

M/A-COM Technology Solutions Holdings, Inc.

Form 10-Q

February 02, 2015

[Table of Contents](#)

**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 January 2, 2015**

**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: 001-35451**

**M/A-COM Technology Solutions Holdings, Inc.**

**(Exact name of registrant as specified in its charter)**

|  |  |
|--|--|
| <b>Delaware</b><br><b>(State or other jurisdiction of</b><br><b>incorporation or organization)</b> | <b>27-0306875</b><br><b>(I.R.S. Employer</b><br><b>Identification No.)</b> |
| <b>100 Chelmsford Street</b><br><b>Lowell, MA 01851</b>  |  |
| <b>(Address of principal executive offices and zip code)</b>                                       |  |
| <b>(978) 656-2500</b>  |  |
| <b>(Registrant's telephone number, including area code)</b>  |  |

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 Website, 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

Edgar Filing: M/A-COM Technology Solutions Holdings, Inc. - Form 10-Q

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting 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

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

As of January 30, 2015, there were 47,788,456 shares of the registrant's common stock outstanding.

**Table of Contents**

**M/A-COM TECHNOLOGY SOLUTIONS HOLDINGS, INC.**

**FORM 10-Q**

**TABLE OF CONTENTS**

|  | <b>Page No.</b> |
|--|-----------------|
| <b><u>PART I FINANCIAL INFORMATION</u></b>   |                 |
| Item 1. <u>Financial Statements (Unaudited)</u>  | 1               |
| <u>Condensed Consolidated Balance Sheets</u>   | 1               |
| <u>Condensed Consolidated Statements of Operations</u>   | 2               |
| <u>Condensed Consolidated Statements of Comprehensive Income</u>                                     | 3               |
| <u>Condensed Consolidated Statement of Stockholders' Equity</u>                                      | 4               |
| <u>Condensed Consolidated Statements of Cash Flows</u>   | 5               |
| <u>Notes to Condensed Consolidated Financial Statements</u>  | 6               |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 23              |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            | 32              |
| Item 4. <u>Controls and Procedures</u>   | 33              |
| <b><u>PART II OTHER INFORMATION</u></b>  |                 |
| Item 1. <u>Legal Proceedings</u>   | 33              |
| Item 1A. <u>Risk Factors</u>   | 33              |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                           |                 |
| Item 6. <u>Exhibits</u>  | 56              |
| <u>Signatures</u>  | 57              |

**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****M/A-COM TECHNOLOGY SOLUTIONS HOLDINGS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands)****(Unaudited)**

|  | <b>January 2,<br/>2015</b> | <b>October 3,<br/>2014</b> |
|--|----------------------------|----------------------------|
| <b>ASSETS</b>                              |                            |                            |
| Current assets:                            |                            |                            |
| Cash and cash equivalents                  | \$ 48,335                  | \$ 173,895                 |
| Accounts receivable, net                   | 79,452                     | 75,156                     |
| Inventories                                | 89,208                     | 73,572                     |
| Deferred income taxes                      | 35,956                     | 35,957                     |
| Other current assets                       | 25,851                     | 14,769                     |
| Total current assets                       | 278,802                    | 373,349                    |
| Property and equipment, net                | 59,393                     | 50,357                     |
| Goodwill                                   | 95,764                     | 10,784                     |
| Intangible assets, net                     | 272,325                    | 142,633                    |
| Deferred income taxes                      | 46,381                     | 84,629                     |
| Other assets                               | 24,626                     | 20,482                     |
| <b>TOTAL ASSETS</b>                        | <b>\$ 777,291</b>          | <b>\$ 682,234</b>          |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b> |                            |                            |
| Current liabilities:                       |                            |                            |
| Current portion of lease                   | \$ 581                     | \$                         |
| Current portion of long-term debt          | 3,500                      | 3,478                      |
| Accounts payable                           | 32,636                     | 29,797                     |
| Accrued liabilities                        | 34,544                     | 34,248                     |
| Income taxes payable                       | 418                        | 865                        |
| Deferred revenue                           | 219                        | 17,258                     |
| Total current liabilities                  | 71,898                     | 85,646                     |
| Lease payable, less current portion        | 873                        |                            |
| Long-term debt, less current portion       | 442,375                    | 343,178                    |
| Warrant liability                          | 26,409                     | 15,801                     |
| Other long-term liabilities                | 8,714                      | 9,042                      |

|   |                   |                   |
|---|-------------------|-------------------|
| Total liabilities                                 | 550,269           | 453,667           |
| <b>Commitments and contingencies (Note 10)</b>    |                   |                   |
| Stockholders' equity:                             |                   |                   |
| Common stock                                      | 48                | 48                |
| Treasury stock                                    | (330)             | (330)             |
| Accumulated other comprehensive loss              | (1,147)           | (1,354)           |
| Additional paid-in capital                        | 382,268           | 377,714           |
| Accumulated deficit                               | (153,817)         | (147,511)         |
| Total stockholders' equity                        | 227,022           | 228,567           |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> | <b>\$ 777,291</b> | <b>\$ 682,234</b> |

See notes to condensed consolidated financial statements.

**Table of Contents**

**M/A-COM TECHNOLOGY SOLUTIONS HOLDINGS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share data)

(Unaudited)

|  | <b>Three Months Ended</b>  |                            |
|--|----------------------------|----------------------------|
|  | <b>January 2,<br/>2015</b> | <b>January 3,<br/>2014</b> |
| Revenue                                  | \$ 114,864                 | \$ 84,154                  |
| Cost of revenue                          | 60,663                     | 48,432                     |
| Gross profit                             | 54,201                     | 35,722                     |
| Operating expenses:                      |                            |                            |
| Research and development                 | 19,474                     | 12,430                     |
| Selling, general and administrative      | 25,599                     | 19,383                     |
| Restructuring charges                    |                            | 13,090                     |
| Total operating expenses                 | 45,073                     | 44,903                     |
| Income (loss) from operations            | 9,128                      | (9,181)                    |
| Other income (expense)                   |                            |                            |
| Warrant liability (expense) gain         | (10,608)                   | 1,282                      |
| Interest expense                         | (4,723)                    | (586)                      |
| Other income                             | 375                        | 78                         |
| Total other income (expense)             | (14,956)                   | 774                        |
| Loss before income taxes                 | (5,828)                    | (8,407)                    |
| Income tax provision (benefit)           | 478                        | (1,591)                    |
| Loss from continuing operations          | (6,306)                    | (6,816)                    |
| Loss from discontinued operations        |                            | (2,105)                    |
| Loss attributable to common stockholders | \$ (6,306)                 | \$ (8,921)                 |
| <b>Net loss per share:</b>               |                            |                            |
| Basic loss per share:                    |                            |                            |
| Loss from continuing operations          | \$ (0.13)                  | \$ (0.15)                  |
| Loss from discontinued operations        |                            | (0.05)                     |

Edgar Filing: M/A-COM Technology Solutions Holdings, Inc. - Form 10-Q

|                                   |           |           |
|-----------------------------------|-----------|-----------|
| Loss per share - basic            | \$ (0.13) | \$ (0.19) |
| <b>Diluted loss per share:</b>    |           |           |
| Loss from continuing operations   | \$ (0.13) | \$ (0.15) |
| Loss from discontinued operations |           | (0.05)    |
| Loss per share - diluted          | \$ (0.13) | \$ (0.19) |
| <b>Shares used:</b>               |           |           |
| Basic                             | 47,606    | 46,517    |
| Diluted                           | 47,606    | 46,517    |

See notes to condensed consolidated financial statements.



**Table of Contents**

**M/A-COM TECHNOLOGY SOLUTIONS HOLDINGS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

**(In thousands)**

**(Unaudited)**

|                                   | <b>Three Months Ended</b>  |                            |
|-----------------------------------|----------------------------|----------------------------|
|                                   | <b>January 2,<br/>2015</b> | <b>January 3,<br/>2014</b> |
| Net loss                          | \$ (6,306)                 | \$ (8,921)                 |
| Foreign currency translation gain | 207                        | 45                         |
| <b>Total comprehensive loss</b>   | <b>\$ (6,099)</b>          | <b>\$ (8,876)</b>          |

See notes to condensed consolidated financial statements.

Table of Contents**M/A-COM TECHNOLOGY SOLUTIONS HOLDINGS, INC.****CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY****(In thousands)****(Unaudited)**

|   | Common Stock  |              | Treasury Stock |                 | Accumulated<br>Other Comprehensive<br>Loss | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Total<br>Stockholders<br>Equity |
|---|---------------|--------------|----------------|-----------------|--|----------------------------------|------------------------|---------------------------------|
|   | Shares        | Amount       | Shares         | Amount          |  |                                  |                        |                                 |
| <b>Balance at October 3, 2014</b>                                 | <b>47,548</b> | <b>\$ 48</b> | <b>23</b>      | <b>\$ (330)</b> | <b>\$ (1,354)</b>                          | <b>\$ 377,714</b>                | <b>\$ (147,511)</b>    | <b>\$ 228,567</b>               |
| Issuance of common stock upon exercise of stock options           | 45            |              |                |                 |  | 389                              |                        | 389                             |
| Issuance of common stock pursuant to employee stock purchase plan | 97            |              |                |                 |  | 1,343                            |                        | 1,343                           |
| Shares repurchased for tax withholdings on stock awards           | (15)          |              |                |                 |  | (337)                            |                        | (337)                           |
| Vesting of restricted common stock and units                      | 41            |              |                |                 |  |                                  |                        |                                 |
| Share-based and other incentive compensation                      |               |              |                |                 |  | 3,159                            |                        | 3,159                           |
| Foreign currency translation                                      |               |              |                |                 | 207  |                                  |                        | 207                             |
| Net loss  |               |              |                |                 |  |                                  | (6,306)                | (6,306)                         |
| <b>Balance at January 2, 2015</b>                                 | <b>47,716</b> | <b>\$ 48</b> | <b>23</b>      | <b>\$ (330)</b> | <b>\$ (1,147)</b>                          | <b>\$ 382,268</b>                | <b>\$ (153,817)</b>    | <b>\$ 227,022</b>               |

See notes to condensed consolidated financial statements.

**Table of Contents**

**M/A-COM TECHNOLOGY SOLUTIONS HOLDINGS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(Unaudited)

|   | <b>Three Months Ended</b>  |                            |
|---|----------------------------|----------------------------|
|   | <b>January 2,<br/>2015</b> | <b>January 3,<br/>2014</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                            |                            |
| Net loss  | \$ (6,306)                 | \$ (8,921)                 |
| Adjustments to reconcile net loss to net cash from operating activities (net of acquisition): |                            |                            |
| Warrant liability expense (gain)  | 10,608                     | (1,282)                    |
| Depreciation and amortization   | 10,276                     | 5,011                      |
| Acquired inventory step-up amortization   | 667                        | 203                        |
| Amortization of deferred financing costs  | 439                        | 119                        |
| Deferred income taxes   | 504                        | 20                         |
| Loss on disposal of property and equipment  | 63                         | 59                         |
| Share-based compensation  | 3,159                      | 1,845                      |
| Change in operating assets and liabilities (net of acquisition):                              |                            |                            |
| Accounts receivable   | 6,553                      | 9,146                      |
| Inventories   | 1,597                      | (2,531)                    |
| Prepaid expenses and other assets   | 2,390                      | (2,366)                    |
| Accounts payable  | (3,424)                    | 419                        |
| Accrued liabilities   | (6,941)                    | 4,967                      |
| Income taxes  | (463)                      | (4,730)                    |
| Deferred revenue  | (17,039)                   | 379                        |
| <b>Net cash from operating activities</b>   | <b>2,083</b>               | <b>2,338</b>               |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                            |                            |
| Purchases of property and equipment   | (2,956)                    | (2,167)                    |
| Acquisition of intellectual property  | (1,056)                    | (2,983)                    |
| Acquisition of businesses, net  | (223,070)                  | (232,028)                  |
| <b>Net cash used in investing activities</b>  | <b>(227,082)</b>           | <b>(237,178)</b>           |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                            |                            |
| Capital contributions   |                            | 2,100                      |
| Payments on long-term debt  | (875)                      |                            |
| Proceeds from revolving credit facility   | 100,000                    | 220,000                    |
| Payments on capital leases  | (1,081)                    |                            |
| Financing costs   |                            | (53)                       |

Edgar Filing: M/A-COM Technology Solutions Holdings, Inc. - Form 10-Q

|   |           |           |
|---|-----------|-----------|
| Proceeds from stock option exercises and employee stock purchases | 1,732     | 1,057     |
| Repurchase of common stock  | (337)     |           |
| Excess tax benefits   |           | 580       |
| Payment of assumed debt   |           | (32,864)  |
| Net cash from financing activities                                | 99,439    | 190,820   |
| NET CHANGE IN CASH AND CASH EQUIVALENTS                           | (125,560) | (44,020)  |
| CASH AND CASH EQUIVALENTS Beginning of period                     | 173,895   | 110,488   |
| CASH AND CASH EQUIVALENTS End of period                           | \$ 48,335 | \$ 66,468 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:                |           |           |
| Cash paid for interest  | \$ 5,753  | \$ 128    |
| Cash paid for income taxes  | \$ 70     | \$ 1,656  |

See notes to condensed consolidated financial statements.

**Table of Contents**

**M/A-COM TECHNOLOGY SOLUTIONS HOLDINGS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. DESCRIPTION OF BUSINESS, BASIS OF PRESENTATION AND ACCOUNTING**

**Description of Business** M/A-COM Technology Solutions Holdings, Inc. (MACOM or the Company) was incorporated in Delaware on March 25, 2009. MACOM is a supplier of high-performance analog RF, microwave, millimeterwave and photonic semiconductor products that enable next-generation internet and modern battlefield applications. Headquartered in Lowell, Massachusetts, MACOM has offices in North America, Europe, Asia and Australia.

The Company has one reportable operating segment which designs, develops, manufactures and markets semiconductors and modules.

**Basis of Presentation** The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations.

The Company's fiscal year ends on the Friday closest to the last day of September. For fiscal years in which there are 53 weeks, the first quarter reporting period includes 14 weeks. Fiscal year 2015 is 52 weeks in length and the three months ended January 2, 2015 includes 13 weeks. Fiscal year 2014 was 53 weeks in length and the three months ended January 3, 2014 includes 14 weeks.

On December 15, 2014, MACOM completed the acquisition of BinOptics Corporation (BinOptics), a supplier of high-performance photonic products (BinOptics Acquisition). The BinOptics Acquisition was accounted for as a purchase, and the operations of BinOptics have been included in MACOM's condensed consolidated financial statements since December 15, 2014, the date of acquisition.

MACOM acquired Nitronex, LLC (Nitronex) in connection with a common-control business combination on February 13, 2014 (Nitronex Acquisition). Nitronex, a supplier of high-performance gallium nitride (GaN) semiconductors for RF, microwave, and millimeterwave applications, was previously acquired by GaAs Labs, LLC (GaAs Labs) on June 25, 2012. GaAs Labs is a stockholder in MACOM and GaAs Labs, Nitronex and MACOM were under common control from June 25, 2012 through February 13, 2014 due to a common controlling stockholder. The accompanying condensed financial statements for three months ended January 3, 2014 combine MACOM's historical condensed consolidated financial statements with the historical financial statements of Nitronex from September 28, 2013 through January 3, 2014, and have been presented in a manner similar to a pooling-of-interests to include the results of operations of each business since the date of common control. Since February 13, 2014, the results of Nitronex are included with those of MACOM on a consolidated basis. The accompanying condensed consolidated financial statements are referred to as consolidated for all periods presented.

On December 18, 2013, MACOM completed the acquisition of Mindspeed Technologies, Inc. (Mindspeed), a supplier of high-performance, analog semiconductor solutions for communications infrastructure applications (Mindspeed

Acquisition). The Mindspeed Acquisition was accounted for as a purchase, and the operations of Mindspeed have been included in MACOM's consolidated financial statements since December 18, 2013, the date of acquisition.

These consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended October 3, 2014, filed with the SEC on December 9, 2014.

In the opinion of management, the accompanying unaudited consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the full fiscal year 2015. The condensed consolidated financial statements include the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

## **Table of Contents**

**Principles of Consolidation** The accompanying consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. Prior to the Nitronex Acquisition, MACOM and Nitronex did not have material intracompany transactions.

**Use of Estimates** The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities during the reporting periods, the reported amounts of revenue and expenses during the reporting periods, and the disclosure of contingent assets and liabilities at the date of the financial statements. On an ongoing basis, the Company bases estimates and assumptions on historical experience, currently available information, and various other factors that management believes to be reasonable under the circumstances. Actual results may differ materially from these estimates and assumptions.

**Discontinued Operations** In the second quarter of fiscal year 2014, the Company sold assets of the non-core wireless business of Mindspeed and presented the divested businesses as assets held for sale as of the date of the Mindspeed Acquisition. The operating results of the business are reflected in discontinued operations.

**Foreign Currency Translation and Remeasurement** The Company's consolidated financial statements are presented in U.S. dollars. While the majority of the Company's foreign operations use the U.S. dollar as the functional currency, the financial statements of the Company's foreign operations for which the functional currency is not the U.S. dollar are translated into U.S. dollars at the exchange rates in effect at the balance sheet dates (for assets and liabilities) and at average exchange rates (for revenue and expenses). The unrealized translation gains and losses on the net investment in these foreign operations are accumulated as a component of other comprehensive income loss.

The financial statements of the Company's foreign operations where the functional currency is the U.S. dollar, but where the underlying transactions are transacted in a different currency, are re-measured at the exchange rate in effect at the balance sheet date with respect to monetary assets and liabilities. Nonmonetary assets and liabilities, such as inventories and property and equipment, and related statements of operations accounts, such as cost of revenue and depreciation, are remeasured at historical exchange rates. Revenue and expenses, other than cost of revenue, amortization and depreciation, are translated at the average exchange rate for the period in which the transaction occurred. The net gains (losses) on foreign currency remeasurement are reflected in selling, general and administrative expense in the accompanying consolidated statements of operations. The Company's recognized net gains and losses on foreign exchange are included in selling, general and administrative expense and for all periods presented were immaterial.

**Revenue Recognition** The Company recognizes revenue when: (i) persuasive evidence of an arrangement exists; (ii) delivery or services have been rendered; (iii) the price is fixed or determinable, and (iv) collectability is reasonably assured. The Company recognizes revenue with the transfer of title and risk of loss, and provide for reserves for returns and other allowances.

The Company generally does not provide customers other than distributors the right to return product, with the exception of warranty related matters. Accordingly, the Company does not maintain a reserve for such customers. Shipping and handling fees billed to customers are recorded as revenue while the related costs are classified as a component of revenue. The Company provides warranties for its products and accrues the cost of warranty claims in the period the related revenue is recorded.

Certain agreements with distribution customers provide for rights of return and price protection until such time as the Company's products are sold by the distributors to their customers and, until the quarter ended January 2, 2015, the

Company recognizes revenue from sales under such agreements when the distributor resold the product to its end customer (the sell-through basis of recognizing revenue). In the first quarter ended January 2, 2015, the Company completed an evaluation of our revenue recognition methodology relating to distributors and concluded that it was more appropriate to recognize revenues on sales to distributors at the time of shipment to a distributor (the sell-in basis of recognizing revenue).



---

**Table of Contents**

Prior to the first quarter, the Company had concluded that it had insufficient information as well as limited experience in estimating the effect of the right of distributors to return product and price protection and, accordingly, used the sell through method of revenue recognition. The Company had recently concluded a study of three years of distributor related transactions in addition to its ongoing efforts to standardize its revenue recognition policies and believes the Company now has sufficient data to reach the conclusion that sales and revenues relating to distributor transactions are capable of reasonable estimation. Accordingly, the Company implemented the sell-in method of accounting for sales to distributors. The Company recorded adjustments during the first quarter ended January 2, 2015 related to this change to recognize previously deferred revenues and to establish a reserve of \$5.5 million against distributor sales. The net effect was a one-time increase of \$15.1 million for both previously deferred revenue and current period revenue. Additionally, the Company recognized the related inventory costs of \$4.7 million. The foregoing resulted in a reduction of net loss by \$8.5 million and a reduction of earnings per share loss of \$0.18 per share.

In determining the new reserve amount, the Company noted that distributor payments are due under agreed terms and are not contingent upon resale or any other matter other than the passage of time. The Company has agreements with some distributors and customers for various programs, including pricing protection, obsolete inventory, new products and stock rotation. Sales to these distributors and customers, as well as the existence of sales incentive programs, are in accordance with terms set forth in written agreements with these distributors and customers. In general, credits allowed under these programs are capped based upon individual distributor agreements. The Company records charges associated with these programs as a reduction of revenue at the time of sale based upon historical activity. The Company's policy is to use a twelve month rolling historical experience rate as well as an estimated general reserve percentage in order to estimate the necessary allowance to be recorded.

**Recent Accounting Standards** Under the Jumpstart Our Business Startups Act (JOBS Act), the Company meets the definition of an emerging growth company. The Company has elected to avail itself of the extended transition period for complying with new or revised accounting standards pursuant to Section 107(b) of the JOBS Act.

In April 2014, the FASB issued Accounting Standards Update 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* (ASU 2014-08), which raises the threshold for disposals to qualify as discontinued operations. A discontinued operation is defined as: (1) a component of an entity or group of components that has been disposed of or classified as held for sale and represents a strategic shift that has or will have a major effect on an entity's operations and financial results; or (2) an acquired business that is classified as held for sale on the acquisition date. ASU 2014-08 also requires additional disclosures regarding discontinued operations, as well as material disposals that do not meet the definition of discontinued operations. The application of this guidance is prospective from the date of adoption and applies only to disposals (or new classifications to held for sale) that have not been reported as discontinued operations in previously issued financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 requires revenue recognition to depict the transfer of 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. ASU 2014-09 sets forth a new revenue recognition model that requires identifying the contract, identifying the performance obligations, determining the transaction price, allocating the transaction price to performance obligations and recognizing the revenue upon satisfaction of performance obligations. The amendments in the ASU can be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the update recognized at the date of the initial application along with additional disclosures. The Company is currently evaluating the impact of ASU 2014-09, which is effective for the Company in its fiscal year beginning on September 30, 2017.

