PATRIOT NATIONAL BANCORP INC
Form 10-K
March 30, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 000-29599

PATRIOT NATIONAL BANCORP, INC.

(Exact name of registrant as specified in its charter)

Connecticut	**06-1559137**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
900 Bedford Street, Stamford, Connecticut	**06901**
(Address of principal executive offices)	**(Zip Code)**

(203) 324-7500

(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act:

<u>**Title of each class**</u>	<u>**Name of each exchange on which registered**</u>
Common Stock, par value $0.01 per share	The NASDAQ Global Market

Securities registered under Section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant in a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of 15(d) of the Securities Exchange Act of 1934. Yes No

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 past 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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of June 30, 2017, the aggregate market value of the voting stock held by non-affiliates of the registrant based on the last sale price on June 30, 2017 as reported on the NASDAQ Global Market: $13.2 million

Number of shares of the registrant's Common stock, $0.01 par value per share, 3,901,910 shares outstanding as of March 17, 2018.

Document Incorporated by Reference

Proxy or Information Statement relating to the registrant's Annual Meeting of Shareholders to be held in 2018. (A definitive proxy or Information statement will be filed with the Securities and Exchange Commission within 120 days after the close of the Fiscal year covered by this form 10-K.)

Incorporated into part III of this Form 10-K.

PATRIOT NATIONAL BANCORP, INC.

2017 FORM 10-K ANNUAL REPORT

For the Year Ended December 31, 2017

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"Safe Harbor" Statement Under Private Securities Litigation Reform Act of 1995

Certain statements contained in the Company's public statements, including this one, and in particular in "Management's Discussion and Analysis of Financial Condition and Results of Operations," may be forward-looking and subject to a variety of risks and uncertainties. These factors include, but are not limited to: (1) changes in prevailing interest rates which would affect the interest earned on the Company's interest earning assets and the interest paid on its interest bearing liabilities; (2) the timing of re-pricing of the Company's interest earning assets and interest bearing liabilities; (3) the effect of changes in governmental monetary policy; (4) the effect of changes in regulations applicable to the Company and the Bank and the conduct of its business; (5) changes in competition among financial service companies, including possible further encroachment of non-banks on services traditionally provided by banks; (6) the ability of competitors that are larger than the Company to provide products and services which it is impracticable for the Company to provide; (7) the state of the economy and real estate values in the Company's market areas, and the consequent effect on the quality of the Company's loans; (8) recent governmental initiatives that are expected to have a profound effect on the financial services industry and could dramatically change the competitive environment of the Company; (9) other legislative or regulatory changes, including those related to residential mortgages, changes in accounting standards, and Federal Deposit Insurance Corporation ("FDIC") premiums that may adversely affect the Company; (10) the application of generally accepted accounting principles, consistently applied; (11) the fact that one period of reported results may not be indicative of future periods; (12) the state of the economy in the greater New York metropolitan area and its particular effect on the Company's customers, vendors and communities and other such factors, including risk factors, as may be described in the Company's other filings with the Securities and Exchange Commission (the "SEC").

Although the Company believes that it offers competitive loan and deposit products and has the resources needed for continued success, future revenues and interest spreads and yields cannot be reliably predicted. These trends may cause the Company to adjust its operations in the future. Because of the foregoing and other factors, recent trends should not be considered reliable indicators of future financial results or stock prices.

PART I

ITEM 1. Business

General

Patriot National Bancorp, Inc. (the “Company”), a Connecticut corporation, is a one-bank holding company for Patriot Bank, N.A, a national banking association headquartered in Stamford, Fairfield County, Connecticut (the “Bank”) (collectively, “Patriot”). The Bank received its charter and commenced operations as a national bank on August 31, 1994. The Bank has a total of nine branch offices comprised of seven branch offices located in Fairfield and New Haven Counties, Connecticut and two branch offices located in Westchester County, New York as of December 31, 2017. The Bedford branch was closed February 28, 2018 and its business and staff transferred to the Scarsdale branch.

On March 11, 2003, the Company formed Patriot National Statutory Trust I (the “Trust”) for the sole purpose of issuing trust preferred securities and investing the proceeds in subordinated debentures issued by the Company. The Company primarily invested the funds from the issuance of the debt in the Bank. The Bank used the proceeds to fund general operations.

