and academic institutions for qualified personnel in the areas of our activities. If we fail to identify, attract, retain and motivate these skilled personnel, we may be unable to continue our development and commercialization activities.

We may face risks associated with acquisitions of companies, products and technologies and our business could be harmed if we are unable to address these risks.

If we are presented with appropriate opportunities, we could acquire or make other investments in complementary companies, products or technologies. In May 2016, we acquired Nintamed, our distributor in Germany, Switzerland and Austria. We may not realize the anticipated benefit of our acquisitions, or the realization of the anticipated benefits may require greater expenditures than anticipated by us. We will likely face risks, uncertainties and disruptions associated with the integration process, including difficulties in the integration of the operations and services of any acquired company, integration of acquired technology with our products, diversion of our management's attention from other business concerns, the potential loss of key employees or customers of the acquired businesses and impairment charges if future acquisitions are not as successful as we originally anticipate. If we fail to successfully integrate other companies, products or technologies that we acquire, our business could be

harmed. Furthermore, we may have to incur debt or issue equity securities to pay for any additional future acquisitions or investments, the issuance of which could be dilutive to our existing shareholders. In addition, our operating results may suffer because of acquisition-related costs or amortization expenses or charges relating to acquired intangible assets.

Compliance with regulations relating to public company corporate governance matters and reporting is time consuming and expensive.

Many laws and regulations, notably those adopted in connection with the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act, new SEC regulations and The NASDAQ Stock Market listing rules, impose obligations on public companies, such as ours, which have increased the scope, complexity and cost of corporate governance,

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reporting and disclosure practices. Compliance with these laws and regulations, including enhanced new disclosures, has required and will continue to require substantial management time and oversight and the incurrence of significant accounting and legal costs. The effects of new laws and regulations remain unclear and will likely require substantial management time and oversight and require us to incur significant additional accounting and legal costs. Additionally, changes to existing accounting rules or standards, such as the potential requirement that U.S. registrants prepare financial statements in accordance with International Financial Reporting Standards, may adversely impact our reported financial results and business, and may require us to incur greater accounting fees.

If we are unable to successfully maintain effective internal control over financial reporting, investors may lose confidence in our reported financial information and our stock price and our business may be adversely impacted.

As a public company, we are required to maintain internal control over financial reporting and our management is required to evaluate the effectiveness of our internal control over financial reporting as of the end of each fiscal year. If we are not successful in maintaining effective internal control over financial reporting, there could be inaccuracies or omissions in the consolidated financial information we are required to file with the SEC. Additionally, even if there are no inaccuracies or omissions, we will be required to publicly disclose the conclusion of our management that our internal control over financial reporting or disclosure controls and procedures are not effective. These events could cause investors to lose confidence in our reported financial information, adversely impact our stock price, result in increased costs to remediate any deficiencies, attract regulatory scrutiny or lawsuits that could be costly to resolve and distract management’s attention, limit our ability to access the capital markets or cause our stock to be delisted from The NASDAQ Global Select Market or any other securities exchange on which it is then listed.

Valuation of share-based payments, which we are required to perform for purposes of recording compensation expense under authoritative guidance for share-based payment, involves assumptions that are subject to change and difficult to predict.

We record compensation expense in the consolidated statement of operations for share-based payments, such as employee stock options, restricted stock units and employee stock purchase plan shares, using the fair value method. The requirements of the authoritative guidance for share-based payment have and will continue to have a material effect on our future financial results reported under U.S. GAAP and make it difficult for us to accurately predict the impact on our future financial results.

For instance, estimating the fair value of share-based payments is highly dependent on assumptions regarding the future exercise behavior of our employees and changes in our stock price. The actual values realized upon the exercise, expiration, early termination or forfeiture of share-based payments might be significantly different than our estimates of the fair values of those awards as determined at the date of grant. If there are errors in our input assumptions for our valuations models, we may inaccurately calculate actual or estimated compensation expense for share-based payments.

The authoritative guidance for share-based payment could also adversely impact our ability to provide accurate guidance on our future financial results as assumptions that are used to estimate the fair value of share-based payments are based on estimates and judgments that may differ from period to period. We may also be unable to accurately predict the amount and timing of the recognition of tax benefits associated with share-based payments as they are highly dependent on the exercise behavior of our employees and the price of our stock relative to the exercise price of each outstanding stock option.

For those reasons, among others, the authoritative guidance for share-based payment may create variability and uncertainty in the share-based compensation expense we will record in future periods, which could adversely impact our stock price and increase our expected stock price volatility as compared to prior periods.

Changes in financial accounting standards or practices or existing taxation rules or practices may cause adverse unexpected revenue and/or expense fluctuations and affect our reported results of operations.