## 2. ACQUISITIONS

***Acquisition of BinOptics Corporation*** On November 17, 2014, MACOM entered into an Agreement and Plan of Merger with BinOptics, a supplier of high-performance photonic products. On December 15, 2014, MACOM completed the acquisition of BinOptics. In accordance with the Agreement and Plan of Merger, all of the outstanding equity interests (including outstanding warrants) of BinOptics were exchanged for aggregate consideration of approximately \$224.1 million in cash, subject to customary purchase price adjustments. The Company funded the BinOptics Acquisition with a combination of cash on hand and the incurrence of \$100.0 million of additional borrowings under our existing Revolving Facility. The Company incurred \$4.6 million in transaction costs related to the BinOptics Acquisition during the three months ended January 2, 2015.

**Table of Contents**

The Company believes BinOptics aligns with its core growth strategy in its Networks market, and that it has a high-performance photonic products business model consistent with the Company's target model for higher margin products with long product lifecycles. Further, the Company believes that BinOptics complements its existing business with an established footprint and customer relationships in the Asia-Pacific region and expands its addressable market for Indium Phosphide (InP) high-performance laser semiconductors and technology for use in optical networks.

The BinOptics Acquisition was accounted for as a purchase and the operations of BinOptics have been included in MACOM's consolidated financial statements since the date of acquisition.

MACOM is recognizing BinOptics' assets acquired and liabilities assumed based upon the fair value of such assets and liabilities measured as of the date of acquisition. The aggregate purchase price for BinOptics is being allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The excess of the purchase price over the fair value of the acquired net assets represents cost and revenue synergies specific to the Company, as well as non-capitalizable intangible assets, such as the employee workforce acquired, and has been allocated to goodwill, none of which is tax deductible. A preliminary allocation follows (in thousands):

|  | <b>Amount</b>    |
|--|------------------|
| Current assets                               | \$ 41,836        |
| Intangible assets                            | 135,254          |
| Other assets                                 | 14,090           |
| <b>Total assets acquired</b>                 | <b>191,180</b>   |
| <b>Liabilities assumed:</b>                  |                  |
| Debt   | 1,491            |
| Deferred income taxes                        | 37,745           |
| Other liabilities                            | 12,810           |
| <b>Total liabilities assumed</b>             | <b>52,046</b>    |
| <b>Net assets acquired</b>                   | <b>139,134</b>   |
| <b>Consideration:</b>                        |                  |
| Cash paid upon closing, net of cash acquired | 224,114          |
| <b>Goodwill</b>                              | <b>\$ 84,980</b> |

The components of the acquired intangible assets on a preliminary basis were as follows (in thousands):

|                      | <b>Amount</b> | <b>Useful Lives<br/>(Years)</b> |
|----------------------|---------------|---------------------------------|
| Developed technology | \$ 17,954     | 7                               |

Edgar Filing: M/A-COM Technology Solutions Holdings, Inc. - Form 10-Q

|                        |         |    |
|------------------------|---------|----|
| Customer relationships | 113,500 | 10 |
| Backlog                | 3,800   | 1  |

\$ 135,254

The overall weighted-average life of the identified intangible assets acquired in the acquisition is estimated to be 9.3 years and the assets are being amortized over their estimated useful lives based upon the pattern over which the Company expects to receive the economic benefit from these assets.

The purchase accounting is preliminary and subject to completion including the areas of taxation where a study of the potential utilization of acquired net operating losses is not yet complete, and certain fair value measurements, particularly the finalization of the valuation assessment of the acquired tangible and intangible assets. The adjustments arising from the completion of the outstanding matters may materially affect the preliminary purchase accounting and would be retroactively reflected in the financial statements as of January 2, 2015 and for the interim period then ended.

**Table of Contents**

The following is a summary of BinOptics revenue and earnings included in MACOM's accompanying condensed consolidated statements of operations for the three months ended January 2, 2015 (in thousands):

|   |          |
|---|----------|
| Revenue   | \$ 2,128 |
| Loss from continuing operations before income taxes | (1,379)  |

**Unaudited Supplemental Pro Forma Data** The pro forma statements of operations data for the three months ended January 2, 2015 and January 3, 2014 below give effect to the BinOptics Acquisition, described above, as if it had occurred at September 27, 2013. These amounts have been calculated after applying MACOM's accounting policies and adjusting the results of BinOptics to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets and additional interest expense on acquisition-related borrowings had been applied and incurred since September 27, 2013. The supplemental pro forma earnings for the three months ended January 2, 2015 and January 3, 2014 were adjusted to exclude discontinued operations. This pro forma data is presented for informational purposes only and does not purport to be indicative of the Company's future results of operations.

|          | <b>Three months ended</b>  |                            |
|----------|----------------------------|----------------------------|
|          | <b>January 2,<br/>2015</b> | <b>January 3,<br/>2014</b> |
| Revenue  | \$ 126,731                 | \$ 90,764                  |
| Net loss | (7,611)                    | (11,727)                   |

**Acquisition under Common Control** On February 13, 2014, MACOM acquired Nitronex, LLC (Nitronex) an entity under common control, through a cash payment of \$26.1 million for all of the outstanding ownership interests of Nitronex (Nitronex Acquisition). MACOM funded the Nitronex Acquisition through the use of available cash and borrowings under its revolving credit facility. The purchase price includes \$3.9 million held on account by a third-party escrow agent pending any claims by MACOM in connection with general representation matters made by GaAs Labs, LLC (GaAs Labs) in the transaction. The indemnification period expires in August 2015, at which point if no claims are made, all amounts will be paid to GaAs Labs.

**Acquisition of Mindspeed Technologies, Inc.** On December 18, 2013, MACOM completed the acquisition of Mindspeed, a supplier of semiconductor solutions for communications infrastructure applications. The Company acquired Mindspeed to further its expansion into high-performance analog products.

MACOM completed the Mindspeed Acquisition through a cash tender offer (Offer) by Micro Merger Sub, Inc. (Merger Sub), a wholly-owned subsidiary of MACOM, for all of the outstanding shares of common stock, par value \$0.01 per share, of Mindspeed (Shares) at a purchase price of \$5.05 per share, net to the seller in cash, without interest, less any applicable withholding taxes (Offer Price). Immediately following the Offer, Merger Sub merged with and into Mindspeed, with Mindspeed surviving as a wholly-owned subsidiary of MACOM. At the effective time of the merger, each Share not acquired in the Offer (other than shares held by MACOM, Merger Sub and Mindspeed, and shares of restricted stock assumed by MACOM in the merger) was converted into the right to receive the Offer Price. MACOM funded the Mindspeed Acquisition through the use of available cash and borrowings under its revolving credit facility. The aggregate purchase price for the Shares, net of cash acquired, was \$232.0 million and MACOM assumed \$81.3 million of liabilities and incurred costs of \$4.5 million expensed during fiscal year 2014.

The Mindspeed Acquisition was accounted for as a purchase and the operations of Mindspeed have been included in MACOM's consolidated financial statements since the date of acquisition.

MACOM recognized assets acquired and liabilities assumed based upon the fair value of such assets and liabilities measured as of the date of acquisition. The aggregate purchase price for Mindspeed was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The excess of the purchase price over the fair value of the acquired net assets represents cost and revenue synergies specific to the Company, as well as non-capitalizable intangible assets, such as the employee workforce acquired, and has been allocated to goodwill, none of which is tax deductible.

**Table of Contents**

The Company finalized the purchase price allocation of the Mindspeed acquisition during the current quarter. No allocation adjustments were recorded during the three months ended January 2, 2015. The final allocation of purchase price is as follows:

|  | <b>Amount</b>  |
|--|----------------|
| Current assets                                     | \$ 50,612      |
| Intangible assets                                  | 138,663        |
| Deferred income taxes                              | 92,881         |
| Other assets                                       | 31,788         |
| <b>Total assets acquired</b>                       | <b>313,944</b> |
| Liabilities assumed:                               |                |
| Current liabilities                                | 35,270         |
| Debt   | 40,177         |
| Other liabilities                                  | 5,865          |
| <b>Total liabilities assumed</b>                   | <b>81,312</b>  |
| <b>Net assets acquired</b>                         | <b>232,632</b> |
| Consideration:                                     |                |
| Cash paid upon closing, net of cash acquired       | 232,028        |
| Fair value of vested awards assumed in acquisition | 785            |
| <b>Total consideration</b>                         | <b>232,813</b> |
| Goodwill   | \$ 181         |

In connection with the Mindspeed Acquisition, MACOM assumed all of the outstanding options and all unvested restricted stock awards under Mindspeed's equity plans and converted such options and stock awards into equivalent MACOM awards under the same general terms and conditions as were in existence with adjustments made to shares and exercise prices, if any, pursuant to a formula stipulated in the terms of the acquisition. The fair value of the assumed options and stock awards was \$4.1 million, of which \$0.8 million relates to vested stock options and has been included in the purchase consideration and the remainder relates to unvested stock options and stock awards, which will be expensed as the remaining services are provided.

The components of the acquired intangible assets were as follows (in thousands):

|                                     | <b>Amount</b> | <b>Useful Lives<br/>(Years)</b> |
|-------------------------------------|---------------|---------------------------------|
| Developed technology                | \$ 109,263    | 7                               |
| Customer relationships              | 11,430        | 10                              |
| In-process research and development | 17,970        | N/A                             |

\$ 138,663

The overall weighted-average life of the identified intangible assets acquired in the acquisition is estimated to be seven years.

The following is a summary of Mindspeed's revenue and earnings, included in MACOM's accompanying condensed consolidated statements of operations for the three months ended January 3, 2014 (in thousands):

|   |          |
|---|----------|
| Revenue   | \$ 1,253 |
| Loss from continuing operations before income taxes and restructuring charges | (3,598)  |

Subsequent to closing the Mindspeed Acquisition, MACOM divested the wireless business of Mindspeed. The operations of the wireless business are included in discontinued operations through the date of sale. The Company completed the sale of the wireless business in February 2014. The accompanying consolidated statement of operations for the three months ended January 3, 2014 includes the following operating results related to the business to be divested (in thousands):

|  |         |
|--|---------|
| Revenue                                | \$ 457  |
| Loss before income taxes               | (3,374) |
| Benefit for income taxes               | 1,269   |
| Loss from discontinued operations, net | (2,105) |



**Table of Contents**

**Unaudited Supplemental Pro Forma Data** The pro forma statements of operations data for the three months ended January 3, 2014 below give effect to the Mindspeed Acquisition, described above, as if it had occurred at September 27, 2013. These amounts have been calculated after applying MACOM's accounting policies and adjusting the results of Mindspeed to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets and additional interest expense on acquisition-related borrowings had been applied and incurred since September 27, 2013. The supplemental pro forma earnings for the three months ended January 3, 2014 were adjusted to exclude discontinued operations. This pro forma data is presented for informational purposes only and does not purport to be indicative of the Company's future results of operations.

|          | <b>January 3, 2014</b> |
|----------|------------------------|
| Revenue  | \$ 102,924             |
| Net loss | (8,078)                |

**Other Acquisitions** In the fiscal fourth quarter of 2014 we acquired two businesses, I.K.E., Incorporated (IKE Micro) and Photonic Controls, LLC (Photonic Controls), for total cash consideration of \$2.8 million. IKE Micro is a specialized build-to-print house based in Nashua, New Hampshire. The primary purpose of the IKE Micro acquisition is to drive COGS reductions and further improve gross margin in our Optoelectronics business. Photonic Controls is a small design company based in Horseheads, New York which specializes in photonic semiconductor development and system design. Its primary focus is to design silicon photonic chips for 100G/400G optical networks.

The assets acquired and liabilities assumed were recorded at their fair values and operating results were included in the financial statements from the date of acquisition. The preliminary purchase price allocation resulted in goodwill of \$3.9 million and intangible assets, including manufacturing know-how and customer relationships, of \$1.6 million recorded on the date of acquisition, which will be amortized over 7-10 years. Additionally, the Company recorded a contingent consideration liability of \$0.8 million related to the acquisition of Photonic Controls which is included in other long-term liabilities in the accompanying consolidated balance sheet as of October 3, 2014. The maximum possible payment of contingent purchase price is \$1.3 million. Approximately \$1.7 million of the goodwill resulting from these acquisitions is deductible for tax purposes. The purchase price allocation will be finalized in fiscal 2015 upon receipt of final information related to valuation of intangibles and no allocation adjustments were recorded in the three months ended January 2, 2015. The acquisitions were not material to the Company's consolidated financial statements.

**Investments** The Company determines the appropriate classification of its investments at the time of acquisition and re-evaluates such determination at each balance sheet date. The Company records at cost non-marketable equity investments where it does not have the ability to exercise significant influence or control and periodically reviews such investments for impairment.

During fiscal year 2014, the Company made a minority investment of \$0.3 million in the convertible debt of a privately-held U.S. based company. The Company classified this investment as trading securities. (See Note 3.)

During fiscal year 2014, the Company made a minority investment of \$5.0 million in the equity of a privately-held U.S. based company. This minority equity investment is accounted for under the cost method due to ownership less than 20% and lack of significant influence and is included on the consolidated balance sheets in other long-term assets. The Company evaluated the investment for other-than-temporary impairment as of January 2, 2015 and determined that no impairment existed. Additionally, the Company determined that the equity investment contained embedded derivatives. The accounting



**Table of Contents**

treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the equity investment and to adjust the fair value as of each subsequent balance sheet date. As of January 2, 2015, the Company determined the embedded derivatives had no value, consistent with prior periods and the inception date.

**3. FINANCIAL INSTRUMENTS**

Assets and liabilities measured at fair value on a recurring basis consist of the following (in thousands):

|   | <b>January 2, 2015</b> |           |                     |                  |
|---|------------------------|-----------|---------------------|------------------|
|   | <b>Active</b>          |           |                     |                  |
|   | <b>Markets</b>         |           |                     |                  |
|   | <b>for</b>             |           |                     |                  |
|   | <b>Identical</b>       |           | <b>Observable</b>   |                  |
|   | <b>Assets</b>          |           | <b>Inputs</b>       |                  |
|   | <b>(Level</b>          |           | <b>Unobservable</b> |                  |
|   | <b>1)</b>              |           | <b>Inputs</b>       |                  |
|   | <b>(Level</b>          |           | <b>(Level 3)</b>    |                  |
|   | <b>2)</b>              |           | <b>(Level 3)</b>    |                  |
|   | <b>Value</b>           |           | <b>(Level 3)</b>    |                  |
| <b>Assets</b>                                   |                        |           |                     |                  |
| Trading securities                              | \$ 250                 | \$        | \$                  | \$ 250           |
| <b>Total assets measured at fair value</b>      | <b>\$ 250</b>          | <b>\$</b> | <b>\$</b>           | <b>\$ 250</b>    |
| <b>Liabilities</b>                              |                        |           |                     |                  |
| Contingent consideration                        | \$ 820                 | \$        | \$                  | \$ 820           |
| Common stock warrant liability                  | 26,409                 |           |                     | 26,409           |
| <b>Total liabilities measured at fair value</b> | <b>\$ 27,229</b>       | <b>\$</b> | <b>\$</b>           | <b>\$ 27,229</b> |

|  | <b>October 3, 2014</b> |  |                     |  |
|--|------------------------|--|---------------------|--|
|  | <b>Active</b>          |  | <b>Observable</b>   |  |
|  | <b>Markets</b>         |  | <b>Unobservable</b> |  |
|  | <b>for</b>             |  | <b>Inputs</b>       |  |
|  | <b>(Level</b>          |  | <b>(Level 3)</b>    |  |
|  | <b>2)</b>              |  | <b>(Level 3)</b>    |  |
|  | <b>Value</b>           |  | <b>(Level 3)</b>    |  |
|  | <b>Markets</b>         |  | <b>Inputs</b>       |  |
|  | <b>for</b>             |  | <b>(Level</b>       |  |
|  | <b>(Level</b>          |  | <b>2)</b>           |  |
|  | <b>Identical</b>       |  | <b>Assets</b>       |  |
|  | <b>Assets</b>          |  | <b>Inputs</b>       |  |

(Level  
1)

| <b>Assets</b>                                   |                  |           |                  |
|---|------------------|-----------|------------------|
| Trading securities                              | \$ 250           | \$        | \$ 250           |
| <b>Total assets measured at fair value</b>      | <b>\$ 250</b>    | <b>\$</b> | <b>\$ 250</b>    |
| <b>Liabilities</b>                              |                  |           |                  |
| Contingent consideration                        | \$ 820           | \$        | \$ 820           |
| Common stock warrant liability                  | 15,801           |           | 15,801           |
| <b>Total liabilities measured at fair value</b> | <b>\$ 16,621</b> | <b>\$</b> | <b>\$ 16,621</b> |

The changes in assets and liabilities with inputs classified within Level 3 of the fair value hierarchy consist of the following (in thousands):

|                                | <b>Three Months Ended January 2, 2015</b> |   |                               |                              |   | <b>January 2, 2015</b> |
|--------------------------------|---|---|-------------------------------|------------------------------|---|------------------------|
|                                | <b>October 3, 2014</b>                    | <b>Net Realized/ Unrealized Losses (Gains) Included in Earnings</b> | <b>Purchases and Issuance</b> | <b>Sales and Settlements</b> | <b>Transfers in and/or (out) of Level 3</b> |                        |
| Trading securities             | \$ 250                                    | \$  | \$                            | \$                           | \$  | \$ 250                 |
| Contingent consideration       | \$ 820                                    | \$  | \$                            | \$                           | \$  | \$ 820                 |
| Common stock warrant liability | \$ 15,801                                 | \$ 10,608   | \$                            | \$                           | \$  | \$ 26,409              |

|                                | <b>Three Months Ended January 3, 2014</b> |   |                               |                              |   | <b>January 3, 2014</b> |
|--------------------------------|---|---|-------------------------------|------------------------------|---|------------------------|
|                                | <b>September 27, 2013</b>                 | <b>Net Realized/ Unrealized Losses (Gains) Included in Earnings</b> | <b>Purchases and Issuance</b> | <b>Sales and Settlements</b> | <b>Transfers in and/or (out) of Level 3</b> |                        |
| Common stock warrant liability | \$ 11,873                                 | \$ (1,282)  | \$                            | \$                           | \$  | \$ 10,591              |

**Table of Contents**

As of January 2, 2015, the fair value of the securities have been estimated to approximate cost. These estimates include significant judgments about potential future liquidity events and actual results could differ and could have an impact upon the values of the recorded financial instruments. Any changes in the estimated fair values of the financial instruments in the future will be reflected in the Company's earnings and such changes could be material.

The fair values of the contingent consideration liabilities were estimated based upon a risk-adjusted present value of the probability-weighted expected payments by the Company. Specifically, the Company considered base, upside and downside scenarios for the operating metrics upon which the contingent payments are to be based. Probabilities were assigned to each scenario and the probability-weighted payments were discounted to present value using risk-adjusted discount rates. The maximum possible payment of contingent consideration is \$1.3 million.

As of January 2, 2015, the fair value of the stock warrants has been estimated using a Black-Scholes option pricing model giving consideration to the quoted market price of the common stock on that date, an expected life of 6.0 years, expected volatility of 39.4% and risk free rate of 1.9%. Any significant change in these assumptions could have an impact on the value of the stock warrants.

**4. INVENTORIES**

Inventories consist of the following (in thousands):

|                 | <b>January 2,<br/>2015</b> | <b>October 3,<br/>2014</b> |
|-----------------|----------------------------|----------------------------|
| Raw materials   | \$ 42,068                  | \$ 34,919                  |
| Work-in-process | 4,249                      | 5,500                      |
| Finished goods  | 42,891                     | 33,153                     |
| Total           | \$ 89,208                  | \$ 73,572                  |

**5. PROPERTY AND EQUIPMENT**

Property and equipment consists of the following (in thousands):

|  | <b>January 2,<br/>2015</b> | <b>October 3,<br/>2014</b> |
|--|----------------------------|----------------------------|
| Machinery and equipment                        | \$ 75,027                  | \$ 68,438                  |
| Leasehold improvements                         | 8,594                      | 7,998                      |
| Furniture and fixtures                         | 1,139                      | 1,017                      |
| Construction in process                        | 18,511                     | 12,918                     |
| Computer equipment and software                | 7,758                      | 7,758                      |
| Total property and equipment                   | 111,029                    | 98,129                     |
| Less accumulated depreciation and amortization | (51,636)                   | (47,772)                   |
| Property and equipment net                     | \$ 59,393                  | \$ 50,357                  |

Depreciation and amortization expense related to property and equipment for the three months ended January 2, 2015 was \$3.9 million. Depreciation and amortization expense related to property and equipment for the three months ended January 3, 2014 was \$3.2 million.

## **6. DEBT**

On September 26, 2013, and as amended November 5, 2013, the Company entered into an amended and restated loan agreement with a syndicate of lenders, which provided for a revolving credit facility of up to \$300.0 million that was due to mature in September 2018 (Prior Facility). Borrowings under the revolving credit facility either bore a variable interest rate based on either the lender's prime rate or a LIBOR rate, plus an applicable margin. The revolving credit facility was secured by a first priority lien on substantially all of the Company's assets and required compliance with certain financial and non-financial covenants. In connection with the Mindspeed and Nitronex acquisitions, MACOM borrowed an aggregate of \$245.0 million of indebtedness on its Prior Facility.

**Table of Contents**

On May 8, 2014, the Company refinanced its outstanding indebtedness under the Prior Facility and discharged its obligations thereunder by entering into a credit agreement (Credit Agreement) with Goldman Sachs Bank USA and a syndicate of lenders. Concurrent with the execution of the Credit Agreement, the Company terminated the Prior Facility and repaid the outstanding \$245.0 million principal and interest due through draws on the Credit Agreement. Upon terminating the Prior Facility, previously deferred financing costs pertaining to that facility of \$2.1 million were expensed as additional interest.

The Credit Agreement provides for term loans in an aggregate principal amount of \$350.0 million, which mature in May 2021 (Term Loans) and a revolving credit facility of up to \$100.0 million, which matures in May 2019 (Revolving Facility). The Term Loans were issued with an original issue discount of 0.75%, which is being amortized over the term of the Term Loans using the straight-line method, which approximates the effective interest rate method. Borrowings under the Term Loans bear interest (payable quarterly) at: (i) for LIBOR loans, a rate per annum equal to the LIBOR rate (subject to a floor of 0.75%), plus an applicable margin of 3.75%, and (ii) for base rate loans, a rate per annum equal to the prime rate (subject to a floor of 1.75%), plus an applicable margin of 2.75%. Borrowings under the Revolving Facility bear interest (payable quarterly) at: (i) for LIBOR loans, a rate per annum equal to the LIBOR rate, plus an applicable margin in the range of 2.00% to 2.50% (based on the Company's total net leverage ratio being within certain defined ranges), and (ii) for base rate loans, a rate per annum equal to the prime rate, plus an applicable margin in the range of 1.00% to 1.50% (based on the Company's total net leverage ratio being within certain defined ranges). The Company also pays a quarterly unused line fee for the Revolving Facility in the range of 0.25% to 0.375% (based on the Company's total net leverage ratio being within certain defined ranges) as well as overall agency fees. MACOM borrowed \$100.0 million of indebtedness on its Revolving Facility in connection with the BinOptics Acquisition, which remains outstanding at January 2, 2015. The Company has no remaining borrowing capacity under the Revolving Facility as of January 2, 2015. The Term Loans are payable in quarterly principal installments equal to 0.25% of the aggregate dollar amount of all Term Loans outstanding at the signing of the Credit Agreement, beginning on the last business day of September 2014, with the remainder due on the maturity date.