On October 15, 2010, pursuant to a Securities Purchase Agreement (the “Securities Purchase Agreement”), the Company issued and sold to PNBK Holdings LLC (“Holdings”), an investment limited liability company controlled by Michael Carrazza, 3.36 million shares of its common stock at a purchase price of $15.00 per share (adjusted for a 1-for-10 reverse stock split discussed below) for an aggregate purchase price of $50.4 million. The shares sold to Holdings represented 87.6% of the Company’s then issued and outstanding common stock. In connection with the reverse stock split, the par value of the common stock was changed to $0.01 per share. Also in connection with the sale of shares, certain directors and officers of both the Company and the Bank resigned. Such directors and officers were replaced with nominees of Holdings and Michael Carrazza became the Chairman of the Board of the Company. In January 2018, Holding transferred 840,000 shares to its investors.

As of the date hereof, the only business of the Company is its ownership of all of the issued and outstanding capital stock of the Bank and the Trust. Except as specifically noted otherwise herein, the balance of the description of the Company’s business is a description of the Bank’s business.

On March 4, 2015, the Company effected a 1-for-10 reverse stock split.

On September 28, 2015, the Bank changed its name from Patriot National Bank to Patriot Bank, N.A. The name change came after the Bank reported eight consecutive quarters of increased earnings.

On January 26, 2017, the Board appointed Richard A. Muskus, Jr. President of Patriot. Mr. Muskus has served as Executive Vice President and Chief Lending Officer of the Bank since February 2014. Mr. Muskus' appointment replaced Peter D. Cureau who was acting as the Interim President and Chief Operating Officer of Patriot and who continued to work with Mr. Carrazza in the office of the Chairman through the first quarter of 2017.

On May 10, 2017, Joseph D. Perillo was appointed as Chief Financial Officer of Patriot effective as of May 9, 2017. Mr. Perillo's appointment was in response to the resignation of Neil M. McDonnell, who was the Chief Financial Officer of Patriot from January 5, 2016 through May 9, 2017 and who resigned on that date as an Executive Vice President and Chief Financial Officer.

Business Operations

The Bank offers commercial real estate loans, commercial business loans, and a variety of consumer loans with an emphasis on serving the needs of individuals, small and medium-sized businesses and professionals. The Bank previously had offered loans on residential real estate, but discontinued doing so during 2013. The Bank's lending activities are conducted principally in Fairfield and New Haven Counties in Connecticut and Westchester County in New York, although the Bank's loan business is not necessarily limited to these areas.

Consumer and commercial deposit accounts offered include: checking, interest-bearing negotiable order of withdrawal "NOW", money market, time certificates of deposit, savings, Certificate of Deposit Account Registry Service CDARS, Individual Retirement Accounts ("IRAs"), and Health Savings Accounts ("HSAs"). Other services offered by the Bank include Automated Clearing House ("ACH") transfers, lockbox, internet banking, bill paying, remote deposit capture, debit cards, money orders, traveler's checks, and automatic teller machines ("ATMs"). In addition, the Bank may in the future offer other financial services.

The Bank's branch office locations are summarized as follows:

Branch No.	City	County	State
1	Darien	Fairfield	Connecticut
2	Fairfield	Fairfield	Connecticut
3	Greenwich	Fairfield	Connecticut
4	Milford	New Haven	Connecticut
5	Norwalk	Fairfield	Connecticut
6	Stamford	Fairfield	Connecticut
7	Westport	Fairfield	Connecticut
8	Scarsdale	Westchester	New York

The Stamford, Connecticut location serves as Patriot's headquarters. Additionally, the Bank also operates a loan origination office at its Stamford location.

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The Bank's employees perform most routine day-to-day banking transactions. The Bank has entered into a number of arrangements with third-party outside service providers, who provide services such as correspondent banking, check clearing, data processing services, credit card processing and armored car carrier transport.

In the normal course of business, subject to applicable government regulations, the Bank invests a portion of its assets in investment securities, which may include government securities. The Bank's investment portfolio strategy is to maintain a balance of high-quality diversified investments that minimizes risk, maintains adequate levels of liquidity, and limits exposure to interest rate and credit risk. Guaranteed U.S. federal government issues currently comprise the majority of the Bank's investment portfolio.

Employees

As of December 31, 2017, Patriot had 102 full-time employees and 7 part-time employees. None of Patriot's employees are covered by a collective bargaining agreement.