A change in accounting standards or practices or a change in existing taxation rules or practices can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. New accounting pronouncements and taxation rules and varying interpretations of accounting pronouncements and taxation practice have occurred and may occur in the future. The method in which we market and sell our products may have an impact on the manner in which we recognize revenue. In addition, changes to existing

rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business. Additionally, changes to existing accounting rules or standards, such as the potential requirement that U.S. registrants prepare financial statements in accordance with International Financial Reporting Standards, may adversely impact our reported financial results and business, and may further require us to incur greater accounting fees.

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The SEC ”conflict minerals” rule has caused us to incur additional expenses, could limit the supply and increase the cost of certain metals used in manufacturing our products, and could make us less competitive in our target markets.

We are required to disclose the origin, source and chain of custody of specified minerals, known as conflict minerals, that are necessary to the functionality or production of products manufactured or contracted to be manufactured. The requirement mandates companies to obtain sourcing data from suppliers, engage in supply chain due diligence, and file annually with the SEC a specialized disclosure report on Form SD covering the prior calendar year. The rule could limit our ability to source at competitive prices and to secure sufficient quantities of certain minerals used in the manufacture of our products, specifically tantalum, tin, gold and tungsten, as the number of suppliers that provide conflict-free minerals may be limited. In addition, we have incurred, and may continue to incur, material costs associated with complying with the rule, such as costs related to the determination of the origin, source and chain of custody of the minerals used in our products, the adoption of conflict minerals-related governance policies, processes and controls, and possible changes to products or sources of supply as a result of such activities. Within our supply chain, we may not be able to sufficiently verify the origins of the relevant minerals used in our products through the data collection and due diligence procedures that we implement, which may harm our reputation. Furthermore, we may encounter challenges in satisfying those customers that require that all of the components of our products be certified as conflict free, and if we cannot satisfy these customers, they may choose a competitor’s products. We continue to investigate the presence of conflict materials within our supply chain.

Risks Related to Our Common Stock

Our stock price is highly volatile and investing in our stock involves a high degree of risk, which could result in substantial losses for investors.

Historically, the market price of our common stock, like the securities of many other medical products companies, fluctuates and could continue to be volatile in the future. From January 1, 2016 through August 2, 2016, the closing price of our common stock on the NASDAQ Global Select Market was as high as $92.78 per share and as low as $53.38 per share.

The market price of our common stock is influenced by many factors that are beyond our control, including the following:

- securities analyst coverage or lack of coverage of our common stock or changes in their estimates of our financial performance;
- variations in quarterly operating results;
- future sales of our common stock by our stockholders;
- investor perception of us and our industry;
- announcements by us or our competitors of significant agreements, acquisitions or capital commitments;
- changes in market valuation or earnings of our competitors;
- general economic conditions;
- regulatory actions;
- legislation and political conditions; and
- terrorist acts.

Please also refer to the factors described above in this “Risk Factors” section. In addition, the stock market in general has experienced extreme price and volume fluctuations that have often been unrelated and disproportionate to the operating performance of companies in our industry. These broad market and industry factors may materially reduce the market price of our common stock, regardless of our operating performance.

Further, securities class action litigation has often been brought against public companies that experience periods of volatility in the market prices of their securities. Securities class action litigation could result in substantial costs and a diversion of our management's attention and resources.

If our financial performance fails to meet the expectations of investors and public market analysts, the market price of our common stock could decline.

Our revenues and operating results may fluctuate significantly from quarter to quarter. We believe that period-to-period comparisons of our operating results may not be meaningful and should not be relied on as an indication of our future performance. If quarterly revenues or operating results fall below the expectations of investors

or public market analysts, the trading price of our common stock could decline substantially. Factors that might cause quarterly fluctuations in our operating results include:

- our inability to manufacture an adequate supply of product at appropriate quality levels and acceptable costs;

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- possible delays in our research and development programs or in the completion of any clinical trials;
- a lack of acceptance of our products in the marketplace by physicians and people with diabetes;
- the inability of customers to receive reimbursements from third-party payors;
- failures to comply with regulatory requirements, which could lead to withdrawal of products from the market;
- our failure to continue the commercialization of any of our continuous glucose monitoring systems;
- competition;
- inadequate financial and other resources; and
- global and political economic conditions, political instability and military hostilities.

Failure to comply with covenants in our revolving credit agreement with JPMorgan Chase Bank and other syndicate lenders could result in our inability to borrow additional funds and adversely impact our business.

We have entered into a revolving credit agreement, a pledge and security agreement with JPMorgan Chase Bank and four other lenders to fund our business operations. These agreements imposes numerous financial and other restrictive covenants on our operations, including covenants relating to our general profitability and our liquidity. As of June 30, 2016, we were in compliance with the covenants imposed by the loan and security agreement. If we violate these or any other covenants, any outstanding amounts under these agreements could become due and payable prior to their stated maturity dates, each lender could proceed against any collateral in our operating accounts and our ability to borrow funds in the future may be restricted or eliminated. These restrictions may also limit our ability to borrow additional funds and pursue other business opportunities or strategies that we would otherwise consider to be in our best interests.