At the signing of the Credit Agreement, the entire \$350.0 million principal amount of the Term Loans was funded. The Term Loans and Revolving Facility are secured by a first priority lien on substantially all of the Company's assets and provide that the Company must comply with certain financial and non-financial covenants. The Company incurred \$8.7 million in fees for the issuance of the Credit Agreement which were recorded as deferred financing costs and are being amortized over the life of Credit Agreement as interest expense. As of January 2, 2015, approximately \$7.8 million of deferred financing costs remain unamortized.

As of January 2, 2015, the following remained outstanding on the Term Loans:

|                                 |            |
|---------------------------------|------------|
| Principal balance               | \$ 348,250 |
| Unamortized discount            | (2,375)    |
|                                 | 345,875    |
| Current portion                 | 3,500      |
| Long-term, less current portion | \$ 342,375 |

As of January 2, 2015, the minimum principal payments under the Term Loans in future fiscal years was as follows (in thousands):

|                            |                   |
|----------------------------|-------------------|
| 2015 (rest of fiscal year) | \$ 2,625          |
| 2016                       | 3,500             |
| 2017                       | 3,500             |
| 2018                       | 3,500             |
| 2019                       | 3,500             |
| Thereafter                 | 331,625           |
| <b>Total</b>               | <b>\$ 348,250</b> |

The fair value of the Term Loans was estimated to be approximately \$343.0 million as of January 2, 2015, and was determined using Level 3 inputs, including a quoted rate from a bank.



**Table of Contents****7. GOODWILL AND INTANGIBLE ASSETS**

Amortization expense related to intangible assets is as follows (in thousands):

|                                     | <b>Three Months Ended</b>  |                            |
|-------------------------------------|----------------------------|----------------------------|
|                                     | <b>January 2,<br/>2015</b> | <b>January 3,<br/>2014</b> |
| Cost of revenue                     | \$ 5,359                   | \$ 1,968                   |
| Selling, general and administrative | 1,053                      | 385                        |
| <b>Total</b>                        | <b>\$ 6,412</b>            | <b>\$ 2,353</b>            |

Intangible assets consist of the following (in thousands):

|                                     | <b>January 2,<br/>2015</b> | <b>October 3,<br/>2014</b> |
|-------------------------------------|----------------------------|----------------------------|
| Acquired technology                 | \$ 150,757                 | \$ 131,953                 |
| Customer relationships              | 138,170                    | 24,670                     |
| In-process research and development | 17,970                     | 17,970                     |
| Trade name                          | 3,400                      | 3,400                      |
| Backlog                             | 3,800                      |                            |
| <b>Total</b>                        | <b>314,097</b>             | <b>177,993</b>             |
| Less accumulated amortization       | (41,772)                   | (35,360)                   |
| <b>Intangible assets net</b>        | <b>\$ 272,325</b>          | <b>\$ 142,633</b>          |

A summary of the activity in intangible assets and goodwill follows (in thousands):

|                                   | <b>Total</b>      | <b>Acquired<br/>Technology</b> | <b>Customer<br/>Relationships</b> | <b>In-Process<br/>Research and<br/>Development</b> | <b>Trade<br/>Name</b> | <b>Backlog</b>  | <b>Goodwill</b>  |
|-----------------------------------|-------------------|--------------------------------|-----------------------------------|--|-----------------------|-----------------|------------------|
| Balance at October 3, 2014        | \$ 188,777        | \$ 131,953                     | \$ 24,670                         | \$ 17,970  | \$ 3,400              | \$              | \$ 10,784        |
| BinOptics acquisition             | 220,234           | 17,954                         | 113,500                           |  |                       | 3,800           | 84,980           |
| Other intangibles purchased       | 850               | 850                            |                                   |  |                       |                 |                  |
| <b>Balance at January 2, 2015</b> | <b>\$ 409,861</b> | <b>\$ 150,757</b>              | <b>\$ 138,170</b>                 | <b>\$ 17,970</b>                                   | <b>\$ 3,400</b>       | <b>\$ 3,800</b> | <b>\$ 95,764</b> |

As of January 2, 2015, estimated amortization of the intangible assets in future fiscal years, subject to the completion of the purchase price allocation for the BinOptics Acquisition, was as follows (in thousands):

|                            |                   |
|----------------------------|-------------------|
| 2015 (rest of fiscal year) | \$ 31,256         |
| 2016                       | 34,071            |
| 2017                       | 34,143            |
| 2018                       | 32,760            |
| 2019                       | 31,019            |
| Thereafter                 | 89,977            |
| <b>Total</b>               | <b>\$ 253,226</b> |

The trade name and in-process research and development (IPR&D) are indefinite-lived intangible assets. During development, IPR&D is not subject to amortization and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value to its carrying amount. If the carrying value exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. Once an IPR&D project is complete, it becomes a definite long-lived intangible asset and is evaluated for impairment in accordance with the Company's policy for long-lived assets.

Accumulated amortization, for the acquired technology and customer relationships was \$33.1 million and \$8.6 million, respectively, as of January 2, 2015, and \$27.8 million and \$7.6 million, respectively, as of January 3, 2014.

**Table of Contents**

In July 2013, the Company entered into a long term technology licensing and transfer agreement that calls for potential payments by the Company of up to \$9.0 million through July 2016 based upon the achievement of specified milestones. Costs incurred in connection with the licensing and the transfer of the technology aggregated \$7.0 million and \$4.1 million as of January 2, 2015 and January 3, 2014, respectively, and were capitalized as incurred as acquired technology. Costs will be amortized to costs of revenue upon completion of the transfer, which is currently expected to be completed through fiscal year 2016.

**8. STOCKHOLDER S EQUITY**

The Company has authorized 10 million shares of \$0.001 par value preferred stock and 300 million shares of \$0.001 par value common stock as of January 2, 2015.

Outstanding shares of the Company s common stock as of January 2, 2015 and October 3, 2014, presented in the accompanying condensed consolidated statements of stockholders equity exclude 52,000 and 59,000 unvested shares of restricted common stock, respectively, issued as compensation to employees that remained subject to forfeiture.

**9. INCOME (LOSS) PER SHARE**

Basic net income (loss) per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common shares and, if dilutive, potential common shares outstanding during the period. The Company s potential dilutive common shares consist of common shares issuable upon the exercise of warrants, stock options and vesting of restricted stock units. The dilutive effect of outstanding stock options is reflected in diluted earnings per share by application of the treasury stock method.

The following table sets forth the computation for basic and diluted net income per share of common stock (in thousands, except per share data):

|   | <b>Three Months Ended</b>  |                            |
|---|----------------------------|----------------------------|
|   | <b>January 2,<br/>2015</b> | <b>January 3,<br/>2014</b> |
| <b>Numerator:</b>   |                            |                            |
| Net loss  | \$ (6,306)                 | \$ (8,921)                 |
| <b>Denominator:</b>                                       |                            |                            |
| Weighted average common shares outstanding-basic          | 47,606                     | 46,517                     |
| Dilutive effect of options, restricted stock and warrants |                            |                            |
| Weighted average common shares outstanding-diluted        | 47,606                     | 46,517                     |
| <b>Common stock loss per share:</b>                       |                            |                            |
| Basic   | \$ (0.13)                  | \$ (0.19)                  |
| Diluted   | \$ (0.13)                  | \$ (0.19)                  |

The table above excludes the effects of 1,599 and 1,267 potential shares of common stock issuable upon exercise of stock options, restricted stock, and warrants for the three months ended January 2, 2015 and January 3, 2014, respectively, as the inclusion of which would be antidilutive.

## 10. COMMITMENTS AND CONTINGENCIES

**Purchase Commitments** As of January 2, 2015 and October 3, 2014, the Company had outstanding non-cancelable purchase commitments aggregating \$3.5 million and \$5.2 million respectively, pursuant to inventory supply arrangements.

**Litigation** The Company is periodically subject to legal proceedings, claims and contingencies arising in the ordinary course of business.

**Table of Contents**

*Patent Suit Against Laird.* The Company brought a patent infringement suit against Laird Technologies, Inc. (Laird) in the Federal District Court for the District of Delaware on February 11, 2014, seeking monetary damages and a permanent injunction. The suit alleges that Laird infringes on the Company's United States Patent No. 6,272,349 ( 349 Patent), titled "Integrated Global Positioning System Receiver," by making, using, selling, offering to sell or selling products incorporating an integrated global positioning receiver that include structure(s) recited in the 349 Patent, including global positioning system modules for automotive industry customers. Laird filed an answer and declaratory judgment claims of invalidity and non-infringement on June 30, 2014. The Company filed a reply to the counterclaims on July 24, 2014.

The Company filed a motion for preliminary injunction, seeking to enjoin Laird's infringement pending full trial on the merits. The court granted the motion for a preliminary injunction on June 13, 2014 and required the Company to post a bond of \$4.0 million to secure the injunction. In granting the injunction, the court found that the Company is likely to succeed on the merits of the case at a full trial and that the equities weighed in favor of preliminarily enjoining Laird from making sales of its product until trial. Trial is scheduled to begin on May 16, 2016.

With respect to the above and other legal proceedings, the Company has not been able to reasonably estimate the amount or range of any possible loss, and accordingly has not accrued or disclosed any related amounts of possible loss in the accompanying consolidated financial statements.

**11. RESTRUCTURINGS**

The Company has periodically implemented restructuring actions in connection with broader plans to reduce staffing, and, generally, reduce operating costs. The restructuring expenses are comprised of direct and incremental costs related to headcount reductions including change-in-control obligations, severance, and outplacement fees for the terminated employees. The following is a summary of the costs incurred and remaining balances included in accrued expenses related to restructuring actions taken (in thousands):

|  |        |
|--|--------|
| Balance-October 3, 2014                        | \$ 801 |
| Current period charges - continuing operations |        |
| Payments                                       | (734)  |
| Balance-January 2, 2015                        | \$ 67  |

The restructuring actions taken in fiscal year 2014 were paid through the first quarter of fiscal year 2015, and the remaining amount is expected to be paid during the second quarter of fiscal year 2015. No significant charges are expected. The Company's restructuring charges are primarily employee related with non-employee related charges determined to be immaterial.

**12. SHARE-BASED COMPENSATION**

The following table presents the effects of share-based compensation expense related to share-based awards to employees and non-employees in the Company's consolidated statements of operations during the periods presented (in thousands):

|  | <b>Three Months Ended</b>  |                            |
|--|----------------------------|----------------------------|
|  | <b>January 2,<br/>2015</b> | <b>January 3,<br/>2014</b> |
| Cost of revenue                        | \$ 346                     | \$ 283                     |
| Research and development               | 962                        | 484                        |
| Selling, general and administrative    | 1,851                      | 1,078                      |
| Total stock-based compensation expense | \$ 3,159                   | \$ 1,845                   |

The Company has the following equity incentive plans: the Amended and Restated 2009 Stock Incentive Plan (2009 Plan), the 2012 Omnibus Incentive Plan (2012 Plan), the 2012 Employee Stock Purchase Plan (ESPP), the Mindspeed Technologies, Inc. 2013 Equity Incentive Plan (Mindspeed 2013 Plan), the Mindspeed Technologies, Inc. 2003 Long-Term Incentives Plan (Mindspeed 2003 Plan) and the Mindspeed Technologies, Inc. Directors Stock Plan (Mindspeed Directors Plan).

**Table of Contents**

Upon the closing of the IPO, all shares that were reserved under the 2009 Plan but not awarded were assumed by the 2012 Plan. No additional awards will be made under the 2009 Plan. Under the 2012 Plan, the Company has the ability to issue incentive stock options (ISOs), non-statutory stock options (NSOs), stock appreciation rights, restricted stock, restricted stock units (RSUs), performance units, performance shares and other equity-based awards to employees, directors and outside consultants. The ISOs and NSOs must be granted at a price per share not less than the fair value of our common stock on the date of grant. Options granted to date generally vest over a four-year period with 25% vesting at the end of one year and the remaining vest monthly thereafter. Certain of the share-based awards granted and outstanding as of January 2, 2015, are subject to accelerated vesting upon a sale of the Company or similar changes in control. Options granted generally are exercisable up to 10 years. In fiscal year 2012, the Company began granting RSUs, which generally vest annually over one to five years. As of January 2, 2015, the Company had 9.8 million shares available for future grants under the 2012 Plan.

The Mindspeed 2013 Plan, the Mindspeed 2003 Plan, the Mindspeed Directors Plan and certain inducement equity grants (collectively, the Mindspeed Plans) were assumed by the Company in connection with the Mindspeed Acquisition. No additional equity awards will be made under the Mindspeed Plans.

A summary of stock option activity for the three months ended January 2, 2015, is as follows (in thousands, except per share amounts):

|   | Number of Shares | Weighted-Average Exercise Price Per Share | Weighted-Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value |
|---|------------------|---|--|---------------------------|
| Outstanding-October 3, 2014                               | 948              | \$ 11.73                                  | 6.6  | \$ 10,015                 |
| Granted   |                  |   |  |                           |
| Exercised   | (45)             | 8.64                                      |  |                           |
| Forfeited, canceled or expired                            |                  |   |  |                           |
| Outstanding-January 2, 2015                               | 903              | \$ 11.87                                  | 6.5  | \$ 17,949                 |
| Options vested and expected to vest as of January 2, 2015 | 820              | \$ 11.30                                  | 6.3  | \$ 16,781                 |
| Options vested and exercisable as of January 2, 2015      | 523              | \$ 7.77                                   | 4.6  | \$ 12,622                 |

Aggregate intrinsic value represents the difference between the Company's closing stock price on January 2, 2015, and the exercise price of outstanding, in-the-money options. The total intrinsic value of options exercised was \$806,000 for the three months ended January 2, 2015. As of January 2, 2015, total unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested stock options was \$1.9 million, which is expected to be recognized over the next 2.4 years.

In April 2014, the Company granted stock options as to 405,000 shares of common stock with a grant date fair value of \$3.5 million that are subject to vesting only upon the market price of the Company's underlying public stock closing above a certain price target within ten years of the grant date. Due to the market condition upon which vesting is based, the fair value of the awards was estimated using a Monte Carlo simulation model. Compensation cost is

recognized regardless of the number of awards that are earned based on the market condition. Compensation cost is recognized on a straight-line basis over the estimated service period of three years. In the event that the Company's common stock achieves the target price of \$32.55 per share prior to the end of the estimated service period, any remaining unamortized compensation cost will be recognized. These options are included in the table and other information above. On January 23, 2015, the Company's common stock closed at a price of \$34.79 per share, exceeding the target price of \$32.55 per share, which will result in the recognition of approximately \$2.5 million of compensation expense in the Company's second fiscal quarter of 2015.



**Table of Contents**

A summary of restricted stock and restricted stock units activity for the three months ended January 2, 2015, is as follows (in thousands):

|  | Number of<br>Shares | Weighted-<br>Average<br>Remaining<br>Contractual<br>Term<br>(in years) | Aggregate<br>Intrinsic<br>Value |
|--|---------------------|--|---------------------------------|
| Issued and unvested shares-October 3, 2014 | 1,720               | 2.6  | \$ 37,203                       |
| Granted                                    | 83                  |  |                                 |
| Vested and released                        | (41)                |  |                                 |
| Forfeited, canceled or expired             | (18)                |  |                                 |
| Issued and unvested-January 2, 2015        | 1,744               | 2.4  | \$ 54,980                       |
| Shares expected to vest                    | 1,566               | 2.4  | \$ 49,380                       |

The total fair value of restricted stock awards and units vesting was \$949,000 for the three months ended January 2, 2015. As of January 2, 2015, total unrecognized compensation cost, adjusted for estimated forfeitures, related to restricted stock and units was \$18.8 million, which is expected to be recognized over the next 3.4 years.

As of January 2, 2015, total unrecognized compensation cost related to the ESPP was not material.

Certain of the share-based awards granted and outstanding as of January 2, 2015, are subject to accelerated vesting upon a sale of the Company or similar changes in control.

The financial impact of any modifications to share-based awards during the periods presented was immaterial.

**13. INCOME TAXES**

The Company is subject to income tax in the United States as well as other tax jurisdictions in which it conducts business. Earnings from non-U.S. activities are subject to local country income tax and may also be subject to current U.S. income tax. For interim periods, the Company records a tax provision or benefit based upon the estimated effective tax rate expected for the full fiscal year, adjusted for material discrete taxation matters arising during the interim periods.

The difference between the U.S. federal statutory income tax rate of 35% and the Company's effective income tax rates for the three months ended January 2, 2015 and January 3, 2014, was primarily impacted in both periods by changes in fair values of the common stock warrant liability which is not deductible nor taxable for tax purposes, income taxed in foreign jurisdictions at generally lower tax rates and non-deductible compensation, offset by U.S. state income taxes. For the three months ended January 2, 2015, the rate was also impacted by non-deductible merger expenses resulting from the BinOptics Acquisition.

The balance of the unrecognized tax benefit as of January 2, 2015 and October 3, 2014 was \$1.7 million and includes a \$1.4 million reduction in current deferred tax assets and a \$0.3 million increase in other long-term liabilities in the accompanying consolidated balance sheets. The entire balance of unrecognized tax benefits, if recognized, will reduce income tax expense. It is the Company's policy to recognize any interest and penalties accrued related to unrecognized tax benefits in income tax expense. During the quarter ending January 2, 2015, the Company did not make any payment of interest and penalties. There was nothing accrued in the consolidated balance sheets for the payment of interest and penalties at January 2, 2015 as the remaining unrecognized tax benefits would only serve to reduce the Company's current federal and state NOL carryforwards, if ultimately recognized.

As disclosed in Note 1 our purchase accounting for BinOptics including Income Taxes is preliminary and subject to revision upon obtaining and analyzing all information. At the closing of the BinOptics Acquisition, BinOptics had, on a preliminary basis, federal net operating loss (NOL) carryforwards of approximately \$38.4 million, which expire at various dates through 2034, and federal research and development tax credit carryforwards of \$1.5 million. Although both the NOL and tax credit carryforwards are subject to change-in-control limitations within the Internal Revenue Code, we currently believe the limitation will not cause any of the carryforwards to expire unutilized. The aggregate net deferred income tax liability acquired in the BinOptics Acquisition is estimated to be \$37.7 million, which includes a net deferred income tax asset of \$14.9 million relating to NOL and tax credit carryforwards, and a net deferred income tax liability of \$52.6 million related to the difference between the book and tax basis of the intangible and other assets acquired in the acquisition.

**Table of Contents****14. RELATED PARTY TRANSACTIONS**

GaAs Labs, LLC (GaAs Labs) a stockholder and an affiliate of directors and majority stockholders John and Susan Ocampo, engaged the Company to provide administrative and business development services provided to GaAs Labs on a time and materials basis. There are no minimum service requirements or payment obligations and the agreement may be terminated by either party with 30 days notice. For the three months ended January 2, 2015 and January 3, 2014, the Company had no billings with related parties and billed GaAs Labs \$78,000, respectively, for services provided pursuant to this agreement and has recorded these amounts as other income in the accompanying condensed consolidated statements of operations.

**15. DIVESTITURES**

Upon closing the Mindspeed Acquisition, MACOM decided to divest the wireless business of Mindspeed. The operations of the wireless business are included in discontinued operations for the three months ended January 3, 2014. There was no gain or loss on the sale, which had a selling price of \$12.0 million and which closed in February 2014. The accompanying consolidated statement of operations for the three months ended January 3, 2014 includes the following operating results related to the divested business (in thousands):

|  |         |
|--|---------|
| Revenue                                | \$ 457  |
| Loss before income taxes               | (3,374) |
| Benefit for income taxes               | 1,269   |
| Loss from discontinued operations, net | (2,105) |

In fiscal year 2014, the Company sold non-core assets representing one product line, receiving cash proceeds aggregating \$12.0 million. The Company has no continuing interests in these assets. There was no gain or loss on the sale, which closed in May 2014.

**16. SUPPLEMENTAL CASH FLOW INFORMATION**

As of January 2, 2015 and January 3, 2014, the Company had \$1.7 million and \$1.2 million, respectively, in unpaid amounts related to purchases of property and equipment and intangibles included in accounts payable and accrued liabilities. These amounts have been excluded from the payments for purchases of property and equipment in the accompanying condensed consolidated statements of cash flows until paid.

**17. GEOGRAPHIC AND SIGNIFICANT CUSTOMER INFORMATION**

The Company has one reportable operating segment which designs, develops, manufactures, and markets semiconductors and modules. The determination of the number of reportable operating segments is based on the chief operating decision maker's use of financial information for the purposes of assessing performance and making operating decisions. In evaluating financial performance and making operating decisions, the chief operating decision maker primarily uses consolidated revenue, gross profit and operating income (loss).

Information about the Company's operations in different geographic regions, based upon customer locations, is presented below (in thousands):

| <b>Revenue by Geographic Region</b> | <b>Three Months Ended</b>  |                            |
|-------------------------------------|----------------------------|----------------------------|
|                                     | <b>January 2,<br/>2015</b> | <b>January 3,<br/>2014</b> |
| United States                       | \$ 64,054                  | \$ 53,889                  |
| International (1)                   | 50,810                     | 30,265                     |
| <b>Total</b>                        | <b>\$ 114,864</b>          | <b>\$ 84,154</b>           |

**Table of Contents**

| <b>Long-Lived Assets by Geographic Region</b> | <b>As of</b>               |                            |
|---|----------------------------|----------------------------|
|   | <b>January 2,<br/>2015</b> | <b>October 3,<br/>2014</b> |
| United States                                 | \$ 49,219                  | \$ 42,031                  |
| International (2)                             | 10,174                     | 8,326                      |
| <b>Total</b>                                  | <b>\$ 59,393</b>           | <b>\$ 50,357</b>           |

- (1) No international countries represented greater than 10% of revenue during the periods presented.
- (2) No international country or region represented greater than 10% of the total net long-lived assets as of the dates presented, other than the Asia-Pacific region, which accounted for 13% at January 2, 2015 and 11% at October 3, 2014.