Competition

The Bank competes with a variety of financial institutions for loans and deposits in its market area. These include larger financial institutions with greater financial resources, larger branch systems and higher lending limits, as well as the ability to conduct larger advertising campaigns to attract business. The larger financial institutions may also offer additional services such as trust and international banking, which the Bank is not equipped to offer directly. When the need arises, arrangements are made with correspondent financial institutions to provide such services. To attract business in this competitive environment, the Bank relies on local promotional activities, personal contact by officers and directors, customer referrals, and its ability to distinguish itself by offering personalized and responsive banking service.

The customer base of the Bank generally is meant to be diversified, so that there is not a concentration of either loans or deposits within a single industry, a group of industries, or a single person or groups of people. The Bank is not dependent on one or a few major customers for its lending or deposit activities, the loss of any one of which would have a material adverse effect on the business of the Bank.

The Bank's loan customers extend beyond the towns and cities in which the Bank has branch offices, including nearby towns in Fairfield and New Haven Counties in Connecticut, and Westchester County and the five boroughs of New York City in New York, although the Bank's loan business is not necessarily limited to these areas. While the Bank does not currently hold or intend to attract significant deposit or loan business from major corporations with headquarters in its market area, the Bank believes that small manufacturers, distributors and wholesalers, and service industry professionals and related businesses, which have been attracted to this area, as well as the individuals that reside in the area, represent current and potential customers of the Bank.

In recent years, intense market demands, economic pressures, and significant legislative and regulatory actions have eroded banking industry classifications, which were once clearly defined, and have increased competition among banks, as well as other financial services institutions including non-bank competitors. This increase in competition has caused banks and other financial services institutions to diversify their services and become more cost effective. The impact of market dynamics, legislative, and regulatory changes on banks and other financial services institutions has increased customer awareness of product and service differences among competitors and increased merger activity among banks and other financial services institutions.

Supervision and Regulation

As a bank holding company, the Company's operations are subject to regulation, supervision, and examination by the Board of Governors of the Federal Reserve System (the "Fed"). The Fed has established capital adequacy guidelines for bank holding companies that are similar to the Office of the Comptroller of the Currency's ("OCC") capital guidelines applicable to the Bank. The Bank Holding Company Act of 1956, as amended (the "BHC"), limits the types of companies that a bank holding company may acquire or organize and the activities in which it or they may engage. In general, bank holding companies and their subsidiaries are only permitted to engage in, or acquire direct control of, any company engaged in banking or in a business so closely related to banking as to be a proper incident thereto. Federal legislation enacted in 1999 authorizes certain entities to register as financial holding companies. Registered financial holding companies are permitted to engage in businesses, including securities and investment banking businesses, which are prohibited to bank holding companies. The creation of financial holding companies has had no significant impact on the Company.

Under the BHC, the Company is required to file a quarterly report of its operations with the Fed. Patriot and any of its subsidiaries are subject to examination by the Fed. In addition, the Company will be required to obtain the prior approval of the Fed to acquire, with certain exceptions, more than 5% of the outstanding voting stock of any bank or bank holding company, to acquire all or substantially all of the assets of a bank, or to merge or consolidate with another bank holding company. Moreover, Patriot and any of its subsidiaries are prohibited from engaging in certain tying arrangements, in connection with any extension of credit or provision of any property or services. The Bank is also subject to certain restrictions imposed by the Federal Reserve Act on issuing any extension of credit to the Company or any of its subsidiaries, or making any investments in the stock or other securities thereof, and on the taking of such stock or securities as collateral for loans to any borrower. If the Company wants to engage in businesses permitted to financial holding companies, but not to bank holding companies, it would need to register with the Fed as a financial holding company.

The Fed has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses its view that a bank holding company should pay cash dividends only to the extent that the bank holding company's net income for the past year is sufficient to cover both the cash dividend and a rate of earnings retention that is consistent with the bank holding company's capital needs, asset quality, and overall financial condition. The Fed has also indicated that it would be inappropriate for a bank holding company experiencing serious financial problems to borrow funds to pay dividends. Furthermore, under the prompt corrective action regulations adopted by the Fed, if any its subsidiaries is classified as "undercapitalized", the bank holding company may be prohibited from paying dividends.

A bank holding company is required to give the Fed prior written notice of any purchase or redemption of its outstanding equity securities, if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of its consolidated retained earnings. The Fed may disapprove of such a purchase or redemption, if it determines that the proposal would constitute an unsafe or unsound practice or would violate any law, regulation, Fed order, or any condition imposed by, or written agreement with, the Fed.

