SEMTECH CORP
Form 10-Q
November 29, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended October 29, 2017
or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to
Commission File Number 1-6395

SEMTECH CORPORATION
(Exact name of registrant as specified in its charter)

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

200 Flynn Road, Camarillo, California, 93012-8790
(Address of principal executive offices, Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company

Emerging growth company
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes No

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

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SEMTECH CORPORATION
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FOR THE QUARTER ENDED OCTOBER 29, 2017

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

Special Note Regarding Forward-Looking and Cautionary Statements

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

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

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

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

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

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

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

SEMTECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)
(unaudited)

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

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

SEMTECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(unaudited)

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

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

SEMTECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)
(unaudited)

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

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

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

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

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

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

SEMTECH CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Note 1: Organization and Basis of Presentation
Nature of Business
Semtech Corporation (together with its consolidated subsidiaries, the "Company" or "Semtech") is a global supplier of high performance analog, mixed-signal semiconductors and advanced algorithms. The end customers for the Company’s products are primarily original equipment manufacturers ("OEMs") that produce and sell electronics.
The Company designs, develops and markets a wide range of products for commercial applications, the majority of which are sold into the enterprise computing, communications, high-end consumer and industrial end-markets.
Enterprise Computing: datacenters, passive optical networks, desktops, notebooks, servers, monitors, printers and other computer peripherals.
Communications: base stations, optical networks, carrier networks, switches and routers, cable modems, wireless LAN and other communication infrastructure equipment.
High-End Consumer: handheld products, smartphones, wireless charging, set-top boxes, digital televisions, monitors and displays, tablets, wearables, digital video recorders and other consumer equipment.
Industrial: analog and digital video broadcast equipment, automated meter reading, Internet of Things ("IoT"), smart grid, wireless charging, military and aerospace, medical, security systems, automotive, industrial and home automation and other industrial equipment.
Fiscal Year
The Company reports results on the basis of 52 and 53 week periods and ends its fiscal year on the last Sunday in January. The other quarters generally end on the last Sunday of April, July and October. All quarters consist of 13 weeks except for one 14-week period in the fourth quarter of 53-week years. The third quarter of fiscal years 2018 and 2017 each consisted of 13 weeks.
Principles of Consolidation
The accompanying interim unaudited consolidated financial statements have been prepared by the Company, in accordance with accounting principles generally accepted in the United States ("GAAP") and on the same basis as the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended January 29, 2017. In the opinion of the Company, these interim unaudited consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly, in all material respects, the financial position of the Company for the interim periods presented. All intercompany balances have been eliminated.
Certain information and footnote disclosures normally included in annual consolidated financial statements have been condensed or omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. Because the interim unaudited consolidated financial statements do not include all of the information and notes required by GAAP for a complete set of consolidated financial statements, they should be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended January 29, 2017. The results reported in these interim unaudited consolidated financial statements should not be regarded as indicative of results that may be expected for any subsequent period or for the entire year.
The Company’s interim unaudited consolidated statements of income are referred to herein as the "Statements of Income." The Company’s interim unaudited consolidated balance sheets are referred to herein as the "Balance Sheets" and interim unaudited consolidated statements of cash flows as the "Statements of Cash Flows."
Segment Information
The Company’s Chief Executive Officer ("CEO") has been identified as the Chief Operating Decision Maker ("CODM") as defined by guidance regarding segment disclosures (see Note 13 for further discussion). In fiscal year 2016, the Company identified five operating segments in total. Four of the operating segments aggregated into one reportable segment, the Semiconductor Products Group. The remaining operating segment, the Systems Innovation Group (shown as "All others"), could not be aggregated with the other operating segments and did not meet the criteria for a separate reportable segment as defined by the guidance regarding segment disclosure. As a result, the financial activity associated with the Systems Innovation Group was reported separately from the Company’s

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

Recently Adopted Accounting Guidance

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

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

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

In July 2017, the FASB issued ASU No. 2017-11, Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815). This standard addresses narrow issues identified as a result of the complexity associated with applying GAAP for certain financial instruments with characteristics of liabilities and equity. Part I addresses the complexity of accounting for certain financial instruments with down round features. Part II addresses the difficulty of navigating Topic 480, Distinguishing Liabilities from Equity, because of the existence of pending content in the Accounting Standards Codification ("ASC") that results from the indefinite deferral of accounting requirements concerning mandatorily redeemable financial instruments of certain non-public entities and certain mandatorily redeemable non-controlling interests. The Company does not expect the adoption of this pronouncement to have a material impact on the Company's consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

Note 2: Acquisitions
AptoVision Technologies Inc.

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

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

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

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

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

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

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

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

The purchase price allocation for the AptoVision acquisition is complete and resulted in a reduction of goodwill during the three months ended October 29, 2017 of $4.7 million due primarily to tax related items. The adjustments did not have a material effect on the Company’s consolidated financial results.

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

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Triune Systems, L.L.C

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

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

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

Note 3: Earnings per Share

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

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

Basic earnings per common share is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding during the reporting period. Diluted earnings per common share incorporates the incremental shares issuable, calculated using the treasury stock method, upon the assumed exercise of non-qualified stock options, the vesting of restricted stock units and performance unit awards if the conditions have been met.

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Note 4: Share-Based Compensation

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