The following is a summary of customer concentrations as a percentage of revenue and accounts receivable as of and for the periods presented:

| <b>Revenue</b> | <b>Three Months Ended</b>  |                            |
|----------------|----------------------------|----------------------------|
|                | <b>January 2,<br/>2015</b> | <b>January 3,<br/>2014</b> |
| Customer A     | 19%                        | 23%                        |
| Customer B     | 16%                        | 24%                        |
| Customer C     | 10%                        |                            |

| <b>Accounts Receivable</b> | <b>As of</b>               |                            |
|----------------------------|----------------------------|----------------------------|
|                            | <b>January 2,<br/>2015</b> | <b>October 3,<br/>2014</b> |
| Customer A                 | 16%                        | 16%                        |
| Customer B                 | 13%                        | 16%                        |
| Customer C                 | 11%                        | 7%                         |

No other customer represented more than 10% of revenue or accounts receivable in the periods presented in the accompanying consolidated financial statements. For the three months ended January 2, 2015 and January 3, 2014, ten customers represented an aggregate of 65% of revenue.

## **Table of Contents**

### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended October 3, 2014 filed with the Securities and Exchange Commission (SEC) on December 9, 2014.*

In this document, the words Company, we, our, us, and similar terms refer only to M/A-COM Technology Solutions Holdings, Inc. and its consolidated subsidiaries, and not any other person or entity.

M/A-COM and MACOM are trademarks of M/A-COM Technology Solutions Holdings, Inc. All other brands and names listed are trademarks of their respective owners

#### **Cautionary Note Regarding Forward-Looking Statements**

This Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Quarterly Report on Form 10-Q contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, we may make other written and oral communications from time to time that contain such statements. Forward-looking statements include statements as to industry trends and our future expectations and other matters that do not relate strictly to historical facts. These statements are often identified by the use of words such as may, will, expect, believe, anticipate, intend, could, estimate, or continue, or other expressions or variations. These statements are based on management's beliefs and assumptions as of the date of this Quarterly Report on Form 10-Q, based on information currently available to us. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially from the forward-looking statements include, among others, the risks described herein in Part II. Item 1A, Risk Factors and in the section entitled Risk Factors in our Annual Report on Form 10-K for the fiscal year ended October 3, 2014 as filed with the SEC on December 9, 2014. We caution the reader to carefully consider such factors. Furthermore, such forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

#### **Overview**

We are a leading supplier of high-performance analog RF, microwave, millimeterwave and photonic semiconductor products that enable next-generation internet and modern battlefield applications. We design and manufacture differentiated, high-value products for customers who demand high-performance, quality and reliability. We offer a broad portfolio of over 3,500 standard and custom devices, which include integrated circuits (IC), multi-chip modules, power pallets and transistors, diodes, switches and switch limiters, passive and active components, Indium Phosphide (InP) high-performance laser semiconductors and complete subsystems, across 43 product lines serving over 6,000 end customers in four primary markets. Our semiconductor products are electronic components that our customers incorporate into their larger electronic systems, such as point-to-point wireless backhaul radios, optical networking equipment, high density data networks, radar, automobile navigation systems, magnetic resonance imaging systems and unmanned aerial vehicles. Our primary markets are: Networks, which includes wired broadband, cellular backhaul, cellular infrastructure, enterprise networking, broadcast video transmission and optical communications applications; Aerospace and Defense (A&D), which includes military and commercial radar, RF jammers, electronic countermeasures and communication data links; Automotive, which includes global positioning (GPS) modules we sell to Ford and Ford affiliates; and Multi-market, which includes industrial, medical, test and scientific applications.

On December 15, 2014, we completed the acquisition of BinOptics Corporation (BinOptics) (BinOptics Acquisition), a supplier of high-performance photonic products, pursuant to which, BinOptics became our wholly-owned subsidiary. We believe BinOptics aligns with our core growth strategy in our Networks market, and that it has a high performance laser

## **Table of Contents**

semiconductor business model that is consistent with our target model for higher margin products with long product lifecycles. Further, we believe that BinOptics complements our existing business with an established footprint and customer relationships in the Asia-Pacific region and expands our addressable market for InP high-performance laser products and technology for use in optical networks. The operations of BinOptics are included in our consolidated financial statements from the date of acquisition.

On December 18, 2013, we completed the acquisition of Mindspeed Technologies, Inc. (Mindspeed) (Mindspeed Acquisition), a supplier of high performance analog products previously headquartered in Southern California. We believe Mindspeed aligns with our core growth strategy in networking and optical markets, has a high-performance analog business model that is consistent with our target model for higher margin products with long product lifecycles and long-standing customer relationships, complements our existing business with an established footprint in the Asia-Pacific markets and expands our addressable market for silicon-germanium (SiGe) products and technology. The operations of Mindspeed have been included in our consolidated financial statements since the date of acquisition.

Subsequent to closing the Mindspeed Acquisition, in February 2014, we divested the wireless business of Mindspeed. The operations of the wireless business are included in discontinued operations.

On May 9, 2014, Mindspeed completed the sale of its CPE communication processor product line for \$12.0 million and a potential additional \$2.0 million based upon the achievement of certain revenue-related milestones through December 31, 2014.

On February 13, 2014, we completed the acquisition of Nitronex, LLC (Nitronex) (the Nitronex Acquisition). Nitronex designs, develops, manufactures and markets gallium nitride (GaN) semiconductors and is headquartered in the Raleigh, North Carolina area. We completed the Nitronex Acquisition through a cash payment of \$26.1 million for all of the outstanding membership interests of Nitronex. We funded the Nitronex Acquisition through the use of available cash and borrowings under our revolving credit facility.

Because we and Nitronex were controlled by the same majority owner since June 25, 2012, we present combined financial statements in a manner similar to a pooling-of-interests for all periods since June 25, 2012, the earliest date of common control. Accordingly, our historical financial statements have been retroactively combined as if Nitronex was acquired on June 25, 2012. All periods from June 25, 2012, have been combined using historical amounts of each entity. Since February 13, 2014, the results of Nitronex are included on a consolidated basis.

We have one reportable operating segment, semiconductors and modules. We have a 52 or 53-week fiscal year ending on the Friday closest to September 30. The three months ended January 2, 2015, includes 13 weeks and fiscal year 2015 will include 52 weeks. The three months ended January 3, 2014, included 13 weeks and fiscal year 2014 included 53 weeks. To offset the effect of holidays, we include the extra week arising in our fiscal years in the first quarter, the effect of which was not material to the three months ended January 2, 2015.

## **Description of Our Revenue, Cost of Revenue and Expenses**

*Revenue.* Substantially all of our revenue is derived from sales of high-performance analog RF, microwave, millimeterwave and photonic semiconductor products that enable next-generation internet, modern battlefield and other applications. We design, integrate, manufacture and package differentiated product solutions that we sell to customers through our direct sales organization, our network of independent sales representatives and our distributors.

We believe the primary drivers of our future revenue growth will include:



engaging early with our lead customers to develop products and solutions that can be driven across multiple growth markets;

**Table of Contents**

leveraging our core strength and leadership position in standard, catalog products that service all of our end applications;

increasing content of our semiconductor solutions in our customers' systems through cross-selling of our more than 43 product lines;

introducing new products through internal development and acquisitions with market reception that command higher prices based on the application of advanced technologies such as GaN, added features, higher levels of integration and improved performance; and

realizing growth in the market for high-performance analog semiconductors generally, and in our four primary markets in particular.

Our core strategy is to develop innovative, high-performance products that address our customers' most difficult technical challenges in our primary markets: Networks, A&D, Automotive and Multi-market. While sales in any or all of our primary markets may slow or decline from period to period, over the long-term we generally expect to benefit from strength in these markets.

We expect our revenue in the Networks market to be primarily driven by continued upgrades and expansion of communications equipment to support expansion in the Internet of Things (IoT), driven by the proliferation of mobile computing devices such as smartphones and tablets, coupled with bandwidth rich services such as video on demand and cloud computing, as well as demand for higher bandwidth wired and wireless services, the rapid adoption of cloud-based services and the migration to an application centric architecture, which we expect will drive faster adoption of higher speed, low latency optical and wireless links.

We expect revenue in A&D to be driven by major programs of record for both commercial and military radar platforms.

We expect our revenue in the Automotive market to be subject to fluctuations in our largest customer's market share and overall macroeconomic conditions.

We expect revenue in Multi-market to be driven by diverse demand for our multi-purpose catalog products.

*Cost of revenue.* Cost of revenue primarily consists of the cost of semiconductor wafers and other materials used in the manufacture of our products, and the cost of assembly and testing of our products, whether performed by our internal manufacturing personnel or outsourced vendors. Cost of revenue also includes costs associated with personnel engaged in our manufacturing operations, such as wages and share-based compensation expense, as well as costs and overhead related to our manufacturing operations, including lease occupancy and utility expense related to our manufacturing operations, depreciation, production computer services and equipment costs and the cost of our manufacturing quality assurance and supply chain activities. Further, cost of revenue includes the impact of warranty and inventory adjustments, including write-downs for excess and obsolete inventory and for fair market value adjustments related to the accounting for acquisitions, as well as amortization of intangible assets related to acquired technology.

Our gross margin in any period is significantly affected by industry demand and competitive factors in the markets into which we sell our products. Gross margin is also significantly affected by our product mix, that is, the percentage

of our revenue in that period that is attributable to relatively higher or lower-margin products. Additional factors affecting our gross margin include fluctuations in the cost of wafers and materials, including precious metals, utilization of our wafer fabrication operation, level of usage of outsourced manufacturing, assembly and test services, changes in our manufacturing yields, changes in foreign currencies and numerous other factors, some of which are not under our control. As a result of these or other factors, we may be unable to maintain or increase our gross margin in future periods, and our gross margin may fluctuate from period to period.

*Research and development.* R&D expense consists primarily of costs relating to our employees engaged in the design and development of our products and technologies, including wages and share-based compensation. R&D expense also includes costs for consultants, facilities, services related to supporting computer design tools used in the engineering and design process,

## **Table of Contents**

prototype development and project materials. We expense all research and development costs as incurred. We expect to maintain or increase the dollar amount of R&D investment in future periods as we continue to invest in new product development, although amounts may increase or decrease in any individual quarter.

*Selling, general and administrative.* SG&A expense consists primarily of costs of our management, sales and marketing, finance, human resources and administrative organizations, including wages and share-based compensation. SG&A expense also includes costs associated with being a public company, professional fees, sales commissions paid to independent sales representatives, costs of advertising, trade shows, marketing, promotion, travel, occupancy and equipment costs, computer services costs, costs of providing customer samples, amortization of certain acquisition-related intangible assets relating to customer relationships and costs and expenses to acquire businesses.

*Restructuring charges.* Restructuring expense consists of severance and related costs incurred in connection with reductions in staff relating to initiatives designed to lower our manufacturing and operating costs and integrate acquired businesses, including restructuring actions taken following the Mindspeed and Nitronex acquisitions.

*Other income (expense).* Other income (expense) consists of our stock warrant liability expense and/or gain, interest expense, income from transition services provided related to sales of businesses and assets, and income from our administrative and business development services agreement with GaAs Labs, which is one of our stockholders and an affiliate of our directors and majority stockholders John and Susan Ocampo. We expect interest expense to be higher in future periods due to increased borrowing to fund the Mindspeed, Nitronex and BinOptics acquisitions, as well as to provide additional liquidity.

## **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements. The preparation of financial statements, in conformity with generally accepted accounting principles in the U.S. (GAAP), requires management to make estimates and judgments 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 revenue and expenses during the reporting period. By their nature, these estimates and judgments are subject to an inherent degree of uncertainty. On an ongoing basis, we re-evaluate our estimates and judgments. We base our estimates and judgments on our historical experience and on other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The accounting policies which our management believes involve the most significant application of judgment, or involve complex estimation, include revenue recognition, inventory valuation, share-based compensation, income tax expense and deferred tax accounting, fair value measurements and impairment of long-lived assets. Actual results could differ from those estimates, and material effects on our operating results and financial position may result.

For a description of the accounting policies which, in our opinion, involve the most significant application of judgment, or involve complex estimation, and which could, if different judgments or estimates were made, materially affect our reported results of operations, see Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates in our Annual Report on Form 10-K for the fiscal year ended October 3, 2014.

**Revenue Recognition** We recognize revenue when: (i) there is persuasive evidence that an arrangement exists; (ii) delivery has occurred or services have been rendered; (iii) the price is fixed or determinable; and (iv) collectability is reasonably assured. We recognize revenue with the transfer of title and risk of loss, and provide for reserves for

returns and other allowances.

We generally do not provide customers other than distributors the right to return product, with the exception of warranty related matters. Accordingly, we do not maintain a reserve for such customers. Shipping and handling fees billed to customers are recorded as revenue while the related costs are classified as a component of revenue. We provide warranties for our products and accrue the cost of warranty claims in the period the related revenue is recorded.

Certain agreements with distribution customers provide for rights of return and price protection until such time as our products are sold by the distributors to their customers and, until the quarter ended January 2, 2015, we recognized revenue from sales under such agreements when the distributor resold the product to its end customer (the sell-through basis of recognizing revenue). In the first quarter ended January 2, 2015, we completed an evaluation of our revenue recognition methodology relating to distributors and concluded that it was more appropriate to recognize revenues on sales to distributors at the time of shipment to a distributor (the sell-in basis of recognizing revenue).

Prior to the first quarter, we had concluded that we had insufficient information as well as limited experience in estimating the effect of the right of distributors to return product and price protection and, accordingly, used the sell through method of revenue recognition. We have recently concluded a study of three years of distributor related transactions in addition to our ongoing efforts to standardize our revenue recognition policies and believe we now have sufficient data to reach the conclusion that sales and revenues relating to distributor transactions are capable of reasonable estimation. Accordingly, we implemented the sell-in method of accounting for sales to distributors. We recorded adjustments during the first quarter ended January 2, 2015 related to this change to recognize previously deferred revenues and to establish a reserve of \$5.5 million against distributor sales. The net effect was a one-time increase of \$15.1 million for both previously deferred revenue and current period revenue. Additionally, we recognized the related inventory costs of \$4.7 million. The foregoing resulted a reduction of net loss by \$8.5 million and a reduction of earnings per share loss of \$0.18 per share for the quarter ended January 2, 2015.

In determining the new reserve amount, we noted that distributor payments are due under agreed terms and are not contingent upon resale or any other matter other than the passage of time. We have agreements with some distributors and customers for various programs, including pricing protection, obsolete inventory, new products and stock rotation. Sales to these distributors and customers, as well as the existence of sales incentive programs, are in accordance with terms set forth in written agreements with these distributors and customers. In general, credits allowed under these programs are capped based upon individual distributor agreements. We record charges associated with these programs as a reduction of revenue at the time of sale based upon historical activity. Our policy is to use a twelve month rolling historical experience rate as well as an estimated general reserve percentage in order to estimate the necessary allowance to be recorded.

**Table of Contents**

**Results of Operations**

We acquired Nitronex on February 13, 2014. Because we and Nitronex were under common control since June 25, 2012, we present combined financial statements in a manner similar to a pooling-of-interests for all periods since June 25, 2012, the earliest date of common control. Accordingly, our historical financial statements have been retroactively combined as if Nitronex was acquired on June 25, 2012. All periods from June 25, 2012, have been combined using historical amounts of each entity. In addition, our financial results include 13 weeks for the three months ended January 2, 2015, and 13 weeks for the three months ended January 3, 2014.

**Table of Contents**

The following table sets forth, for the periods indicated, our statement of operations data (in thousands):

|  | <b>Three Months Ended</b>  |                            |
|--|----------------------------|----------------------------|
|  | <b>January 2,<br/>2015</b> | <b>January 3,<br/>2014</b> |
| Revenue (1)                                | \$ 114,864                 | \$ 84,154                  |
| Cost of revenue (2)(3)(6)                  | 60,663                     | 48,432                     |
| <b>Gross profit</b>                        | <b>54,201</b>              | <b>35,722</b>              |
| Operating expenses:                        |                            |                            |
| Research and development                   | 19,474                     | 12,430                     |
| Selling, general and administrative (3)(5) | 25,599                     | 19,383                     |
| Restructuring charges                      |                            | 13,090                     |
| Total operating expenses                   | 45,073                     | 44,903                     |
| <b>Income (loss) from operations</b>       | <b>9,128</b>               | <b>(9,181)</b>             |
| Other income (expense):                    |                            |                            |
| Warrant liability (expense) gain (4)       | (10,608)                   | 1,282                      |
| Interest expense (3)                       | (4,723)                    | (586)                      |
| Other income                               | 375                        | 78                         |
| Total other income (expense)               | (14,956)                   | 774                        |
| <b>Loss before income taxes</b>            | <b>(5,828)</b>             | <b>(8,407)</b>             |
| Income tax provision (benefit)             | 478                        | (1,591)                    |
| <b>Loss from continuing operations</b>     | <b>(6,306)</b>             | <b>(6,816)</b>             |
| Loss from discontinued operations          |                            | (2,105)                    |
| <b>Net loss</b>                            | <b>\$ (6,306)</b>          | <b>\$ (8,921)</b>          |

- (1) 2015 period includes \$15.1 million recognized in connection with a change in estimate related to distribution revenue recognition.
- (2) 2015 period includes \$4.7 million recognized in connection with a change in estimate related to distribution revenue recognition.
- (3) Amortization expense related to intangible assets arising from acquisitions and amortization of deferred financing costs recorded as interest expense included in our consolidated statements of operations is set forth below (in thousands).
- (4) Represents changes in the fair value of common stock warrants recorded as liabilities and adjusted each reporting period to fair value.
- (5)



Edgar Filing: M/A-COM Technology Solutions Holdings, Inc. - Form 10-Q

Includes transaction expenses of \$4.6 million and \$4.2 million in the three months ended January 2, 2015 and January 3, 2014, respectively, and litigation costs of \$0.7 million and \$1.0 million in the three months ended January 2, 2015 and January 3, 2014, respectively.

- (6) Includes approximately \$0.7 million and \$0.2 million for costs for step-up in valuation of acquired inventory to fair value in the three months ended January 2, 2015 and January 3, 2014, respectively.

|   | <b>Three Months Ended</b>  |                            |
|---|----------------------------|----------------------------|
|   | <b>January 2,<br/>2015</b> | <b>January 3,<br/>2014</b> |
| <b>Amortization expense:</b>                              |                            |                            |
| Cost of revenue   | \$ 5,359                   | \$ 1,968                   |
| Selling, general and administrative                       | 1,053                      | 385                        |
| <b>Non-cash compensation expense: (a)</b>                 |                            |                            |
| Cost of revenue   | 354                        | 283                        |
| Research and development                                  | 1,038                      | 484                        |
| Selling, general and administrative                       | 2,405                      | 1,078                      |
| Amortization of deferred financing costs interest expense | 439                        | 119                        |

- (a) Includes (i) share-based compensation expense and (ii) other non-cash compensation related to the BinOptics Acquisition.

**Table of Contents**

The following table sets forth, for the periods indicated, our statement of operations data expressed as a percentage of our revenue:

|   | <b>Three Months Ended</b>  |                            |
|---|----------------------------|----------------------------|
|   | <b>January 2,<br/>2015</b> | <b>January 3,<br/>2014</b> |
| Revenue   | 100.0%                     | 100.0%                     |
| Cost of revenue                                 | 52.8                       | 57.6                       |
| <b>Gross margin (1)</b>                         | <b>47.2</b>                | <b>42.4</b>                |
| Operating expenses:                             |                            |                            |
| Research and development                        | 17.0                       | 14.8                       |
| Selling, general and administrative             | 22.3                       | 23.0                       |
| Restructuring charges                           |                            | 15.6                       |
| Total operating expenses                        | 39.2                       | 53.4                       |
| <b>Income (loss) from operations</b>            | <b>7.9</b>                 | <b>(10.9)</b>              |
| Other income (expense):                         |                            |                            |
| Warrant liability (expense) gain                | (9.2)                      | 1.5                        |
| Interest expense                                | (4.1)                      | (0.7)                      |
| Other income                                    | 0.3                        | 0.1                        |
| Total other income (expense)                    | (13.0)                     | 0.9                        |
| <b>Income (loss) before income taxes</b>        | <b>(5.1)%</b>              | <b>(10.0)%</b>             |
| Income tax provision (benefit)                  | 0.4                        | (1.9)                      |
| <b>Income (loss) from continuing operations</b> | <b>(5.5)</b>               | <b>(8.1)</b>               |
| Loss from discontinued operations               |                            | (2.5)                      |
| <b>Net income (loss)</b>                        | <b>(5.5)%</b>              | <b>(10.6)%</b>             |

(1) 2015 period includes 2.1% increase in connection with a change in estimate related to distribution revenue recognition.

**Comparison of the Three Months Ended January 2, 2015 to the Three Months Ended January 3, 2014**

*Revenue.* Our revenue increased \$30.7 million, or 36.5%, to \$114.9 million for the three months ended January 2, 2015, from \$84.2 million for the three months ended January 3, 2014. The increase in revenue in the 2014 periods are described in the following paragraphs by end markets.

Revenue from our primary markets, the percentage of change between the years, and revenue by primary markets expressed as a percentage of total revenue were (in thousands, except percentages):

|              | <b>Three Months Ended</b>      |                            | <b>%<br/>Change</b> |
|--------------|--------------------------------|----------------------------|---------------------|
|              | <b>January 2,<br/>2015 (1)</b> | <b>January 3,<br/>2014</b> |                     |
| Networks     | \$ 53,460                      | \$ 23,180                  | 130.6%              |
| A&D          | 24,853                         | 24,225                     | 2.6%                |
| Multi-market | 18,243                         | 15,410                     | 18.4%               |
| Automotive   | 18,308                         | 21,339                     | (14.2)%             |
| <b>Total</b> | <b>\$ 114,864</b>              | <b>\$ 84,154</b>           |                     |
| Networks     | 46.5%                          | 27.5%                      |                     |
| A&D          | 21.6%                          | 28.8%                      |                     |
| Multi-market | 15.9%                          | 18.3%                      |                     |
| Automotive   | 16.0%                          | 25.4%                      |                     |
| <b>Total</b> | <b>100.0%</b>                  | <b>100.0%</b>              |                     |

(1) Includes \$15.1 million recognized in connection with a change in estimate related to distribution revenue recognition of which \$6.2 million related to Networks, \$4.3 million to A&D and \$4.6 million to multi-market. In the three months ended January 2, 2015, our Networks market revenue increased by 130.6%, an increase of 104% excluding the impact of the change in estimate related to distribution revenue recognition compared to the three months ended January 3, 2014. The increase in revenue in the 2015 period was primarily from sales of

**Table of Contents**

our newly acquired products addressing carrier infrastructure, fiber to the home access networks, physical media devices, crosspoint and chipsets for broadcast video, as well as increased sales of our products targeting optical applications, partly offset by continued weakness in our products targeting wired broadband, wireless high-performance and wireless backhaul products.