The Company is subject to capital adequacy rules and guidelines issued by the Fed and the *FDIC* and the Bank is subject to capital adequacy rules and guidelines issued by the OCC. These substantially identical rules and guidelines require Patriot to maintain certain minimum ratios of capital to adjusted total assets and/or risk-weighted assets. Under the provisions of the FDIC Improvements Act of 1991, the federal regulatory agencies are required to implement and enforce these rules in a stringent manner. The Company is also subject to applicable provisions of Connecticut law, insofar as they do not conflict with, or are not otherwise preempted by, federal banking law. Patriot's operations are subject to regulation, supervision, and examination by the FDIC and the OCC.

Federal and state banking regulations govern, among other things, the scope of the business of a bank, a bank holding company, or a financial holding company, the investments a bank may make, deposit reserves a bank must maintain, the establishment of branches, and the activities of a bank with respect to mergers and acquisitions. The Bank is a member of the Fed and, as such, is subject to applicable provisions of the Federal Reserve Act and regulations thereunder. The Bank is subject to the federal regulations promulgated pursuant to the Financial Institutions Supervisory Act that are designed to prevent banks from engaging in unsafe and unsound practices, as well as various other federal, state, and consumer protection laws. The Bank is also subject to the comprehensive provisions of the National Bank Act.

The OCC regulates the number and locations of branch offices of a national bank. The OCC may only permit a national bank to maintain branches in locations and under the conditions imposed by state law upon state banks. At this time, applicable Connecticut banking laws do not impose any material restrictions on the establishment of branches by Connecticut banks throughout Connecticut. New York State law is similar; however, the Bank cannot establish a branch in a New York town with a population of less than 50,000 inhabitants, if another bank is headquartered in that town.

The earnings and growth of Patriot and the banking industry in general are affected by the monetary and fiscal policies of the United States ("U.S.") government and its agencies, particularly the Fed. The Open Market Committee of the Fed implements national monetary policy to curb inflation and combat recession. The Fed uses its power to adjust interest rates on U.S. government securities, the discount rate, and deposit reserve retention rates. The actions of the Fed influence the growth of bank loans, investments, and deposits. They also affect interest rates charged on loans and paid on deposits. The nature and impact of any future changes in monetary policies cannot be predicted.

In addition to other laws and regulations, Patriot is subject to the Community Reinvestment Act (“CRA”), which requires the federal bank regulatory agencies, when considering certain applications involving Patriot, to consider Patriot’s record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods. The CRA was originally enacted because of concern over unfair treatment of prospective borrowers by banks and unwarranted geographic differences in lending patterns. Existing banks have sought to comply with the CRA in various ways; some banks have made use of more flexible lending criteria for certain types of loans and borrowers (consistent with the requirement to conduct safe and sound operations), while other banks have increased their efforts to make loans to help meet identified credit needs within the consumer community, such as those for home mortgages, home improvements, and small business loans. Compliance may also include participation in various government insured lending programs, such as Federal Housing Administration insured or Veterans Administration guaranteed mortgage loans, Small Business Administration loans, and participation in other types of lending programs such as high loan-to-value ratio conventional mortgage loans with private mortgage insurance. To date, the market area from which the Bank draws much of its business is in the towns and cities in which the Bank has branch offices, which are characterized by a very diverse ethnic, economic and racial cross-section of the population. As the Bank expands further, the market areas served by the Bank will continue to evolve. The Company and the Bank have not and will not adopt any policies or practices, which discourage credit applications from, or unlawfully discriminate against, individuals or segments of the communities served by the Bank.

On October 26, 2001, the United and Strengthening America by Providing Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the “Patriot Act”) was enacted to further strengthen domestic security following the September 11, 2001 attacks. The Patriot Act amended various federal banking laws, particularly the Bank Secrecy Act, with the intent to curtail money laundering and other activities that might be undertaken to finance terrorist actions. The Patriot Act also requires that financial institutions in the U.S. enhance already established anti-money laundering policies, procedures and audit functions, and ensure that controls are reasonably designed to detect instances of money laundering through certain correspondent or private banking accounts. Verification of customer identification, maintenance of said verification records, and cross-checking names of new customers against government lists of known or suspected terrorists is also required. The Patriot Act was reauthorized and modified with the enactment of The USA Patriot Act Improvement and Reauthorization Act of 2005.