Increasing our financial leverage could affect our operations and profitability.

The current maximum available credit under our multi-currency revolving credit facility is $200 million. Our leverage ratio may affect the availability to us of additional capital resources as well as our operations in several ways, including:

- the terms on which credit may be available to us could be less attractive, both in the economic terms of the credit and the legal covenants;
- the possible lack of availability of additional credit;
- the potential for higher levels of interest expense to service or maintain our outstanding debt;
- the possibility of additional borrowings in the future to repay our indebtedness when it comes due; and
- the possible diversion of capital resources from other uses.

While we believe we will have the ability to service our debt and obtain additional resources in the future if and when needed, that will depend upon our results of operations and financial position at the time, the then-current state of the credit and financial markets, and other factors that may be beyond our control. Therefore, we cannot give assurances that sufficient credit will be available on terms that we consider attractive, or at all, if and when necessary or beneficial to us.

The issuance of shares by us in the future or sales of shares by our stockholders may cause the market price of our common stock to drop significantly, even if our business is performing well.

This issuance of shares by us in the future or sales of shares by our stockholders may cause the market price of our common stock to decline, perhaps significantly, even if our business is performing well. The market price of our common stock could also decline if there is a perception that sales of our shares are likely to occur in the future. This might also make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. Also, we may issue securities in connection with future financings and acquisitions, and those shares could dilute the holdings of other stockholders.

We do not intend to pay dividends for the foreseeable future.

We have never declared or paid cash dividends on our capital stock. We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not expect to declare or pay any dividends in the foreseeable future and the terms of our credit agreement restrict our ability to declare or pay any dividends. As a result, stockholders may only receive a return on their investment in our common stock if the market price of our common stock increases.

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Anti-takeover effects of our charter documents and Delaware law could make a merger, tender offer or proxy contest difficult, thereby depressing the trading price of our common stock.

In addition, there are provisions in our certificate of incorporation and bylaws, as well as provisions in the Delaware General Corporation Law, that may discourage, delay or prevent a change of control that might otherwise be beneficial to stockholders. For example:

- our Board of Directors may, without stockholder approval, issue shares of preferred stock with special voting or economic rights;
- our stockholders do not have cumulative voting rights and, therefore, each of our directors can only be elected by holders of a majority of our outstanding common stock;
- a special meeting of stockholders may only be called by a majority of our Board of Directors, the Chairman of our Board of Directors, or our Chief Executive Officer;
- our stockholders may not take action by written consent;
- our Board of Directors is divided into three classes, only one of which is elected each year; and
- we require advance notice for nominations for election to the Board of Directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are filed as a part of this report.

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Exhibit Number	Exhibit Description	Incorporated by Reference				Provided Herewith
		Form	File No.	Date of First Filing	Exhibit Number	
10.38	Credit Agreement dated June 17, 2016 by and among DexCom, Inc., the Lenders, and JPMorgan Chase Bank, as Administrative Agent.**					X
10.39	Industrial Net Lease, Broadway dated April 28, 2016, by and between PRA/LB, L.L.C. and DexCom, Inc.					X
10.40	Standard Form of Agreement dated May 2, 2016, by and between DexCom, Inc. and Skanska USA Building Inc.					X
10.41	Amendment to Non-Exclusive Distribution Agreement dated April 30, 2016 by and between RGH Enterprises, Inc. d/b/a Cardinal Health at Home and DexCom, Inc. **					X
31.01	Certification of Chief Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a).	—	—	—	—	X
31.02	Certification of Chief Financial Officer Pursuant to Securities Exchange Act Rule 13a-14(a).	—	—	—	—	X
32.01	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(b).*	—	—	—	—	X
32.02	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(b).*	—	—	—	—	X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

* This certification

is not deemed "filed" for purposes of Section 18 of the Securities Exchange Act, or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that DexCom specifically incorporates it by reference.

** Confidential treatment has been requested for certain portions of this document pursuant to an application for confidential treatment sent to the Securities and Exchange Commission. Such portions are omitted

from this filing and were filed separately with the Securities and Exchange Commission.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DEXCOM, INC.
(Registrant)

Dated: August 2, 2016

By: /s/ KEVIN R. SAYER

Kevin R. Sayer,
President & Chief Executive Officer (Principal Executive Officer)

Dated: August 2, 2016

By: /s/ JESS ROPER

Jess Roper,
Senior Vice President & Chief Financial Officer (Principal Financial and Accounting Officer)