In the three months ended January 2, 2015, our A&D market revenue increased by 2.6% compared to the three months ended January 3, 2014. However, excluding the impact of the change in estimate related to distribution revenue recognition, A&D market revenue decreased by 15% compared to the three months ended January 3, 2014 due primarily to a decrease in demand for radar applications.

In the three months ended January 2, 2015, our Multi-market revenues increased by 18.4% compared to the three months ended January 3, 2014. However, excluding the impact of the change in estimate related to distribution revenue recognition, Multi-market revenue decreased by 12% compared to the three months ended January 3, 2014 primarily due to decreased catalog sales.

In the three months ended January 2, 2015, our Automotive revenues decreased by \$3.0 million, or 14.2%, compared to the three months ended January 3, 2014. We attribute this decrease in the 2015 period to normal levels of fluctuation in demand by our largest automotive customer of our GPS modules.

*Gross profit.* Gross margin was 47.2% for the three months ended January 2, 2015, and 42.4% for the three months ended January 3, 2014. Gross margin in the fiscal 2015 period was positively impacted by a favorable product mix with increased sales of higher gross margin products, offset by increased amortization expense related to acquired intangible assets.

*Research and development.* R&D expense increased by \$7.0 million, or 56.7%, to \$19.5 million, or 17.0% of our revenue, for the three months ended January 2, 2015, compared with \$12.4 million, or 14.8% of our revenue, for the three months ended January 3, 2014. R&D expense increased in the 2015 period primarily as a result of research and development activities related to acquired businesses as well as from an increase in compensation.

*Selling, general and administrative.* SG&A expense increased \$6.2 million, or 32.1%, to \$25.6 million, or 22.3% of our revenue, for the three months ended January 2, 2015, compared with \$19.4 million, or 23.0% of our revenue, for the three months ended January 3, 2014. SG&A expenses increased in the 2015 period primarily due to acquisition and integration costs related to acquired businesses, increased compensation, and increased litigation costs.

*Restructuring charges.* There were no restructuring charges for the three months ended January 2, 2015, compared to charges of \$13.1 million for the three months ended January 3, 2014. The fiscal year 2014 restructuring charges are related to contractual costs associated with Mindspeed employment agreements, as well as costs associated with a reduction of Mindspeed and Nitronex staffing subsequent to the acquisitions of these businesses, and related severance and benefits.

*Income from operations.* Income from operations increased by \$18.3 million to \$9.1 million, or 7.9% of our revenue, for the three months ended January 2, 2015, compared with a loss of \$9.2 million, or 10.9% of our revenue, for the three months ended January 3, 2014.

*Warrant liability.* The warrant liability resulted in an expense of \$10.6 million for the three months ended January 2, 2015, compared to a gain of \$1.3 million for the three months ended January 3, 2014. The changes relate to the changes in the estimated fair value of common stock warrants we issued in December 2010, which we carry as a liability at fair value.

*Interest expense.* Interest expense was \$4.7 million and \$0.6 million for the three months ended January 2, 2015 and January 3, 2014, respectively. The increase in interest expense in the current period is due to increased borrowings outstanding under our Credit Agreement at higher interest rates. The borrowings were primarily utilized to fund our Mindspeed and Nitronex Acquisitions.

*Other income.* Other income was \$0.4 million and \$0.01 million for the three months ended January 2, 2015 and January 3, 2014, respectively.

*Provision for income taxes.* The provision for income taxes was \$0.5 million for the three months ended January 2, 2015, compared to a benefit of \$1.6 million for the three months ended January 3, 2014. The provision for the three months ended January 2, 2015 results from current period taxable income after adjusting for a non-deductible discrete loss of \$10.6 million for the changes in fair values of the stock warrant liability.

The difference between the U.S. federal statutory income tax rate of 35% and the Company's effective income tax rates for the three months ended January 2, 2015 and January 3, 2014, was primarily impacted by changes in fair values of the stock

## **Table of Contents**

warrant liability which are not deductible nor taxable for tax purposes, income taxed in foreign jurisdictions at generally lower tax rates, non-deductible compensation, offset by U.S. state income taxes. For the three months ended January 2, 2015, the rate was also impacted by non-deductible merger expenses resulting from the BinOptics Acquisition.

At the closing of the BinOptics Acquisition, BinOptics had, on a preliminary basis, federal net operating loss (NOL) carryforwards of approximately \$38.4 million, which expire at various dates through 2034, and federal research and development tax credit carryforwards of \$1.5 million. Although both the NOL and tax credit carryforwards are subject to change-in-control limitations within the Internal Revenue Code, we believe the limitation will not cause any of the carryforwards to expire unutilized. The aggregate net deferred income tax liability acquired in the BinOptics Acquisition is estimated to be \$37.7 million, with includes a net deferred income tax asset of \$14.9 million relating to NOL and tax credit carryforwards, and a net deferred income tax liability of \$52.6 million related to the difference between the book and tax bases of the intangible and other assets acquired in the acquisition.

## **Liquidity and Capital Resources**

As of January 2, 2015, we held \$48.3 million of cash and cash equivalents, all deposited with financial institutions. Cash from operations was \$2.1 million in the three months ended January 2, 2015, of which the principal components were net loss of \$6.3 million, plus non-cash expenses of \$25.7 million, and cash decreases from operating assets and liabilities of \$17.3 million. Decreases in accounts receivable, inventories and prepaid expenses and other assets of \$6.6 million, \$1.6 million and \$2.4 million, respectively, were partially offset by decreases in accounts payable, accrued and other liabilities, income taxes payable and deferred revenue of \$3.5 million, \$6.9 million, \$0.5 million and \$17.0 million, respectively.

Cash used in investing activities was \$227.1 million in the three months ended January 2, 2015, which consisted of net business acquisition expenditures of \$223.1 million for the purchase of BinOptics, \$2.9 million of purchases of property and capital equipment, including renovation of leased facilities and purchases of production and manufacturing equipment, tooling, engineering equipment and software tools, as well as \$1.1 million of intellectual property acquired.

Cash from financing activities was \$99.4 million in the three months ended January 2, 2015, of which \$100.0 million related to borrowings under our Revolving Facility. Proceeds from stock option exercises and employee stock purchases totaled \$1.7 million during the period. Capital lease payments totaled \$1.1 million, debt repayment of \$0.9 million and repurchases of stock totaled \$0.3 million during the period.

On May 8, 2014, we refinanced our outstanding indebtedness under our prior revolving credit facility (Prior Facility) and discharged our obligations thereunder by entering into a credit agreement (Credit Agreement) with Goldman Sachs Bank USA and a syndicate of lenders. Concurrent with the execution of the Credit Agreement, we terminated the Prior Facility and repaid the outstanding \$245.0 million principal and interest due through draws on the Credit Agreement. The Credit Agreement provides for term loans in an aggregate principal amount of \$350.0 million, which mature in May 2021 (Term Loans) and a revolving credit facility of up to \$100.0 million, which matures in May 2019 (Revolving Facility). The Term Loans were issued with an original issue discount (OID) of 0.75%, which is being amortized over the term of the Term Loans using the effective interest rate method. Borrowings under both the Term Loans and the Revolving Facility bear interest at variable rates payable quarterly. The Term Loans are payable in quarterly principal installments of 0.25% of the Term Loans on the last business day of each calendar quarter, beginning on the last business day of September 2014, with the remainder due on the maturity date.

At the signing of the Credit Agreement, the entire \$350.0 million principal, less the OID, amount of the Term Loans, was funded, and we subsequently borrowed \$100.0 million of indebtedness on our Revolving Facility in connection with the BinOptics Acquisition. The Term Loans and Revolving Facility are secured by a first priority lien on substantially all of our assets and provide that we must comply with certain financial and non-financial covenants. As of January 2, 2015, we were in compliance with all financial and non-financial covenants under the Credit Agreement.

As of January 2, 2015, we had \$348.3 million of outstanding Term Loan borrowings under the Credit Agreement with no borrowing availability as of that date.

## **Table of Contents**

In July 2013, we announced that we had licensed GaN process technology from GCS and would be installing such process technology at our Lowell, Massachusetts manufacturing facility. This installation effort is expected to be a multi-year process and to involve tens of millions of dollars of investment in capital equipment, license fees, and other related costs and expenses. We have a long-term technology licensing and transfer commitment that calls for remaining potential payments by us, as of January 2, 2015, of up to \$4.9 million through July 2016.

The undistributed earnings of our foreign subsidiaries are indefinitely reinvested and we do not intend to repatriate such earnings. We believe the decision to reinvest these earnings will not have a significant impact on our liquidity. As of January 2, 2015, cash held by our foreign subsidiaries was \$19.2 million, which, along with cash generated from foreign operations, is expected to be used in the support of international growth and working capital requirements.

As we had no remaining borrowing availability under our credit facilities as of January 2, 2015, we may consider the issuance and sale of equity securities in the future to pay down our outstanding indebtedness under our Revolving Facility or seek to refinance our indebtedness to increase our borrowing availability. We plan to use our available cash and cash equivalents and any borrowing capacity we may have from time to time under our Revolving Facility for general corporate purposes, including working capital, and potentially for the acquisition of or investment in complementary technologies, design teams, products and companies. We believe that our cash and cash equivalents and cash generated from operations will be sufficient to meet our working capital requirements for at least the next 12 months. We may need to raise additional capital from time to time through the issuance and sale of equity or debt securities, and there is no assurance that we will be able to do so on favorable terms or at all.

## **Recent Accounting Pronouncements**

See Note 1 to Condensed Consolidated Financial Statements contained in Part I, Item 1, **Financial Statements** in this Quarterly Report on Form 10-Q.

As discussed in Part II, Item 1A. **Risk Factors**, as an emerging growth company and pursuant to Section 102(6)(1) of the JOBS Act, we have elected to delay adoption of new or revised accounting standards that have different effective dates for public and private companies until those standards apply to private companies, and thus our financial statements may not be comparable to those of other companies that comply with public company effective dates.

## **Off-Balance Sheet Arrangements**

We did not have any off-balance sheet arrangements as of January 2, 2015.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to market risk in the ordinary course of business, which consists primarily of interest rate risk associated with our cash and cash equivalents and our variable rate debt, as well as foreign exchange rate risk.

*Interest rate risk.* The primary objectives of our investment activity are to preserve principal, provide liquidity, and earn a money market rate of return. To minimize market risk, we maintain our portfolio in cash and diversified short-term investments, which may consist of bank deposit and money market funds. The interest rates are variable and fluctuate with current market conditions. The risk associated with fluctuating interest rates is limited to this investment portfolio. We believe that a 10% change in interest rates would not have a material impact on our financial position or results of operations.



Our exposure to interest rate risk also relates to the increase or decrease in the amount of interest expense we must pay on the outstanding debt under the Credit Agreement. The interest rates on our term loans and revolving credit facility are variable interest rates based on our lender's prime rate or a LIBOR rate, in each case plus an applicable margin, which exposes us to market interest rate risk when we have outstanding borrowings under the Credit Agreement. As of January 2, 2015, we had \$348.3 million of outstanding borrowings under the Credit Agreement. Assuming our outstanding debt remains constant under the Credit Agreement for an entire year and the applicable annual interest rate increases or decreases by 1%, our annual interest expense would increase or decrease by \$4.5 million.

*Foreign currency risk.* To date, our international customer agreements have been denominated primarily in U.S. dollars. Accordingly, we have limited exposure to foreign currency exchange rates. The functional currency of a majority of our foreign operations is U.S. dollars with the remaining operations being local currency. The effects of exchange rate fluctuations on the net assets of the majority of our operations are accounted for as transaction gains or losses. We believe that a change of 10% in such foreign currency exchange rates would not have a material impact on our financial position or results of operations. In the future, we may enter into foreign currency exchange hedging contracts to reduce our exposure to changes in exchange rates.

**Table of Contents**

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our President and Chief Executive Officer and Senior Vice President and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)), as of the end of the period covered by this Quarterly Report on Form 10-Q. We acquired BinOptics in the quarter ended January 2, 2015. As such, the scope of our assessment of the effectiveness of our disclosure controls and procedures did not include the internal control over financial reporting of BinOptics. BinOptics represented 30.7% of our total assets and 1.9% of our revenue as of and for the quarter ended January 2, 2015. Based on such evaluation, our President and Chief Executive Officer and Senior Vice President and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of January 2, 2015.

**Changes in Internal Control over Financial Reporting**

As a result of the acquisition of BinOptics, we continue to evaluate the processes and procedures of BinOptics' internal control over financial reporting and incorporate BinOptics' internal control over financial reporting into our internal control over financial reporting framework. There were no changes in our internal control over financial reporting during the quarter ended January 2, 2015 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

From time to time we may be subject to commercial and employment disputes, claims by other companies in the industry that we have infringed their intellectual property rights and other similar claims and litigations. Any such claims may lead to future litigation and material damages and defense costs. Other than as set forth below, we were not involved in any pending legal proceedings as of the filing date of this Quarterly Report on Form 10-Q that we believe could have a material adverse effect on our business, operating results, financial condition or cash flows.

*Patent Suit Against Laird.* We brought a patent infringement suit against Laird Technologies, Inc. (Laird) in the Federal District Court for the District of Delaware on February 11, 2014, seeking monetary damages and a permanent injunction. The suit alleges that Laird infringes on our United States Patent No. 6,272,349 ( '349 Patent), titled "Integrated Global Positioning System Receiver," by making, using, selling, offering to sell or selling products incorporating an integrated global positioning receiver that include structure(s) recited in the '349 Patent, including global positioning system modules for automotive industry customers. Laird filed an answer and declaratory judgment claims of invalidity and noninfringement on June 30, 2014. We filed a reply to the counterclaims on July 24, 2014.

We filed a motion for preliminary injunction, seeking to enjoin Laird's infringement pending full trial on the merits. The court granted the motion for a preliminary injunction on June 13, 2014 and required us to post a bond of \$4 million to secure the injunction. In granting the injunction, the court found that we are likely to succeed on the merits of the case at a full trial and that the equities weighed in favor of preliminarily enjoining Laird from making sales of its product until trial. Trial is scheduled to begin on May 16, 2016.

**ITEM 1A. RISK FACTORS**

*Our business involves a high degree of risk. If any of the following risks actually occurs, our business, financial condition or results of operations could suffer. The risks described below are not the only ones facing us. Additional risks not presently known to us or that we currently consider immaterial also may adversely affect our Company.*

### **Risks Relating to Our Business**

*Our revenue growth is substantially dependent on our successful development and release of new products.*

Maintaining or growing our revenue will depend on our ability to timely develop new products for existing and new markets that meet customers' performance, reliability and price requirements. The development of new products is a highly

**Table of Contents**

complex process, and we have in the past and may in the future experience delays and failures in completing the development and introduction of new products. Our successful product development depends on a number of factors, including the following:

the accurate prediction of market requirements, changes in technology and evolving standards;

the availability of qualified product designers and process technologies needed to solve difficult design challenges in a cost-effective, reliable manner;

our ability to design products that meet customers' cost, size and performance requirements;

our ability to manufacture new products according to customer needs with acceptable manufacturing yields;

our ability to offer new products at competitive prices;

the acceptance by customers of our new product designs;

the identification of and entry into new markets for our products;

the acceptance of our customers' products by the market and the lifecycle of such products;

our ability to deliver products in a timely manner within our customers' product planning and deployment cycle; and

our ability to maintain and increase our level of product content in our customers' systems.

A new product design effort may last 12 to 18 months or longer, and requires significant investments in engineering hours and materials, as well as sales and marketing expenses, which will not be recouped if the product launch is unsuccessful. We may not be able to design and introduce new products in a timely or cost-efficient manner, and our new products may fail to meet the requirements of the market or our customers, or may be adopted by customers slower than we expect. In that case, we may not reach our expected level of production orders and may lose market share, which could adversely affect our ability to sustain our revenue growth or maintain our current revenue levels.

***Various factors may reduce our gross margin, which could negatively affect our business, financial condition and results of operations.***

If we are unable to utilize our design, fabrication, assembly and test facilities at a high level, the significant fixed costs associated with these facilities may not be fully absorbed, resulting in higher average unit costs and lower gross

margin. Our various products have different gross margin and increased sales of lower-margin products, such as our products targeted at automotive and other consumer markets, in a given period relative to sales of higher-margin products such as our optical products, may cause us to report lower overall gross margin. In our fourth quarter of fiscal year 2012 and at other times in the past, we have experienced periods where our gross margin declined due to, among other things, reduced factory utilization resulting from reduced customer demand, reduced selling prices and a change in product mix towards lower-margin products. Future market conditions may adversely affect our revenue and utilization rates and consequently our future gross margin, and this, in turn, could have an adverse impact on our business, financial condition and results of operations. In addition, increased raw material costs, changes in manufacturing yields, more complex engineering requirements and other factors may lead to lower margins for us in the future. As a result of these or other factors, we may be unable to maintain or increase our gross margin in future periods and our gross margin may fluctuate from period to period.

***Our operating results may fluctuate significantly from period to period. We may not meet investors' quarterly or annual financial expectations and, as a result, our stock price may decline.***

Our quarterly and annual operating results and related expectations may vary significantly in the future based upon a number of factors, many of which are beyond our control. Factors that could cause operating results and related expectations to fluctuate include:

the general economic growth or decline in the U.S. or foreign markets;

the reduction or cancellation of orders by customers, whether as a result of a loss of market share by us or our customers, changes in the design of customers' products or slowing demand for our products or customers' products;

**Table of Contents**

the amount of new customer orders we both book and ship in any particular fiscal quarter, which accounts for a significant amount of our net revenue in any particular quarter, and which can often be weighted toward the latter part of each fiscal quarter, making the timing of recognition of the associated revenue difficult to forecast with fidelity and susceptible to slippage between quarters;

the relative linearity of our shipments within any particular fiscal quarter, in that a less linear shipment pattern within a given fiscal quarter tends to result in lower gross margin in that quarter, and a shipment pattern weighted toward the latter part of a fiscal quarter tends to reduce our cash flows from operations in that quarter, as collections of related receivables do not occur until later fiscal periods;

the gain or loss of a key customer or significant changes in the financial condition of one or more key customers;

the fluctuations in manufacturing output, yields, capacity levels, quality control or other potential problems or delays we or our subcontractors may experience in the fabrication, assembly, testing or delivery of our products;

the fluctuations in demand relating to the A&D market due to changes in government programs, budgets or procurement;

the market acceptance of our products and particularly the timing and success of new product and technology introductions by us, customers or competitors;

the amount, timing, and relative success of our investments in research and development, which impacts our ability to develop, introduce and market new products and solutions on a timely basis;

the period-to-period changes in the mix of products we sell, which can result in lower gross margin;

the availability, quality and cost of semiconductor wafers and other raw materials, equipment, components and internal or outsourced manufacturing, packaging and test capacity, particularly where we have only one qualified source of supply;

the effects of seasonal and other changes in customer purchasing cycles and component inventory levels;

the effects of competitive pricing pressures, including decreases in average selling prices of our products;

the effects of impairment charges associated with intangible assets, including goodwill and acquisition-related intangible assets;

the loss of key personnel or the shortage of available skilled workers;

the effects of factors that could cause our reported domestic and foreign income taxes and income tax rate to increase in future periods, such as limits on our ability to utilize net operating losses or tax credits and the geographic distribution of our income, which may change from period to period; and

the effects of war, natural disasters, acts of terrorism, macroeconomic uncertainty or decline or geopolitical unrest.

The foregoing factors are difficult to forecast, and these, as well as other factors, could materially and adversely affect our quarterly and annual operating results and related expectations for future periods. In addition, if our operating results in any period do not meet our publicly stated guidance, if any, or the expectations of investors or securities analysts, our stock price may decline. Similarly, any publicly stated guidance we provide in the future may itself fail to meet the expectations of investors or securities analysts, and our stock price may decline as a result.

***If our primary markets decline or fail to grow, our revenue and profitability may suffer.***

Our future growth depends to a significant extent on the continued growth in usage of advanced electronic systems in our primary markets: Networks, A&D, Automotive and Multi-market. The rate and extent to which these markets grow, if at all, is uncertain. These markets may fail to grow or decline for many reasons, including insufficient consumer demand, lack of access to capital, sequestration or other changes in the U.S. defense budget and procurement processes, changes in regulatory environments, macro-economic factors and changes in network specifications. If demand for electronic systems in which our products are incorporated declines, fails to grow, or grows more slowly than we anticipate, purchases of our products may be reduced, which may adversely affect our business, financial condition and results of operations. In particular, our sales to Ford,

**Table of Contents**

which accounted for 19.0% of our revenue for fiscal year 2014 and substantially all of the revenue in our Automotive market, are dependent upon the health of the automotive industry, Ford's ability to maintain or grow its market share, Ford's continuing to source parts from us for its current platforms, lack of success by potential competitors in displacing us and Ford's continuing to design our products into its automotive platforms as they evolve, none of which are assured.

***We may be unable to successfully integrate the business and personnel of BinOptics, and may not realize the anticipated synergies and benefits of the BinOptics Acquisition.***

We completed our acquisition of BinOptics on December 15, 2014, and we may not realize the expected benefits from the BinOptics Acquisition because of integration difficulties or other challenges. The success of the BinOptics Acquisition will depend, in part, on our ability to realize all or some of the anticipated synergies and other benefits from integrating the BinOptics business with our existing businesses. The integration process may be complex, costly, and time-consuming. The potential difficulties we may face in integrating the operations of the BinOptics business include, among others:

failure to implement our business plan for the combined business and expand BinOptics production capacity as planned;

unexpected losses of key employees, customers or suppliers of BinOptics;

unanticipated issues in conforming BinOptics standards, processes, procedures and controls with our operations;

coordinating new product and process development;

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

diversion of management's attention from other business concerns;

adverse effects on our or BinOptics existing business relationships;

unanticipated changes in applicable laws and regulations;

operating risks inherent in BinOptics business and operations;

unanticipated expenses and liabilities;



unfamiliarity with BinOptics technology, products and markets, including the high-performance, high-speed laser market generally, which may place us at a competitive disadvantage; and

other difficulties in the assimilation of BinOptics operations, technologies, products and systems.