The Company is subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and, in accordance with the Exchange Act, files periodic reports, proxy statements, and other information with the SEC.

On July 20, 2002, the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”) was enacted, the primary purpose of which is to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws, and for other purposes. Section 404 of Sarbanes-Oxley, entitled Management Assessment of Internal Controls, requires that each annual report include an internal control report which states that it is the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting, as well as an assessment by management of the effectiveness of the internal control structure and procedures for financial reporting. This section further requires that the external auditors attest to, and report on, the Company’s internal controls over financial reporting; although, Smaller Reporting Companies as defined by the SEC are exempt from this requirement. Sarbanes-Oxley contains provisions for the limitations of services that external auditors may provide, as well as requirements for the credentials of members of the Audit Committee of Patriot’s Board of Directors. In addition, Sarbanes-Oxley requires principal executive and principal financial officers to certify to the adequacy of internal controls over financial reporting and to the accuracy of financial information released to the public on a quarterly and annual basis. Specifically, Sarbanes-Oxley requires Patriot’s Chief Executive and Chief Financial officer to certify that, to their best of their knowledge, the financial information reported accurately presents the financial condition and results of operations of the Company and that it contains no untrue statement or omission of material fact. Patriot’s Chief Executive and Chief Financial officer also are required to certify to their responsibility for establishing and maintaining a system of internal controls, the design and implementation of which insures that all material information is made known to these officers or other responsible individuals; this certification also includes the evaluation of the effectiveness of disclosure controls and procedures, and the impact thereof, on the Company’s financial reporting.

Recent Legislative Developments

Many of the provisions of The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank) are aimed at financial institutions that are significantly larger than Patriot. Notwithstanding this, there are many other provisions that Patriot is subject to and had to comply with since July 21, 2010, including any applicable rules promulgated by the Consumer Financial Protection Bureau (“CFPB”). As rules and regulations are promulgated by the agencies responsible for implementing and enforcing Dodd-Frank, Patriot will have to address them to ensure compliance with such applicable provisions. Management expects the cost of compliance to increase, due to the regulatory burden imposed by Dodd-Frank.

Dodd-Frank also broadened the base for FDIC insurance assessments. Under rules issued by the FDIC in February 2011, the base for insurance assessments changed from domestic deposits to consolidated assets less tangible equity. Assessment rates are calculated using formulas that take into account the risks of the institution being assessed. The rule was effective beginning April 1, 2011 and did not have a material impact on the Company.

Financial reform legislation and the implementation of any rules ultimately issued could have adverse implications on the financial industry, the competitive environment, and the Bank’s ability to conduct business.

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In July 2013, the Fed, the FDIC, and the OCC approved final rules establishing a new comprehensive capital framework for U.S. Banking organizations (the “New Capital Rules”). The New Capital Rules generally implement the Basel Committee on Banking Supervision’s (the “Basel Committee”) December 2010 final capital framework (referred to as “Basel III”) for strengthening international capital standards. The New Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including Patriot, as compared to the current U.S. general risk-based capital rules. The New Capital Rules revise the definitions and the components of regulatory capital, as well as address other issues affecting the numerator in banking institutions’ regulatory capital ratios. The New Capital Rules also address asset risk weights and other matters affecting the denominator in banking institutions’ regulatory capital ratios and replace the existing general risk-weighting approach with a more risk-sensitive approach, based, in part, on the “standardized approach” adopted by the Basel Committee in 2004. In addition, the New Capital Rules implement certain provisions of Dodd-Frank. The New Capital Rules became effective for Patriot on January 1, 2015. Patriot has not experienced any difficulties in complying with the New Capital Rules.

Recent Developments with Regulators

The Company received overall satisfactory ratings in regulatory findings, with only minor corrective actions required in 2017.

Based on its satisfactory ratings reported to the Company on May 3, 2016, effective July 11, 2016, the Board of Governors of the Federal Reserve System (the “Fed”), the Company’s primary regulator, terminated its Supervisory Letter dated May 5, 2015 that placed certain restrictions on the Company. Citing the satisfactory condition of the Bank and a noted improvement in earnings, the Fed lifted restrictions on Patriot from issuing dividends in any form and creating new debt without prior written approval of the Federal Reserve Bank (“FRB”).