BinOptics may have unanticipated or larger than anticipated liabilities for patent and trademark infringement claims, violations of laws, commercial disputes, taxes and other known and unknown types of liabilities. There may be liabilities that we underestimated or did not discover in the course of performing our due diligence investigation of BinOptics. We have limited recourse under the merger agreement to recover damages relating to the liabilities of BinOptics and its subsidiaries.

We may not be able to maintain or increase the levels of revenue, earnings or operating efficiency that each of BinOptics and us had achieved or might achieve separately. In addition, we may not accomplish the integration of the BinOptics business smoothly, successfully or within the anticipated costs or timeframe. If we experience difficulties with the integration process or if the BinOptics business deteriorates, the anticipated cost savings, growth opportunities and other synergies of the BinOptics Acquisition may not be realized fully, or at all, or may take longer to realize than expected. If any of the above risks occur, our business, financial condition, results of operations and cash flows may be materially and adversely impacted, we may fail to meet the expectations of investors or analysts, and our stock price may decline as a result.

***We typically depend on orders from a limited number of customers for a significant percentage of our revenue.***

In fiscal years 2014, 2013 and 2012, sales to our distributor Richardson and to Ford each accounted for more than 10% of our revenue. Sales to our top 10 direct and distribution customers accounted for an aggregate of 60%, 59% and 55%, respectively, of our revenue. While the composition of our top 10 customers varies from year to year, we expect that sales to a limited number of customers will continue to account for a significant percentage of our revenue for the foreseeable future. The purchasing arrangements with our customers are typically conducted on a purchase order basis that does not require our

## **Table of Contents**

customers to purchase any minimum amount of our products over a period of time. As a result, it is possible that any of our major customers could terminate their purchasing arrangements with us or significantly reduce or delay the amount of our products that they order, purchase products from our competitors or develop their own products internally. The loss of, or a reduction in, orders from any major customer could cause a decline in revenue and adversely affect our results of operations.

### ***Our investment in research and development may not be successful, which may impact our profitability.***

The semiconductor industry requires substantial investment in research and development in order to develop and bring to market new and enhanced technologies and products. Research and development expenses were \$73.7 million, \$44.6 million and \$36.8 million for our fiscal years 2014, 2013 and 2012, respectively. In each of the last three fiscal years, we invested in research and development as part of our strategy toward the development of innovative products and solutions to fuel our growth and profitability. We cannot assure you if or when the products and solutions where we have focused our research and development expenditures will become commercially successful. In addition, we may not have sufficient resources to maintain the level of investment in research and development required to remain competitive or succeed in our strategy. Our efforts to develop new and improved process technologies for use in our products require substantial expenditures that may not generate any return on investment, may take longer than we anticipate to generate a return or may generate a return on investment that is inadequate. In July 2013, we announced that we had licensed 0.5, 0.25 and 0.15 micron GaN process technology from Global Communications Semiconductors, LLC (GCS) and would be installing such process technology to our Lowell, Massachusetts manufacturing facility. This installation effort is expected to be a multi-year process and to involve tens of millions of dollars of investment in capital equipment, license fees and other related costs and expenses. We have in the past and may in the future experience unexpected difficulties, expenses, or delays in installing and qualifying this GaN technology, and ultimately, may not be successful in our efforts, may not realize the competitive advantage we anticipate from the license and porting effort, and may not realize customer demand for the GaN technology that meets our expectations following the installation effort, any of which could lead to reduced revenues and gross margin or otherwise harm our business. Similarly, following the Nitronex Acquisition we have announced a number of strategic plans and positive expectations concerning the future cost structure, manufacturability, market applicability and potential positive impact on our market share of another type of GaN technology called GaN-on-Silicon, which is a focus of Nitronex's business. We may experience unexpected difficulties, expenses or delays in driving the scale manufacturing, decreased manufacturing cost structure, productization or customer adoption of GaN of any type that we are targeting, and ultimately may not be successful in our efforts, may not realize the competitive advantage or revenues or profits we anticipate from this technology, any of which could lead to reduced revenues and gross margin or otherwise harm our business.

### ***We may incur significant risk and expense in attempting to win new business, and such efforts may never generate revenue.***

To obtain new business, we often need to win a competitive selection process to develop semiconductors for use in our customers' systems, known in the industry as a "design win". These competitive selection processes can be lengthy and can require us to incur significant and unreimbursed design and development expenditures and dedicate scarce engineering resources in pursuit of a single customer opportunity. We may not win the competitive selection process and may never generate any revenue despite incurring significant design and development expenditures and selling, general and administrative expenses. Failure to obtain a design win sometimes prevents us from supplying components for an entire generation of a customer's system. This can result in lost or foregone revenue and could weaken our position in future competitive selection processes.

Even when we achieve a design win, success is not assured. Customer qualification and design cycles can be lengthy, and it may take a year or more following a successful design win and product qualification for one of our products to be purchased in volume by the customer. We may experience difficulties manufacturing the part in volume, such as low yields, supply chain delays or shortages, or quality issues. Further, while the customer has successfully qualified our part for use in its system when it awards a design win to us, it may not have qualified all of the other components being sourced for its system, or qualified its system as a whole with its end customers. Any difficulties our customer may experience in completing those qualifications may delay or prevent us from translating the design win into revenue. These risks can be particularly acute in our A&D market, where we may spend material amounts and commit substantial design engineer resources to product development work in support of an OEM customer's attempt to win business tied to a government contract award, but realize no related revenue or less than expected revenue from that investment based on failure of the OEM to win the business, government program

## **Table of Contents**

cancellation, federal budget limitations, or otherwise. Any of these events, or any cancellation of a customer's program or failure of our customer to successfully market its own product after our design win could materially and adversely affect our business, financial condition and results of operations, as we may have incurred significant expense and generated no revenue.

***We are subject to order and shipment uncertainties. Our profitability will decline if we fail to accurately forecast customer demand when managing inventory.***

We generally sell our products on the basis of purchase orders rather than long-term purchase commitments from our customers. Our customers can typically cancel purchase orders or defer product shipments for some period without incurring liability to us. We typically plan production and inventory levels based on internal forecasts of customer demand, which can be highly unpredictable and can fluctuate substantially, leading to excess inventory write-downs, and resulting negative impacts on gross margin and net income. We have limited visibility into our customers' inventories, future customer demand, and the product mix that our customers will require, which could adversely affect our production forecasts and operating margins. In a number of markets we serve, large dollar value customer orders scheduled for delivery in the current fiscal quarter may be canceled or rescheduled by the customer for delivery in a future fiscal quarter on short notice, which could cause our reported revenue to vary materially from our prior expectations. In addition, the rapid pace of innovation in our industry could render significant portions of our inventory obsolete. If we overestimate our customers' requirements, we may have excess inventory, which could lead to obsolete inventory and unexpected costs. Conversely, if we underestimate our customers' requirements, we may have inadequate inventory, which could lead to foregone revenue opportunities, loss of potential market share and damage to customer relationships as product deliveries may not be made on a timely basis, disrupting our customers' production schedules. Some of our larger customers also require us to build and maintain minimum inventories and keep them available for purchase at specified locations based on non-binding demand estimates that are subject to change, which exposes us to increased inventory risk and makes it more difficult to manage our working capital. If demand from such customers decreases, we may be left with excess or obsolete inventory we are unable to sell. In response to anticipated long lead times to obtain inventory and materials from outside suppliers and foundries, we periodically order materials and build a stock of finished goods inventory in advance of customer demand. This advance ordering of raw material and building of finished goods inventory has in the past and may in the future result in excess inventory levels or unanticipated inventory write-downs if expected orders fail to materialize, or other factors make our products less saleable. In addition, any significant future cancellation or deferral of product orders could adversely affect our revenue and margins, increase inventory write-downs due to obsolete inventory, and adversely affect our operating results and stock price.

***The average selling prices of our products may decrease over time, which could have a material adverse effect on our revenue and gross margin.***

It is common in our industry for the average selling price of a given product to decrease over time as production volumes increase, competing products are developed, technology, industry standards and customer platforms evolve, or new technologies featuring higher performance or lower cost emerge. To combat the negative effects that erosion of average selling prices have had in the past and may in the future have on our revenue and gross margin, we attempt to actively manage the prices of our existing products and introduce new process technologies and products in the market that exhibit higher performance, new features that are in demand, or lower manufacturing cost. Despite this strategy, we may experience price erosion in select product platforms or generally in future periods. Failure to maintain our current prices or to successfully execute on our new product development strategy will cause our revenue and gross margin to decline, which could decrease the value of your investment in our common stock.

***We face intense competition in our industry, and our inability to compete successfully could negatively affect our operating results.***

The semiconductor industry is highly competitive. While we compete with a wide variety of companies, we compete with Analog Devices, Inc. across most of our primary markets. Our other significant competitors include, among others, Avago Technologies Limited, Cobham Defense Electronic Systems, Microsemi Corporation, Qorvo, Inc. and Skyworks Solutions, Inc.

We believe future competition could also come from companies developing new alternative technologies, component suppliers based in countries with lower production costs and IC manufacturers achieving higher levels of integration that

## **Table of Contents**

exceed the functionality offered by our products. Our customers and suppliers could also develop products that compete with or replace our products. A decision by any of our large customers to design and manufacture ICs internally could have an adverse effect on our operating results. Increased competition could mean lower prices for our products, reduced demand for our products, and a corresponding reduction in our ability to recover development, engineering and manufacturing costs.

Many of our existing and potential competitors have entrenched market positions, historical affiliations with original equipment manufacturers, considerable internal manufacturing capacity, established intellectual property rights, and substantial technological capabilities. Many of them may also have greater financial, technical, manufacturing or marketing resources than we do. Prospective customers may decide not to buy from us due to concerns about our relative size, financial stability or other factors. Our failure to successfully compete could result in lower revenue, decreased profitability and a lower stock price.

### ***We operate in the semiconductor industry, which is cyclical and subject to significant downturns.***

The semiconductor industry is highly cyclical and is characterized by constant and rapid technological change, price erosion, product obsolescence, evolving standards, short product lifecycles and significant fluctuations in supply and demand. The industry has historically experienced significant fluctuations in demand and product obsolescence, resulting in product overcapacity, high inventory levels and accelerated erosion of average selling prices. Downturns in many sectors of the electronic systems industry have in the past contributed to extended periods of weak demand for semiconductor products. We have experienced adverse effects on our profitability and cash flows during such downturns in the past, and our business may be similarly harmed by any downturns in the future, particularly if we are unable to effectively respond to reduced demand in a particular market.

### ***We expect to make future acquisitions, dispositions and investments, which involve numerous risks.***

We have an active corporate development program and routinely evaluate potential acquisitions of, and investments with or other strategic alliances involving, complementary technologies, design teams, products, and companies. We also may evaluate the merits of a potential divestment of one or more of our existing business lines. We expect to pursue such transactions if appropriate opportunities arise. However, we may not be able to identify suitable transactions in the future, or if we do identify such transactions, we may not be able to complete them on commercially acceptable terms, or at all. We also face intense competition for acquisitions from other acquirers in our industry. These competing acquirers may have significantly greater financial and other resources than us, which may prevent us from successfully pursuing a transaction. In the event we pursue acquisitions, we will face numerous risks including:

difficulties in integrating the personnel, culture, operations, technology or products and service offerings of the acquired company;

diversion of management's attention from normal daily operations of our business;

difficulties in entering markets where competitors have stronger market positions;

difficulties in improving and integrating the financial reporting capabilities and operating systems of any acquired operations, particularly foreign and formerly private operations, as needed to maintain effective internal control over financial reporting and disclosure controls, and procedures;

loss of any key personnel of the acquired company as well as their know-how, relationships and expertise, which is common following an acquisition;

maintaining customer, supplier or other favorable business relationships of acquired operations;

generating insufficient revenue from completed acquisitions to offset increased expenses associated with any abandoned or completed acquisitions;

acquiring material or unknown leasehold, environmental, regulatory, infringement, contractual or other liabilities associated with any acquired operations;

litigation frequently associated with merger and acquisition transactions; and

increasing expense associated with amortization or depreciation of intangible and tangible assets we acquire.

## **Table of Contents**

Our past acquisitions required or continue to require significant management time and attention relating to the transaction and integration activities. If we fail to properly integrate these acquired companies with ours, we may not receive the expected benefits of the acquisitions. Even if a proposed acquisition is successfully realized and integrated, we may not receive the expected benefits of the transaction.

Past transactions, whether completed or abandoned by us, have resulted, and in the future may result, in significant costs, expenses, liabilities and charges to earnings. The accounting treatment for any acquisition may result in significant amortizable intangible assets which, when amortized, will negatively affect our consolidated results of operations. The accounting treatment for any acquisition may result in significant goodwill, which, if impaired, will negatively affect our consolidated results of operations. Furthermore, we may incur indebtedness or issue equity securities to pay for acquisitions. The incurrence of indebtedness could limit our operating flexibility and be detrimental to our profitability, and the issuance of equity securities would be dilutive to our existing stockholders. Any or all of the above factors may differ from the investment community's expectations in a given quarter, which could negatively affect our stock price. In addition, as a result of the foregoing, we may not be able to successfully execute acquisitions in the future to the same extent as we have in the past, if at all.

In the event we make future investments, the investments may decline in value or fail to deliver any strategic benefits we anticipate from them, and we may lose all or part of our investment. In the event we undertake divestments, we may suffer from associated management distraction, damaged customer relationships, failure to realize the perceived strategic, or financial merits of the divestment, or we may incur material indemnity liabilities to the purchaser. Further, the investments may have unanticipated or larger than anticipated liabilities for patent and trademark infringement claims, violations of laws, commercial disputes, taxes and other known and unknown types of liabilities. There may be liabilities that we underestimate or do not discover in the course of performing our due diligence investigation of the investment. We may not have recourse under the transaction documents to recover any damages relating to potential liabilities.

### ***We may incur liabilities for claims of intellectual property infringement relating to our products.***

The semiconductor industry is generally subject to frequent litigation regarding patents and other intellectual property rights. Other companies in the industry have numerous patents that protect their intellectual property rights in these areas and technology is frequently licensed, and we have been in the past and may in the future, be subject to claims that we have breached, infringed or misappropriated patent, license or other intellectual property rights. Our customers may assert claims against us for indemnification if they receive claims alleging that their or our products infringe others' intellectual property rights, and have in the past and may in the future choose not to purchase our products based on their concerns over such a pending claim. In the event of an adverse result of any intellectual property rights litigation, we could be required to incur significant costs to defend or settle such litigation, pay substantial damages for infringement, expend significant resources to develop non-infringing technology, incur material liability for royalty payments or fees to obtain licenses to the technology covered by the litigation or be subjected to an injunction, which could prevent us from selling our products, and materially and adversely affect our revenue and results of operations. Negotiated settlements resolving such claims may require us to pay substantial sums, as was the case in September 2013 when we paid \$7.25 million in settlement of a suit alleging intellectual property misappropriation. We cannot be sure that we will be successful in any such non-infringing development or that any such license would be available on commercially reasonable terms, if at all. Any claims relating to the infringement of third-party proprietary rights, even if not meritorious, could result in costly litigation, lost sales, or damaged customer relationships and diversion of management's attention and resources.

***Many of our products currently incorporate technology licensed or acquired from third parties and we expect our products in the future to also require technology from third parties. If the licenses to such technology that we***



***currently hold become unavailable or the terms on which they are available become commercially unreasonable, or if we are unable to acquire or license necessary technology for our products in the future, our business could be adversely affected.***

We sell products in markets that are characterized by rapid technological changes, evolving industry standards, frequent new product introductions and increasing levels of integration. Our ability to keep pace with this market at times depends on our ability to obtain technology from third parties on commercially reasonable terms to allow our products to remain competitive. If licenses to such technology are not available on commercially reasonable terms and conditions or at all, and we cannot otherwise acquire or integrate such technology, our products or our customers products could become unmarketable or obsolete, and we could lose market share. In addition, disputes with third party licensors over required payments, scope of licensed rights and compliance with contractual terms are common in our industry, and we have in the past and may in the future be subjected to disputes over the terms of such licenses. Such disputes may require us to incur significant costs defending our license rights, divert management's attention or result in our inability to sell or develop certain products. In such instances, we could also incur substantial unanticipated costs or scheduling delays to develop substitute technology to deliver competitive products, damaged customer and vendor relationships, indemnification liabilities, and declining revenues and profitability. Such events could have a material adverse effect on our financial condition and results of operations.

**Table of Contents**

***We depend on third parties for products and services required for our business, which may limit our ability to meet customer demand, assure product quality and control costs.***

We purchase numerous raw materials, such as ceramic packages, precious metals, semiconductor wafers and ICs, from a limited number of external suppliers. We also currently use several external manufacturing suppliers for assembly and testing of our products, and in some cases for fully-outsourced turnkey manufacturing of our products. We currently expect to increase our use of outsourced manufacturing in the future as a strategy. The ability and willingness of our external suppliers to perform is largely outside of our control. The use of external suppliers involves a number of risks, including the possibility of material disruptions in the supply of key components, the lack of control over delivery schedules, capacity constraints, manufacturing yields, quality and fabrication costs and misappropriation of our intellectual property. If these vendors' processes vary in reliability or quality, they could negatively affect our products and, therefore, our customer relations and results of operations. We generally purchase raw materials on a purchase order basis and we do not have significant long-term supply commitments from our vendors. Where we do have long-term supply commitments, they may result in our being obligated to purchase more material than we need, materially and negatively impacting our operating results. In terms of relative bargaining power, many of our suppliers are larger than we are, with greater resources, and many of their other customers are larger and have greater resources than we do. If these vendors experience shortages or fail to accurately predict customer demand, they may have insufficient capacity to meet our demand, creating a capacity constraint on our business. They may also choose to supply others in preference to us in times of capacity constraint or otherwise, particularly where the other customers purchase in higher volume. Third-party supplier capacity constraints have in the past and may in the future prevent us from supplying customer demand that we otherwise could have fulfilled at attractive prices. If we have a firm commitment to supply our customer but are unable to do so based on inability or unwillingness of one of our suppliers to provide related materials or services, we may be liable for resulting damages and expense incurred by our customer.

Based on superior performance features, cost parameters or other factors, we utilize sole source suppliers for certain semiconductor packages and other materials, and it is common for one of our outside semiconductor foundries to be our sole supplier for the particular semiconductor fabrication process technologies manufactured at that supplier's facility. Such supplier concentrations involve the risk of a potential future business interruption if the supplier becomes unable or unwilling to supply us at any point. While in some cases alternate suppliers may exist, because there are limited numbers of third-party wafer suppliers that use the process technologies we select for our products and that have sufficient capacity to meet our needs, it may not be possible or may be expensive to find an alternative source of supply. Even if we are able to find an alternative source, moving production to an alternative supplier requires an extensive qualification or re-qualification process that could prevent or delay product shipments, or disrupt customer's production schedules, which could harm our business. In addition, some of our external foundry suppliers compete against us in the market in addition to being our supplier. The loss of a supplier can also significantly harm our business and operating results. A supplier may discontinue supplying us if its business is not sufficiently profitable, for competitive reasons or otherwise. We have in the past and may in the future have our supply relationship discontinued by an external foundry, causing us to experience supply chain disruption, customer dissatisfaction, loss of business and increased cost.

***If we lose key personnel or fail to attract and retain key personnel, we may be unable to pursue business opportunities or develop our products.***

We believe our continued ability to recruit, hire, retain and motivate highly-skilled engineering, operations, sales, administrative and managerial personnel is key to our future success. Competition for these employees is intense, particularly with respect to qualified engineers. Our failure to retain our present employees and hire additional qualified personnel in a timely manner and on reasonable terms could harm our competitiveness and results of

operations. In addition, from time to time, we may recruit and hire employees from our competitors, customers, suppliers and distributors, which could result in liability to us, and has in the past and could in the future, damage our business relationship with these parties. None of our senior management team is contractually bound to remain with us for a specified period, and we generally do not maintain key person life insurance covering our senior management. The loss of any member of our senior management team could strengthen a competitor or harm our ability to implement our business strategy.

## **Table of Contents**

### ***Sources for certain components and materials are limited, which could result in interruptions, delays or reductions in product shipments.***

Our industry may be affected from time to time by limited supplies of certain key components and materials. We have in the past and may in the future, experience delays or reductions in supply shipments, which could reduce our revenue and profitability. If key components or materials are unavailable, our costs could increase and our revenue could decline.

In particular, our manufacturing headquarters, design facilities, assembly and test facilities, and supply chain, and those of our contract manufacturers, are subject to risk of catastrophic loss due to fire, flood, or other natural or man-made disasters. The majority of our semiconductor products are fabricated in our Lowell, Massachusetts headquarters, where our only internal wafer fab is located. The majority of the internal and outsourced assembly and test facilities we utilize are located in the Pacific Rim, and some of our internal design, assembly and test facilities are located in California regions with above average seismic and severe weather activity. In addition, our research and development personnel are concentrated in a few locations, primarily our headquarters, Santa Clara, California, Sydney, Australia, Belfast, Northern Ireland and Cork, Ireland locations, with the expertise of the personnel at each such location generally focused on one or two specific areas. Any catastrophic loss or significant damage to any of these facilities would likely disrupt our operations, delay production, shipments and revenue, and result in significant expenses to repair or replace the facility, and in some instances, could significantly curtail our research and development efforts in a particular product area or primary market, which could have a material adverse effect on our operations. For example, in October 2011, heavy monsoon rains in Thailand caused widespread flooding affecting major cities and industrial parks where there is a concentration of semiconductor manufacturing, assembly and test sites. One of our contract manufacturing suppliers located in Thailand was affected by the flooding and, as a result of the flooding of our affected contract manufacturer, \$2.7 million of orders that were scheduled for shipment to our customers in the three months ended December 30, 2011 were delayed into the second quarter of fiscal year 2012, or were canceled. In particular, any catastrophic loss at our headquarters facility would materially and adversely affect our business and financial results, revenue and profitability.

### ***Our failure to continue to keep pace with new or improved semiconductor process technologies could impair our competitive position.***

Semiconductor manufacturers constantly seek to develop new and improved semiconductor process technologies. Our future success depends in part upon our ability to continue to gain access to these semiconductor process technologies, internally or externally, in order to adapt to emerging customer requirements and competitive market conditions. We may be unable to internally develop such technologies successfully, and may be unable to gain access to them from merchant foundries or other sources on commercially reasonable terms, or at all. If we fail for any reason to remain abreast of new and improved semiconductor process technologies as they emerge, we may lose market share and our revenue and gross margin may decline, which could adversely affect our operating results.

### ***Minor deviations in the manufacturing process can cause substantial manufacturing yield loss or even cause halts in production, which could have a material adverse effect on our revenue and gross margin.***

Our products involve complexities in both their design and the semiconductor process technology employed in their fabrication. In many cases, the products are also assembled in customized packages or feature high levels of integration. Our products must meet exacting customer specifications for quality, performance and reliability.

Our manufacturing yield, or the percentage of units of a given product in a given period that is usable relative to all such units produced, is a combination of yields including wafer fabrication, assembly, and test yields. Due to the

complexity of our products, we periodically experience difficulties in achieving acceptable yields as even minor deviations in the manufacturing process can cause substantial manufacturing yield loss or even cause halts in production. Our customers may also test our components once they have been assembled into their products. The number of usable products that result from our production process can fluctuate as a result of many factors, including the following:

design errors;

**Table of Contents**

defects in photomasks, which are used to print circuits on wafers;

minute impurities in materials used;

contamination of the manufacturing environment;

equipment failure or variations in the manufacturing processes;

losses from broken wafers or other human error;

defects in packaging; and

issues and errors in testing.

Typically, for a given level of sales, when our yields improve, our gross margin improves. When our yields decrease, our unit costs are typically higher, our gross margin is lower and our profitability is adversely affected, any or all of which can harm our results of operations and lower our stock price.

***We depend on third-party sales representatives and distributors for a material portion of our revenues.***

We sell many of our products to customers through independent sales representatives and distributors, as well as through our direct sales force. We are unable to predict the extent to which our independent sales representatives and distributors will be successful in marketing and selling our products. Moreover, many of our independent sales representatives and distributors also market and sell competing products. Our relationships with our representatives and distributors typically may be terminated by either party at any time, and do not require them to buy any of our products. Sales to distributors accounted for 22.5% of our revenue in fiscal year 2014, and sales to our largest distributor, Richardson, represented 15.0% of our revenue in the same period. If our distributors cease doing business with us or fail to successfully market and sell our products, our ability to sustain and grow our revenue could be materially adversely affected.

***Our internal and external manufacturing, assembly and test model subjects us to various manufacturing and supply risks.***

We operate a semiconductor wafer processing and manufacturing facility at our headquarters in Lowell, Massachusetts. This facility is also our primary internal design and assembly and test facility. We maintain other internal assembly and test operation facilities as well, including leased sites in Long Beach, California and Hsinchu, Taiwan. We also use multiple external foundries for outsourced semiconductor wafer supply, as well as multiple domestic and Asian assembly and test suppliers to assemble and test our products. A number of factors will affect the future success of these internal manufacturing facilities and outsourced supply and service arrangements, including the following:

the level of demand for our products;

our ability to expand and contract our facilities and purchase commitments in a timely and cost-effective manner in response to changes in demand for our products;

our ability to generate revenue in amounts that cover the significant fixed costs of operating our facilities;

our ability to qualify our facilities for new products in a timely manner;

the availability of raw materials, including GaAs, SiGe and InP substrates and high purity source materials such as gallium, aluminum, arsenic, carbon, nitrite, indium and silicon;

our manufacturing cycle times and yields;

the political and economic risks associated with our reliance on outsourced Asian assembly and test suppliers;

the location of our facilities and those of our outsourced suppliers;

natural disasters impacting our facilities and those of our outsourced suppliers;

our ability to hire, train, manage and retain qualified production personnel;

**Table of Contents**

our compliance with applicable environmental and other laws and regulations;

our ability to avoid prolonged periods of downtime or high levels of scrap in our and our suppliers' facilities for any reason.

***We may experience difficulties in managing any future growth.***

To successfully conduct business in a rapidly evolving market, we must effectively plan and manage any current and future growth. Our ability to do so will be dependent on a number of factors, including:

maintaining access to sufficient manufacturing capacity to meet customer demands;

arranging for sufficient supply of key raw materials and services to avoid shortages or supply bottlenecks;

building out our administrative infrastructure at the proper pace to support any current and future sales growth while maintaining operating efficiencies;

adhering to our high quality and process execution standards, particularly as we hire and train new employees and during periods of high volume;

managing the various components of our working capital effectively;

upgrading our operational and financial systems, procedures and controls, including improvement of our accounting and internal management systems; and

maintaining high levels of customer satisfaction.

If we do not effectively manage any future growth, we may not be able to take advantage of attractive market opportunities, our operations may be impacted, and we may experience delays in delivering products to our customers or damaged customer relationships, and achieve lower than anticipated revenue and decreased profitability.

***We may not realize the expected benefits of our recent restructuring activities and other initiatives designed to reduce costs and increase revenue across our operations.***

We have pursued a number of restructuring initiatives designed to reduce costs and increase revenue across our operations. These initiatives included reductions in our number of manufacturing facilities and significant workforce reductions in certain areas as we realigned our business. Additional initiatives included establishing certain operations closer in location to our global customers and evaluating functions that may be more efficiently performed through outsourcing arrangements. These initiatives have been substantial in scope and disruptive to some of our historical operations. We may not realize the expected benefits of these new initiatives. As a result of these initiatives, we have incurred restructuring or other charges and we may in the future experience disruptions in our operations, loss of



personnel and difficulties in delivering products in a timely fashion. In fiscal years 2014, 2013 and 2012, we incurred restructuring charges of \$14.8 million, \$1.1 million and \$1.9 million, respectively, consisting primarily of employee severance and related costs resulting from reductions in our workforce.

***Our business could be harmed if systems manufacturers choose not to use components made of compound semiconductor materials we utilize.***

Silicon semiconductor technologies are the dominant process technologies for the manufacture of ICs in high-volume, commercial markets, and the performance of silicon ICs continues to improve. While we use silicon for some applications, we also often use compound semiconductor technologies such as GaAs, InP, SiGe or GaN to deliver reliable operation at higher power, higher frequency, or smaller form factor than a silicon solution has historically allowed. While these compound semiconductor materials offer high-performance features, it is generally more difficult to design and manufacture products with reliability and in volume using them. GaN and InP, in particular, are newer process technologies that do not have as extensive a track record of reliable performance in the field as many of the competing process technologies. Compound semiconductor technology tends to be more expensive than silicon technology due to its above-described challenges, and the generally lower volumes at which parts in those processes tend to be manufactured relative to silicon parts for high-volume consumer applications.

## **Table of Contents**

System designers in some markets may be reluctant to adopt our non-silicon products or may be likely to adopt silicon products in lieu of our products if silicon products meeting their demanding performance requirements are available, because of:

their unfamiliarity with designing systems using our products;

their concerns related to manufacturing costs and yields;

their unfamiliarity with our design and manufacturing processes; or

uncertainties about the relative cost effectiveness of our products compared to high-performance silicon components.

We cannot be certain that additional systems manufacturers will design our compound semiconductor products into their systems or that the companies that have utilized our products will continue to do so in the future. Improvements in the performance of available silicon process technologies and solutions could result in a loss of market share on our part. If our products fail to achieve or maintain market acceptance for any of the above reasons, our results of operations will suffer.

### ***We may incur material costs and our business may be interrupted in connection with consolidation and outsourcing initiatives.***

We have a number of ongoing strategic initiatives aimed at reducing our long-term operating cost model, including the outsourcing of various manufacturing functions to third party suppliers and consolidation of our operations within existing facilities. While the goal of these actions is to reduce recurring fixed cost, there are associated restructuring charges and execution risks associated with these initiatives. Exiting a leased site may involve contractual or negotiated exit payments with the landlord, temporary holding over at an increased lease rate, costs to perform restoration work required by the lease, or associated environmental liability, any of which may be material in amount. Consolidation of operations and outsourcing may involve substantial capital expenses and the transfer of manufacturing processes and personnel from one site to another, with resultant startup issues at the receiving site and need for re-qualification of the transitioned operations with major customers and for ISO or other certifications. We may experience shortages of affected products, delays and higher than expected expenses. Affected employees may be distracted by the transition or may seek other employment, which could cause our overall operational efficiency to suffer.

### ***We are subject to risks from our international sales and operations.***

We have operations in Europe, Asia and Australia, and customers around the world. As a result, we are subject to regulatory, geopolitical and other risks associated with doing business outside the U.S. Global operations involve inherent risks, including currency controls, currency exchange rate fluctuations, tariffs, required import and export licenses, associated delays and other related international trade restrictions and regulations.

The legal system in many of the regions where we conduct business can lack transparency in certain respects relative to that of the U.S. and can accord local government authorities a higher degree of control and discretion over business

than is customary in the U.S. This makes the process of obtaining necessary regulatory approvals and maintaining compliance inherently more difficult and unpredictable. In addition, the protection accorded to proprietary technology and know-how under these legal systems may not be as strong as in the U.S., and, as a result, we may lose valuable trade secrets and competitive advantages. The cost of doing business in European jurisdictions can also be higher than in the U.S. due to exchange rates, local collective bargaining regimes, and local legal requirements and norms regarding employee benefits and employer-employee relations, in particular. We are also subject to U.S. legal requirements related to our foreign operations, including the Foreign Corrupt Practices Act.

Sales to customers located outside the U.S. accounted for 49.1%, 41.3% and 47.1% of our revenue for the fiscal years 2014, 2013 and 2012, respectively. We expect that revenue from international sales will continue to be a significant part of our total revenue. Because the majority of our foreign sales are denominated in U.S. dollars, our products become less price-competitive in countries with currencies that are low or are declining in value against the U.S. dollar. Also, we cannot be sure that our international customers will continue to accept orders denominated in U.S. dollars. If they do not, our reported revenue and earnings will become more directly subject to foreign exchange fluctuations. Some of our customer purchase orders and agreements are governed by foreign laws, which may differ significantly from U.S. laws. We may be limited in our ability to enforce our rights under such agreements and to collect amounts owed to us.

## **Table of Contents**

The majority of our assembly, packaging, and test vendors are located in Asia. We generally do business with our foreign assemblers in U.S. dollars. Our manufacturing costs could increase in countries with currencies that are increasing in value against the U.S. dollar. Also, our international manufacturing suppliers may not continue to accept orders denominated in U.S. dollars. If they do not, our costs will become more directly subject to foreign exchange fluctuations. From time to time we may attempt to hedge our exposure to foreign currency risk by buying currency contracts or otherwise, and any such efforts involve expense and associated risk that the currencies involved may not behave as we expect, and we may lose money on such hedging strategies or not properly hedge our risk.

In addition, if terrorist activity, armed conflict, civil, economic or military unrest or political instability occurs in the U.S. or other locations, such events may disrupt our manufacturing, assembly, logistics, security and communications, and could also result in reduced demand for our products. We have in the past and, may again in the future, experience difficulties relating to employees traveling in and out of countries facing civil unrest or political instability, and with obtaining travel visas for our employees. Major health pandemics could also adversely affect our business and our customer order patterns. We could also be affected if labor issues disrupt our transportation arrangements or those of our customers or suppliers. There can be no assurance that we can mitigate all identified risks with reasonable effort. The occurrence of any of these events could have a material adverse effect on our operating results.

### ***Our business could be adversely affected if we experience product returns, product liability and defects claims.***

Our products are complex and frequently operate in high-performance, challenging environments. We may not be able to anticipate all of the possible performance or reliability problems that could arise with our products after they are released to the market. If such problems occur or become significant, we may experience reduced revenue and increased costs related to product recalls, inventory write-offs, warranty or damage claims, delays in, cancellations of, or returns of product orders and other expenses. The many materials and vendors used in the manufacture of our products increase the risk that some defects may escape detection in our manufacturing process and subsequently affect our customers, even in the case of long-standing product designs. Our use of newly-developed or less mature semiconductor process technologies, such as GaN and InP, which have a less extensive track record of reliability in the field than other more mature process technologies, also increases the risk of performance and reliability problems. These matters have arisen in our operations from time to time in the past, have resulted in significant expense to us per occurrence, and will likely occur again in the future. The occurrence of defects could result in product returns and liability claims, reduced product shipments, the loss of customers, the loss of or delay in market acceptance of our products, harm to our reputation, diversion of management's time and resources, lower revenue, higher expenses and reduced profitability. Any warranty or other rights we may have against our suppliers for quality issues caused by them may be more limited than those our customers have against us, based on our relative size, bargaining power, or otherwise. In addition, even if we ultimately prevail, such claims could result in costly litigation, divert management's time and resources and damage our customer relationships.

We also face exposure to potential liability resulting from the fact that some of our customers integrate our products into consumer products such as automobiles or mobile communication devices, which are then sold to consumers in the marketplace. We may be named in product liability claims even if there is no evidence that our products caused a loss. Product liability claims could result in significant expenses in connection with the defense of such claims and possible damages. In addition, we may be required to participate in a recall if our products prove to be defective. Any product recall or product liability claim brought against us, particularly in high-volume consumer markets, could have a material negative impact on our reputation, business, financial condition or results of operations.

***The outcome of litigation in which we are involved in is unpredictable and an adverse decision in any such matter could subject us to damage awards and lower the market price of our stock.***

From time to time we are a party to litigation matters such as those described in Part II. Item 1, Legal Proceedings of this Quarterly Report. These and any other future disputes, litigations, investigations, administrative proceedings or enforcement actions we may be involved in may divert financial and management resources that would otherwise be used to benefit our operations, result in negative publicity and harm our customer or supplier relationships. Although we intend to

## **Table of Contents**

contest such matters vigorously, we cannot assure you that their outcome will be favorable to us. An adverse resolution of any such matter in the future, including the results of any amicable settlement, could subject us to material damage awards or settlement payments or otherwise materially harm our business.

### ***Our financial results may be adversely affected by increased tax rates and exposure to additional tax liabilities.***

Our effective tax rate is highly dependent upon the geographic composition of our worldwide earnings and tax regulations governing each region, each of which can change from period to period. We are subject to income taxes in both the U.S. and various foreign jurisdictions, and significant judgment is required to determine our worldwide tax liabilities. Our effective tax rate as well as the actual tax ultimately payable could be adversely affected by changes in the amount of our earnings attributable to countries with differing statutory tax rates, changes in the valuation of our deferred tax assets, changes in tax laws or tax rates (particularly in the U.S. or Ireland), increases in non-deductible expenses, the availability of tax credits, material audit assessments, or repatriation of non-U.S. earnings, each of which could materially affect our profitability. Any significant increase in our effective tax rates could materially reduce our net income in future periods and decrease the value of your investment in our common stock.

Changes in tax laws are introduced from time to time to reform U.S. taxation of international business activities. Depending on the final form of legislation enacted, if any, these consequences may be significant for us due to the large scale of our international business activities. If any of these proposals are enacted into legislation, they could have material adverse consequences on the amount of tax we pay and, thereby, on our financial position and results of operations.

### ***Our limited ability to protect our proprietary information and technology may adversely affect our ability to compete.***

Our future success and ability to compete is dependent in part upon our protection of our proprietary information and technology through patent filings and otherwise. We cannot be certain that any patents we apply for will be issued or that any claims allowed from pending applications will be of sufficient scope or strength to provide meaningful protection or commercial advantage. Our competitors may also be able to design around our patents. The laws of some countries in which our products are or may be developed, manufactured, or sold, may not protect our products or intellectual property rights to the same extent as U.S. laws, increasing the possibility of piracy of our technology and products. Although we intend to vigorously defend our intellectual property rights, we may not be able to prevent misappropriation of our technology or may need to expend significant financial and other resources in defending our rights.

In addition, we rely on trade secrets, technical know-how and other unpatented proprietary information relating to our product development and manufacturing activities. We try to protect this information by entering into confidentiality agreements with employees and other parties. We cannot be sure that these agreements will be adequate and will not be breached, that we would have adequate remedies for any breach or that our trade secrets and proprietary know-how will not otherwise become known or independently discovered by others.

Additionally, our competitors may independently develop technologies that are substantially equivalent or superior to our technology. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy, or otherwise obtain or use our products or technology. Patent litigation is expensive, and our ability to enforce our patents and other intellectual property, is limited by our financial resources and is subject to general litigation risks. If we seek to enforce our rights, we may be subject to claims that the intellectual property rights are invalid, are otherwise not enforceable, or are licensed to the party against whom we assert a claim. In addition, our assertion of intellectual property rights could result in the other party seeking to assert alleged intellectual property rights of its

own against us, which is a frequent occurrence in such litigations.

***If we fail to comply with export control regulations we could be subject to substantial fines or other sanctions, including loss of export privileges.***

Certain of our products are subject to the Export Administration Regulations, administered by the Department of Commerce, Bureau of Industry Security, which require that we obtain an export license before we can export products or technology to specified countries. Other products are subject to the International Traffic in Arms Regulations, which restrict the export of information and material that may be used for military or intelligence applications by a foreign person. U.S. regulators have announced export control reform that is expected to change many of the rules applicable to us in this area in the future in ways we do not yet fully understand, and we could experience challenges in complying with the new rules as they become effective, or face difficulties or an inability to ship products to certain countries and customers.

**Table of Contents**

We are also subject to U.S. import regulations and the import and export regimes of other countries in which we operate. Failure to comply with these laws could result in sanctions by the government, including substantial monetary penalties, denial of export privileges and debarment from government contracts. Export and import regulations may create delays in the introduction of our products in international markets, or prevent the export or import of our products to certain countries or customers altogether. Any change in export or import regulations or related legislation, shift in approach by regulators to the enforcement or scope of existing regulations, changes in the interpretation of existing regulations by regulators or change in the countries, persons or technologies targeted by such regulations, could harm our business by resulting in decreased use of our products by, or our decreased ability to export or sell our products to, existing or potential customers with international operations. In addition, our sale of our products to or through third-party distributors, resellers and sales representatives creates the risk that any violation of these laws they may engage in may cause disruption in our markets or otherwise bring liability on us.

***We face risks associated with government contracting.***

Some of our revenue is derived from contracts with agencies of the U.S. government or subcontracts with its prime contractors. Under some of our government subcontracts, we are required to maintain secure facilities and to obtain security clearances for personnel involved in performance of the contract, in compliance with applicable federal standards. If we were unable to comply with these requirements, or if personnel critical to our performance of these contracts were to lose their security clearances, we might be unable to perform these contracts or compete for other projects of this nature, which could adversely affect our revenue.

***We may need to modify our activities or incur substantial costs to comply with environmental laws, and if we fail to comply with environmental laws we could be subject to substantial fines or be required to change our operations.***

We are subject to a variety of international, federal, state and local governmental regulations directed at preventing or mitigating climate change and other environmental harms, as well as to the storage, discharge, handling, generation, disposal and labeling of toxic or other hazardous substances used to manufacture our products. If we fail to comply with these regulations, substantial fines could be imposed on us, and we could be required to suspend production, alter manufacturing processes, cease operations or remediate polluted land, air or groundwater, any of which could have a negative effect on our revenue, results of operations and business. Failure to comply with environmental regulations could subject us to civil or criminal sanctions and property damage or personal injury claims. Compliance with current or future environmental laws and regulations could restrict our ability to expand our facilities or build new facilities, or require us to acquire additional expensive equipment, modify our manufacturing processes, or incur other substantial expenses which could harm our business, financial condition and results of operations. In addition, under some of these laws and regulations, we could be held financially responsible for remedial measures if our properties or, those nearby are contaminated, even if we did not cause the contamination. We have incurred in the past and may in the future incur environmental liability based on the actions of prior owners, lessees or neighbors of sites we have leased or may lease in the future, or sites we become associated with due to acquisitions. We cannot predict:

changes in environmental or health and safety laws or regulations;

the manner in which environmental or health and safety laws or regulations will be enforced, administered or interpreted;



our ability to enforce and collect under any indemnity agreements and insurance policies relating to environmental liabilities; or

the cost of compliance with future environmental or health and safety laws or regulations or the costs associated with any future environmental claims, including the cost of clean-up of currently unknown environmental conditions.

In addition to the costs of complying with environmental, health and safety requirements, we may in the future incur costs defending against environmental litigation brought by government agencies, lessors at sites we currently lease or have been

## **Table of Contents**

associated with in the past and other private parties. We may be defendants in lawsuits brought by parties in the future alleging environmental damage, personal injury or property damage. A significant judgment or fine levied against us, or agreed settlement payment, could materially harm our business, financial condition and results of operations.

***Environmental regulations such as the WEEE and RoHS directives limit our flexibility and may require us to incur material expense.***

Various countries require companies selling a broad range of electrical equipment to conform to regulations such as the Waste Electrical and Electronic Equipment (WEEE) and the European Directive 2002/95/EC on Restriction of Hazardous Substances (RoHS). New environmental standards such as these could require us to redesign our products in order to comply with the standards, require the development of compliance administration systems or otherwise limit our flexibility in running our business or require us to incur substantial compliance costs. For example, RoHS requires that certain substances be removed from most electronic components. The WEEE directive makes producers of electrical and electronic equipment financially responsible for specified collection, recycling, treatment and disposal of past and future covered products. We have already invested significant resources into complying with these regimes, and further investments may be required. Alternative designs implemented in response to regulation may be more costly to produce, resulting in an adverse effect on our gross profit margin. If we cannot develop compliant products in a timely fashion or properly administer our compliance programs, our revenue may also decline due to lower sales, which would adversely affect our operating results. Further, if we were found to be non-compliant with any rule or regulation, we could be subject to fines, penalties and/or restrictions imposed by government agencies that could adversely affect our operating results.

***Customer demands and new regulations related to conflict minerals may force us to incur additional expenses and liabilities.***

In August 2012, the SEC adopted its final rule to implement Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act regarding disclosure and reporting requirements for companies who use conflict minerals mined from the Democratic Republic of Congo and adjoining countries in their products. In the semiconductor industry, these minerals are most commonly found in metals used in the manufacture of semiconductor devices and related assemblies. These new requirements could adversely affect our ability to source related minerals and metals and increase our related cost. We will face difficulties and increased expense associated with complying with the disclosure requirements, such as costs related to determining the source of any conflict minerals used in our products. Continued timely reporting is dependent upon the improvement and implementation of new systems and processes and information supplied by our suppliers of products that contain, or potentially contain, conflict minerals. Also, our supply chain is complex, and some suppliers may be unwilling to share related confidential information regarding the source of their products, or may provide us information that is inaccurate or inadequate. If those risks arise, or if our processes in obtaining that information do not fulfill the SEC's requirements, we may face both reputational challenges and SEC enforcement risks based on our inability to sufficiently verify the origins of the subject minerals and metals or otherwise. More recently, Executive Orders issued by the President of the U.S. have increased sanctions in this area as well, which may impact us in the scenarios described above. Moreover, we may encounter challenges to satisfy any related requirements of our customers, which may be different from or more onerous than the requirements of the related SEC rules and Executive Orders. If we cannot satisfy these customers, they may choose a competitor's products or may choose to disqualify us as a supplier, and we may have to write off inventory in the event that it becomes unsalable as a result of these regulations.