Available Information

The Company’s website address is https://www.bankpatriot.com; however, information found on, or that can be accessed through, the website is not incorporated by reference into this Form 10-K. The Company makes available free of charge on its website (under the links entitled “For Investors”, then “SEC filings”, then “Documents”), its annual report on Form 10-K, its quarterly reports on Form 10-Q, current reports on Form 8-K, information statements on Schedule 14C, and amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act, as soon as practicable after such reports are electronically filed with or furnished to the SEC. Because the Company is an electronic filer, such reports are filed with the SEC and are also available on their website (http://www.sec.gov). The public may also read and copy any materials filed with the SEC at the SEC’s Public Reference Room, 100 F Street, N.E. Room 1580, Washington, DC 20549. Information about the Public Reference Room can be obtained by calling 1-800-551-8090 or SEC Investor Information Service 1-800-SEC-0330.

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ITEM 1A. Risk Factors

Patriot's financial condition and results of operation are subject to various risks inherent to its business, including those noted below.

The risks involved in the Bank's commercial real estate loan portfolio are material.

The Bank's commercial real estate loan portfolio constitutes a material portion of its assets and generally has different risks than residential mortgage loans. Commercial real estate loans often involve larger loan balances concentrated with single borrowers or groups of related borrowers as compared to single-family residential loans.

Because the repayment of commercial real estate loans depends on the successful management and operation of the borrower's properties or related businesses, repayments of such loans can be affected by adverse conditions in the real estate market or local economy. A downturn in the real estate market within the Bank's market area may adversely impact the value of properties securing these loans. These risks are partially offset by shorter terms, reduced loan-to-value ratios, and guarantor support of the borrower.

Real estate lending in the Bank's core market involves risks related to a decline in value of commercial and residential real estate.

The market value of real estate can fluctuate significantly in a relatively short period of time, as a result of market conditions in the geographic area in which real estate is located. A significant portion of the Bank's total loan portfolio is secured by real estate located in Fairfield County, Connecticut and Westchester County, New York, areas historically of high affluence that had been materially impacted by the financial troubles experienced by large financial service companies on Wall Street and other companies during the financial crisis. Since then, credit markets have become tighter and underwriting standards more stringent and the inability of purchasers of real estate to obtain financing will continue to impact the real estate market. Therefore, these loans may be subject to changes in grade, classification, accrual status, foreclosure, or loss, which could have an effect on the adequacy of the allowance for loan losses.

The Bank's business is subject to various lending and other economic risks that could adversely impact its results of operations and financial condition.

Changes in economic conditions, particularly a continued economic slowdown in Fairfield County, Connecticut and the New York metropolitan area could result in the following consequences, any of which may have a material detrimental effect on the Bank's business:

Increases in:
- Loan delinquencies;
- Problem assets and foreclosures; or

Decreases in:
- Demand for the Bank's products and services;
- Decreases in customer borrowing power that is caused by declines in the value of assets and/or collateral supporting the Bank's loans, especially real estate.

During the years 2007 through 2009, the general economic conditions and specific business conditions in the United States, including Fairfield County, Connecticut and the New York metropolitan area deteriorated, resulting in increases in loan delinquencies, problem assets and foreclosures, and declines in the value and collateral associated with the Bank's loans. During 2010 through 2017, however, the economic climate improved gradually, contributing to decreases in the Bank's non-performing assets.

The Bank’s allowance for loan losses may not be adequate to cover actual losses.

Like all financial institutions, the Bank maintains an allowance for loan losses to provide for loan defaults and non-performance. The allowance for loan losses is based on an evaluation of the risks associated with the Bank’s loans receivable, as well as the Bank’s prior loss experience. Deterioration in general economic conditions and unforeseen risks affecting customers could have an adverse effect on borrowers’ capacity to timely repay their obligations before risk grades could reflect those changing conditions. Maintaining the adequacy of the Bank’s allowance for loan losses may require that the Bank make significant and unanticipated increases in the provision for loan losses, which would materially affect the results of operations and capital adequacy. The amount of future losses is susceptible to changes in economic, operating, and other conditions including changes in interest rates that may be beyond the Bank’s control and which losses may exceed current allowance estimates. Although the current economic environment has improved, conditions remain uncertain and may result in additional risk of loan losses.

Federal regulatory agencies, as an integral part of their examination process, review the Bank’s loan portfolio and assess the adequacy of the allowance for loan losses. The regulatory agencies may require the Bank to change classifications or grades on loans, increase the allowance for loan losses by recognizing additional loan loss provisions, or to recognize further loan charge-offs based upon their judgments, which may differ from the Bank’s. Any increase in the allowance for loan losses required by these regulatory agencies could have a negative effect on the Bank’s results of operations and financial condition. While management believes that the allowance for loan losses is currently adequate to cover inherent losses, further loan deterioration could occur, and therefore, management cannot assure shareholders that there will not be a need to increase the allowance for loan losses, or that the regulators will not require management to increase this allowance. Either of these occurrences could materially and adversely affect Patriot’s earnings and profitability.

Patriot is subject to certain risks with respect to liquidity.

"Liquidity" refers to Patriot’s ability to generate sufficient cash flows to support its operations and fulfill its obligations, including commitments by the Bank to originate loans, to repay its wholesale borrowings and other liabilities, and to satisfy the withdrawal of deposits by its customers.

Patriot’s primary sources of liquidity are the deposits the Bank acquires organically through its branch network, borrowed funds, primarily in the form of wholesale borrowings, and the cash flows generated through the collection of loan payments and on mortgage-related securities. In addition, depending on current market conditions, Patriot may have the ability to access the capital markets.

Deposit flows, calls of investment securities and wholesale borrowings, and prepayments of loans and mortgage-related securities are strongly influenced by such external factors as the direction of interest rates, whether actual or perceived; local and national economic conditions; and competition for deposits and loans in the markets served. Furthermore, changes to the underwriting guidelines for wholesale borrowings, or lending policies may limit or restrict Patriot's ability to borrow, and could therefore have a significant adverse impact on its liquidity. A decline in available funding could adversely impact Patriot's ability to originate loans, invest in securities, and meet its expenses, or to fulfill such obligations as repaying its borrowings or meeting deposit withdrawal demands.

The Bank’s business is subject to interest rate risk and variations in interest rates may negatively affect the Bank’s financial performance.

Patriot is unable to predict, with any degree of certainty, fluctuations of market interest rates, which are affected by many factors including inflation, recession, a rise in unemployment, a tightening money supply, domestic and international disorder, and instability in domestic and foreign financial markets. Changes in the interest rate environment may reduce Patriot’s profits. Patriot realizes income from the differential or “spread” between the interest earned on loans, securities, and other interest-earning assets and interest paid on deposits, borrowings, and other interest-bearing liabilities. Net interest spreads are affected by the difference between the maturities and repricing characteristics of interest-earning assets and interest-bearing liabilities. In addition, an increase in the general level of interest rates may adversely affect the ability of some borrowers to pay the interest on and principal of their obligations. Although Patriot has implemented strategies which are designed to reduce the potential effects of changes in interest rates on operations, these strategies may not always be successful. Accordingly, changes in levels of market interest rates could materially and adversely affect Patriot’s net interest spread, asset quality, levels of prepayments, and cash flow, as well as the market value of its securities portfolio and overall profitability.

Patriot’s investment portfolio includes securities that are sensitive to interest rates and variations in interest rates may adversely impact Patriot’s profitability.

Patriot’s security portfolio is classified as available-for-sale, and is comprised primarily of corporate debt and mortgage-backed securities, which are insured or guaranteed by the U.S. Government. These securities are sensitive to interest rate fluctuations. Unrealized gains or losses in the available-for-sale portfolio of securities are reported as a separate component of shareholders’ equity. As a result, future interest rate fluctuations may impact shareholders’ equity, causing material fluctuations from quarter to quarter. The inability to hold its securities until market conditions are favorable for a sale, or until payments are received on mortgage-backed securities, could adversely affect Patriot’s earnings and profitability.

Patriot is dependent on its locally-based management team and the loss of its senior executive officers or other key employees could impair its relationship with its customers and adversely affect its business and financial results.

The Bank’s success is dependent upon the continued services and skills of its long-term locally-based management team. The unexpected loss of services of one or more of these key personnel, because of their skills, knowledge of the Bank’s market, years of industry experience, and the difficulty of promptly finding qualified replacement personnel could have an adverse impact on the Bank’s business.

Patriot's success also depends, in part, on its continued ability to attract and retain experienced commercial lenders and retail bankers, as well as other management personnel. The loss of services of several such key personnel could adversely affect Patriot's growth and prospects, to the extent replacement personnel are not able to be identified and promptly retained. Competition for commercial lenders and retail bankers is strong, and Patriot may not be successful in retaining or attracting such personnel.

Patriot is subject to certain general affirmative debt covenants, which if it cannot comply, may result in default and actions taken against it by its debt holders.