***Our term loan and revolving credit facility could result in outstanding debt with a claim to our assets that is senior to that of our stockholders, and may have other adverse effects on our results of operations.***

As of January 2, 2015, we have a term loan outstanding of \$348.3 million and a revolving credit facility outstanding of \$100.0 million. The facility is secured by a first priority lien on all domestic subsidiaries. The amount of our indebtedness could have important consequences, including the following:

our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate or other purposes may be limited;

**Table of Contents**

our ability to make distributions to our stockholders in a sale or liquidation until any balance on the line is repaid in full;

we may be more vulnerable to economic downturns, less able to withstand competitive pressures and less flexible in responding to changing business and economic conditions;

our cash flow from operations will be allocated to the payment of the principal of, and interest on, any outstanding indebtedness; and

we cannot assure you that our business will generate sufficient cash flow from operations or other sources to enable us to meet our payment obligations under the facility and to fund other liquidity needs.

Our credit facility also contains certain restrictive covenants that may limit or eliminate our ability to incur additional debt, sell, lease or transfer our assets, pay dividends, make capital expenditures, investments and loans, make acquisitions, guarantee debt or obligations, create liens, enter into transactions with our affiliates, enter into new lines of business and enter into certain merger, consolidation or other reorganizations transactions. These restrictions could limit our ability to withstand downturns in our business or the economy in general or to take advantage of business opportunities that may arise, any of which could place us at a competitive disadvantage relative to our competitors that are not subject to such restrictions. If we breach a loan covenant, the lenders could either refuse to lend funds to us or accelerate the repayment of any outstanding borrowings under the credit facility. We might not have sufficient assets to repay such indebtedness upon a default. If we are unable to repay the indebtedness, the lenders could initiate a bankruptcy proceeding against us or collection proceedings with respect to our subsidiaries securing the facility, which could materially decrease the value of our common stock.

***We are a holding company and rely on dividends, distributions and other payments, advances and transfers of funds from our subsidiaries to meet our obligations.***

As a holding company, we derive substantially all of our cash flow from our subsidiaries. Because we conduct our operations through our subsidiaries, we depend on those entities for dividends and other payments or distributions to meet our operating needs. Legal and contractual restrictions in any existing and future outstanding indebtedness we or our subsidiaries incur may limit our ability to obtain cash from our subsidiaries. The deterioration of the earnings from, or other available assets of, our subsidiaries for any reason could limit or impair their ability to pay dividends or other distributions to us.

***Variability in self-insurance liability estimates could adversely impact our results of operations.***

We self-insure for employee health insurance and workers' compensation insurance coverage up to a predetermined level, beyond which we maintain stop-loss insurance from a third-party insurer. Our aggregate exposure varies from year to year based upon the number of participants in our insurance plans. We estimate our self-insurance liabilities using an analysis provided by our claims administrator and our historical claims experience. Our accruals for insurance reserves reflect these estimates and other management judgments, which are subject to a high degree of variability. If the number or severity of claims for which we self-insure increases, it could cause a material and adverse change to our reserves for self-insurance liabilities, as well as to our earnings.

***We may be subject to liabilities based on alleged links between the semiconductor manufacturing process and certain illnesses and birth defects.***

In recent years, there has been increased media scrutiny and associated reports regarding a potential link between working in semiconductor manufacturing clean room environments and birth defects and certain illnesses, primarily cancer. Regulatory agencies and industry associations have begun to study the issue to determine if any actual correlation exists. Because we utilize clean rooms, we may become subject to liability claims alleging personal injury. In addition, these reports may also affect our ability to recruit and retain employees. A significant judgment against us or material defense costs could harm our reputation, business, financial condition and results of operations.

## **Table of Contents**

***We rely on third parties to provide corporate infrastructure services necessary for the operation of our business. Any failure of one or more of our vendors to provide these services could have a material adverse effect on our business.***

We rely on third-party vendors to provide critical corporate infrastructure services, including, among other things, certain services related to information technology and network development and monitoring. We depend on these vendors to ensure that our corporate infrastructure will consistently meet our business requirements. The ability of these third-party vendors to successfully provide reliable, high quality services is subject to technical and operational uncertainties that are beyond our control. While we may be entitled to damages if our vendors fail to perform under their agreements with us, our agreements with these vendors limit the amount of damages we may receive. In addition, we do not know whether we will be able to collect on any award of damages or that any such damages would be sufficient to cover the actual costs we would incur as a result of any vendor's failure to perform under its agreement with us. Any failure of our corporate infrastructure could have a material adverse effect on our business, financial condition and results of operations. Upon expiration or termination of any of our agreements with third-party vendors, we may not be able to replace the services provided to us in a timely manner or on terms and conditions, including service levels and cost, that are favorable to us, and a transition from one vendor to another vendor could subject us to operational delays and inefficiencies until the transition is complete.

***Our business and operations could suffer in the event of a security breach or other cybersecurity incident.***

Cyber attacks and attempts by others to gain unauthorized access to our information technology systems are becoming more sophisticated and may be successful. These attempts, which might be related to industrial or other espionage, include covertly introducing malware to our computers and networks and impersonating authorized users, among others. We seek to detect and investigate all security incidents and to prevent their recurrence, but in some cases, we might be unaware of an incident or its magnitude and effects. The theft, unauthorized use or publication of our intellectual property and/or confidential business information could harm our competitive position, reduce the value of our investment in research and development and other strategic initiatives or otherwise adversely affect our business. To the extent that any security breach impacts the operation of our products in the field, or results in inappropriate disclosure of our customers' confidential information, we may incur liability, reputational damage or impaired business relationships as a result, which could harm our business. While we expect to continually invest in additional resources and services to bolster the security of our information technology systems, no amount of investment will eliminate these risks entirely.

## **Risks Relating to Ownership of our Common Stock**

***We may engage in future capital-raising transactions that dilute our stockholders or cause us to incur debt.***

We may issue additional equity, debt or convertible securities to raise capital in the future. If we do, existing stockholders may experience significant further dilution. In addition, new investors may demand rights, preferences or privileges that differ from, or are senior to, those of our existing stockholders. Our incurrence of indebtedness could limit our operating flexibility and be detrimental to our results of operations.

***The market price of our common stock may be volatile, which could result in substantial losses for investors.***

You should consider an investment in our common stock risky and invest only if you can withstand a significant loss and wide fluctuations in the market value of your investment. In addition to the risks described in this report, other factors that may cause the market price of our common stock to fluctuate include:

changes in general economic, industry and market conditions;

domestic and international economic factors unrelated to our performance;

actual or anticipated fluctuations in our quarterly operating results;

changes in or failure to meet publicly disclosed expectations as to our future financial performance, as was the case in August 2012 when the trading price of our common stock declined approximately 21% on the day following our public announcement of lower than expected revenue, gross margin and business outlook figures;

changes in securities analysts' estimates of our financial performance or lack of research and reports by industry analysts;

changes in market valuations or earnings of similar companies;

**Table of Contents**

addition or loss of significant customers;

announcements by us or our competitors, customers or suppliers of significant products, contracts, acquisitions, strategic partnerships or other events;

developments or disputes concerning patents or proprietary rights, including any injunction issued or material sums paid for damage awards, settlement payments, license fees, attorney's fees or other litigation expenses associated with intellectual property lawsuits we may initiate, or in which we may be named as defendants;

failure to complete significant sales;

developments concerning current or future strategic alliances or acquisitions;

any future sales of our common stock or other securities; and

additions or departures of directors, executives or key personnel.

Furthermore, the stock markets recently have experienced price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political, and market conditions such as recessions, interest rate changes or international currency fluctuations, may negatively impact the market price of our common stock. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business.

***If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, our stock price and trading volume could decline.***

The trading market for our common stock will depend on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade our common stock or change their opinion of our common stock, our stock price would likely decline. If one or more of these analysts cease their coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our stock price or trading volume to decline.

***Our common stock price may decline if a substantial number of shares are sold in the market by our stockholders.***

Future sales of substantial amounts of shares of our common stock by our existing stockholders in the public market, or the perception that these sales could occur, may cause the market price of our common stock to decline. Increased sales of our common stock in the market for any reason could exert significant downward pressure on our stock price. These sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price we deem appropriate.



***Some of our stockholders can exert control over us, and they may not make decisions that reflect our interests or those of other stockholders.***

Our largest stockholders control a significant amount of our outstanding common stock. As of January 2, 2015, John and Susan Ocampo beneficially owned 52.1% of our common stock and certain investment funds affiliated with Summit Partners, L.P. owned 19.9% of our common stock on an as-converted basis. As a result, these stockholders will be able to exert a significant degree of influence over our management and affairs and control over matters requiring stockholder approval, including the election of our directors and approval of significant corporate transactions. In addition, this concentration of ownership may delay or prevent a change in control of us and might affect the market price of our securities. In addition, the interests of these stockholders may not always coincide with your interests or the interests of other stockholders.

## **Table of Contents**

***We are required to evaluate our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002, and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.***

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to furnish a report by our management on our internal control over financial reporting and evaluate the effectiveness of our internal control over financial reporting as of the end of each fiscal year. Such a report will contain, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. If our management identifies one or more material weaknesses in our internal control over financial reporting during this process, we will be unable to assert such internal control is effective. If we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our stock price. We cannot assure you that we will not have deficiencies or weaknesses in our internal control over financial reporting in the future.

We may also rely on external consultants to supplement our internal controls. For example, we may rely on external consultants to supplement our financial reporting in connection with our accounting for income taxes and other complex accounting and financial matters, some of which require significant technical accounting expertise or require significant judgment. Use of external consultants involves additional risk that our external consultants may not perform as expected, or that coordination between our internal and external resources may not be adequate, resulting in one or more procedures not being performed or reviewed as planned, or one or more errors not being identified and corrected. If we do not effectively manage our external consultants or if they fail to perform as expected or fail to provide an adequate level of expertise in certain areas, our ability to comply with our financial reporting requirements and other rules that apply to reporting companies could be impaired and the accuracy and completeness of our financial reports could be compromised, which could adversely affect our stock price.

***As an emerging growth company, we have elected to delay adoption of new or revised accounting standards, and thus our financial statements may not be comparable to those of most other companies. In addition, we are entitled to utilize other reduced disclosure and governance requirements applicable to emerging growth companies.***

Pursuant to the Jumpstart Our Business Startups Act (JOBS Act), as an emerging growth company, we have elected to take advantage of an extended transition period for any new or revised accounting standards that may be issued by the Financial Accounting Standards Board (FASB) or the SEC, which means that when a standard is issued or revised and it has different application dates for public or private companies, we, as an emerging growth company, can delay adoption of the standard until it applies to private companies. This may make a comparison of our financial statements with any other public company that is not an emerging growth company difficult, as they may be applying different standards. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile and could decline.

As an emerging growth company, we also intend to utilize certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including, but not limited to, not being required to provide the auditor attestation report otherwise required by Section 404 of the Sarbanes-Oxley Act with respect to our internal control over financial reporting, and reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements. We may utilize these reporting exemptions until we are no longer an emerging growth company. We will remain an emerging growth company for up to five years, subject to certain conditions. We cannot predict if investors will find our common stock less attractive because we rely

on these exemptions.

***Anti-takeover provisions in our charter documents and Delaware law could prevent or delay a change in control of our company that stockholders may consider beneficial and may adversely affect the price of our stock.***

Provisions of our fourth amended and restated certificate of incorporation and second amended and restated bylaws may discourage, delay or prevent a merger, acquisition or change of control that a stockholder may consider favorable. These provisions could also discourage proxy contests and make it more difficult for stockholders to elect directors and take other corporate actions. The existence of these provisions could limit the price that investors might be willing to pay in the future for shares of our common stock. These provisions include authorizing the issuance of blank check preferred stock, staggered

**Table of Contents**

elections of directors, and establishing advance notice requirements for nominations for election to the board of directors and for proposing matters to be submitted to a stockholder vote. Provisions of Delaware law may also discourage, delay or prevent someone from acquiring or merging with our company or obtaining control of our company. Specifically, Section 203 of the Delaware General Corporate Law may prohibit business combinations with stockholders owning 15% or more of our outstanding voting stock and could reduce our value.

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

We do not intend to pay any cash dividends on our common stock in the foreseeable future. The payment of cash dividends is restricted under the terms of the agreements governing our indebtedness. In addition, because we are a holding company, our ability to pay cash dividends may be limited by restrictions on our ability to obtain sufficient funds through dividends from subsidiaries, including restrictions under the terms of the agreements governing our indebtedness. We anticipate that we will retain all of our future earnings for use in the development of our business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of our board of directors. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments.

***We are a controlled company within the meaning of the rules of the NASDAQ Stock Market, and, as a result, will qualify for, and will rely on, exemptions from certain corporate governance requirements. Our stockholders will not have the same protections afforded to stockholders of companies that are subject to such requirements.***

John and Susan Ocampo control a majority of the voting power of our outstanding common stock. We are a controlled company within the meaning of the corporate governance standards of the Nasdaq Stock Market. Under these rules, a listed company of which more than 50% of the voting power is held by an individual, group or another company is a controlled company and may elect not to comply with certain corporate governance requirements, including:

the requirement that a majority of the board of directors consist of independent directors;

the requirement that the listed company have a nominating and governance committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities;

the requirement that the listed company have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; and,

the requirement for an annual performance evaluation of the nominating and governance and compensation committees.

We currently are a controlled company, currently plan to rely on the exemption regarding the requirement that a majority of the board of directors consist of independent directors in the future, and may utilize any or all of these exemptions from time to time in the future. Accordingly, you may not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of the Nasdaq Stock Market.



**Table of Contents****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS***Issuer Purchases of Equity Securities*

| Period                               | Total Number of Shares<br>(or Units) Purchased        |   | Average Price Paid<br>per Share<br>(or Unit) | Maximum Number that<br>May Be Purchased<br>Under the Plans<br>or<br>Programs |
|--------------------------------------|---|---|--|--|
|                                      | Total Number of<br>Shares (or Units)<br>Purchased (1) | Part of Publicly<br>Announced Plans<br>or<br>Programs |  |  |
| October 4, 2014 - October 31, 2014   | 1,805   |   | \$ 13.88                                     |  |
| November 1, 2014 - November 28, 2014 | 3,241   |   | 13.62  |  |
| November 29, 2014 - January 2, 2014  | 762   |   | 14.29  |  |
|                                      | 5,808   |   | \$ 13.79                                     |  |

- (1) We employ withhold to cover as a tax payment method for vesting of restricted stock awards for our employees, pursuant to which, outside of a publicly-announced repurchase plan, we withheld from employees the shares noted in the table above to cover tax withholding related to the vesting of their awards. The average prices listed in the above table are averages of the fair market prices at which we valued shares withheld for purposes of calculating the number of shares to be withheld.

**Table of Contents****ITEM 6. EXHIBITS**

## Exhibit

## Number

## Description

- 2.2 Agreement and Plan of Merger by and among M/A-COM Technology Solutions Inc., BinOptics Corporation, Borealis Merger Sub, Inc. and Ithaca Stockholders Agent, LLC, as stockholders agent, dated November 17, 2014 (incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K filed on November 19, 2014).
- 3.1 Fourth Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.3 to Amendment No. 6 to our Registration Statement on Form S-1 (File No. 333-175934) filed on February 28, 2012).
- 3.2 Second Amended and Restated Bylaws (incorporated by reference to Exhibit 3.4 to Amendment No. 6 to our Registration Statement on Form S-1 (File No. 333-175934) filed on February 28, 2012).
- 4.1 Specimen of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to Amendment No. 4 to our Registration Statement on Form S-1 (File No. 333-175934) filed on November 23, 2011).
- 4.2 Form of Common Stock Purchase Warrant issued on December 21, 2010 (incorporated by reference to Exhibit 4.3 our Registration Statement on Form S-1 (File No. 333-175934) filed on August 1, 2011).
- 4.3 Second Amended and Restated Investor Rights Agreement, dated February 28, 2012 (incorporated by reference to Exhibit 4.2 to Amendment No. 6 to our Registration Statement on Form S-1 (File No. 333-175934) filed on February 28, 2012).
- 4.4 First Amendment to the Second Amended and Restated Investor Rights Agreement, dated May 20, 2013 (incorporated by reference to Exhibit 4.5 to our Registration Statement on Form S-3 (File No. 333-188728) filed on May 21, 2013).
- 4.5 Indenture, dated June 19, 2012, among Mindspeed Technologies, Inc., certain subsidiaries of Mindspeed Technologies, Inc., and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.11 to the Quarterly Report on Form 10-Q for the fiscal quarter ended June 29, 2012 filed by Mindspeed Technologies, Inc. on August 8, 2012 (File No. 333-31650).
- 10.1\* Offer of Promotion and Revised Terms of Employment Letter, dated September 24, 2013, between M/A-COM Technology Solutions Inc. and Robert Dennehy.
- 10.2\* Offer of Employment Letter, dated as of November 5, 2013, between M/A-COM Technology Solutions Inc. and Najabat Hasnain Bajwa (incorporated by reference to Exhibit (d)(5) our Tender Offer Statement on Schedule TO filed with the SEC on November 19, 2013).
- 10.3\* Offer of Employment Letter, dated as of December 11, 2013, between M/A-COM Technology Solutions Inc. and Preetinder Virk (incorporated by reference to Exhibit (d)(8) to Amendment No. 4 to our Tender Offer Statement on Schedule TO filed with the SEC on December 11, 2013).
- 10.4\* M/A-COM Technology Solutions Holdings, Inc. 2012 Employee Stock Purchase Plan (as amended and restated).
- 10.5\* M/A-COM Technology Solutions Holdings, Inc. Change in Control Plan (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on October 23, 2014).

Edgar Filing: M/A-COM Technology Solutions Holdings, Inc. - Form 10-Q

|         |   |
|---------|---|
| 31.1    | Certification of Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.  |
| 31.2    | Certification of Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.  |
| 32.1    | Certification of Principal Executive Officer and Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350. |
| 101.INS | XBRL Instance Document  |
| 101.SCH | XBRL Taxonomy Schema Document   |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document   |
| 101.DEF | XBRL Taxonomy Definition Linkbase Document  |
| 101.LAB | XBRL Taxonomy Label Linkbase Document   |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document  |

\* Management contract or compensatory plan.



**Table of Contents**

**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.

**M/A-COM TECHNOLOGY SOLUTIONS  
HOLDINGS, INC.**

Dated: February 2, 2015

By: /s/ John Croteau  
John Croteau  
*President and Chief Executive Officer*  
  
*(Principal Executive Officer)*

Dated: February 2, 2015

By: /s/ Robert J. McMullan  
Robert J. McMullan  
*Senior Vice President and Chief Financial Officer*  
  
*(Principal Financial Officer)*

**Table of Contents****EXHIBIT INDEX**

| Exhibit Number | Description  |
|----------------|--|
| 2.2            | Agreement and Plan of Merger by and among M/A-COM Technology Solutions Inc., BinOptics Corporation, Borealis Merger Sub, Inc. and Ithaca Stockholders Agent, LLC, as stockholders agent, dated November 17, 2014 (incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K filed on November 19, 2014).  |
| 3.1            | Fourth Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.3 to Amendment No. 6 to our Registration Statement on Form S-1 (File No. 333-175934) filed on February 28, 2012).   |
| 3.2            | Second Amended and Restated Bylaws (incorporated by reference to Exhibit 3.4 to Amendment No. 6 to our Registration Statement on Form S-1 (File No. 333-175934) filed on February 28, 2012).   |
| 4.1            | Specimen of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to Amendment No. 4 to our Registration Statement on Form S-1 (File No. 333-175934) filed on November 23, 2011).   |
| 4.2            | Form of Common Stock Purchase Warrant issued on December 21, 2010 (incorporated by reference to Exhibit 4.3 our Registration Statement on Form S-1 (File No. 333-175934) filed on August 1, 2011).   |
| 4.3            | Second Amended and Restated Investor Rights Agreement, dated February 28, 2012 (incorporated by reference to Exhibit 4.2 to Amendment No. 6 to our Registration Statement on Form S-1 (File No. 333-175934) filed on February 28, 2012).   |
| 4.4            | First Amendment to the Second Amended and Restated Investor Rights Agreement, dated May 20, 2013 (incorporated by reference to Exhibit 4.5 to our Registration Statement on Form S-3 (File No. 333-188728) filed on May 21, 2013).   |
| 4.5            | Indenture, dated June 19, 2012, among Mindspeed Technologies, Inc., certain subsidiaries of Mindspeed, and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.11 to the Quarterly Report on Form 10-Q for the fiscal quarter ended June 29, 2012 filed by Mindspeed Technologies, Inc. on August 8, 2012 (File No. 333-31650). |
| 10.1*          | Offer of Promotion and Revised Terms of Employment Letter, dated September 24, 2013, between M/A-COM Technology Solutions Inc. and Robert Dennehy.   |
| 10.2*          | Offer of Employment Letter, dated as of November 5, 2013, between M/A-COM Technology Solutions Inc. and Najabat Hasnain Bajwa (incorporated by reference to Exhibit (d)(5) our Tender Offer Statement on Schedule TO filed with the SEC on November 19, 2013).   |
| 10.3*          | Offer of Employment Letter, dated as of December 11, 2013, between M/A-COM Technology Solutions Inc. and Preetinder Virk (incorporated by reference to Exhibit (d)(8) to Amendment No. 4 to our Tender Offer Statement on Schedule TO filed with the SEC on December 11, 2013).  |
| 10.4*          | M/A-COM Technology Solutions Holdings, Inc. 2012 Employee Stock Purchase Plan (as amended and restated).   |
| 10.5*          | M/A-COM Technology Solutions Holdings, Inc. Change in Control Plan (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on October 23, 2014).  |

Edgar Filing: M/A-COM Technology Solutions Holdings, Inc. - Form 10-Q

|         |   |
|---------|---|
| 31.1    | Certification of Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.  |
| 31.2    | Certification of Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.  |
| 32.1    | Certification of Principal Executive Officer and Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350. |
| 101.INS | XBRL Instance Document  |
| 101.SCH | XBRL Taxonomy Schema Document   |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document   |
| 101.DEF | XBRL Taxonomy Definition Linkbase Document  |
| 101.LAB | XBRL Taxonomy Label Linkbase Document   |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document  |

\* Management contract or compensatory plan.