In December 2016, the Company issued $12 million of senior notes (the "Senior Notes") that contain certain affirmative covenants, which require the Company to: maintain its and its subsidiaries' legal entity and tax status, pay its income tax obligations on a timely basis, and comply with SEC and FDIC reporting requirements. The Senior Notes are unsecured, rank equally with all other senior obligations of the Company, are not redeemable nor may they be put to the Company by the holders of the notes, and require no payment of principal until maturity.

The affirmative covenants contained in the Senior Note agreements are of a general nature and not uncommon in such debt agreements. Management does not anticipate an inability to maintain its compliance with the affirmative covenants contained in the notes as such compliance is inherent in the Bank's continued operation and Patriot's public company status, as well as management's overall strategic plan.

A breach of information security could negatively affect Patriot's earnings.

Patriot increasingly depends upon data processing, communications, and information exchange on a variety of computing platforms and networks, and the internet to conduct its business. Patriot cannot be certain that all of its systems are entirely free from vulnerability to attack, despite safeguards it has instituted. In addition, Patriot relies on the services of a variety of vendors to meet its data processing and communication needs. If information security is breached, information can be lost or misappropriated and could result in financial loss or costs to Patriot, or damages to others. These financial losses or costs could materially exceed the amount of Patriot's insurance coverage, if applicable, which would have an adverse effect on its results of operations and financial condition. In addition, the Bank's reputation could suffer if its database were breached, which could materially affect Patriot's financial condition and results of operations.

The Bank is subject to environmental liability risk associated with its lending activities.

A significant portion of the Bank's loan portfolio is secured by real property. During the ordinary course of business, the Bank may foreclose on, and take title to, properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties, which may make Patriot liable for remediation costs, as well as for personal injury and property damage. In addition, Patriot owns and operates certain properties that may be subject to similar environmental liability risks.

Environmental laws may require the Bank to incur substantial expense and may materially reduce the affected property's value, or limit the Bank’s ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase the Bank’s exposure to environmental liability. Although the Bank has policies and procedures requiring the performance of an environmental site assessment before loan approval or initiating any foreclosure action on real property, these assessments may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on Patriot’s financial condition and results of operations.

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Stock-based compensation, pre-tax

4,822 2,474

Net change in stock-based compensation captitalized into inventory

(22) (40)

Total stock-based compensation

$4,800 $2,434

Impact of Stock-based Compensation

(in thousands)

	Three Months Ended April 27, 2008	Three Months Ended April 29, 2007
Stock-based compensation	$ 4,822	$ 2,474
Associated tax effect	(1,111)	(705)
Net effect on net income	$ 3,711	$ 1,769
Effect on earnings per share -		
Basic	$ 0.06	$ 0.02
Diluted	$ 0.06	$ 0.02
Weighted average number of shares -		
Basic	61,352	72,379
Diluted	62,104	73,593

For the first quarter of fiscal years 2009 and 2008, the tax benefit realized from option exercises was $1.4 million and $1.2 million respectively.

Note 9: Investments

Temporary and long-term investments consist of government, bank and corporate obligations. Temporary investments have original maturities in excess of three months, but mature within twelve months of the balance sheet date. Long-term investments have maturities in excess of one year from the balance sheet date. Certain short-term, highly liquid investments, are accounted for as cash and cash equivalents.

The Company classifies its investments as available for sale because it expects to possibly sell some securities prior to maturity. The Company s investments are subject to market risk, primarily interest rate and credit risk. The Company s investments are managed by a limited number of outside professional managers within investment guidelines set by the Company. Such guidelines include security type, credit quality and maturity and are intended to limit market risk by restricting the Company s investments to high quality debt instruments with relatively short-term maturities.

The following table summarizes the Company s investments as of April 27, 2008 and January 27, 2008:

	April 27, 2008	January 27, 2008

	Market Value	Cost Basis	Unrealized Loss	Market Value	Cost Basis	Unrealized Loss
U.S. government issues	$ 21,358	$ 21,409	$ (51)	$ 11,203	$ 11,200	$ 3
Corporate issues	17,892	17,827	65	29,305	29,118	187
Investments	$ 39,250	$ 39,236	$ 14	$ 40,508	$ 40,318	$ 190

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The following table summarizes the maturities of the Company s investments at April 27, 2008 and January 27, 2008:

Investment maturities (in thousands)

	April 27, 2008		January 27, 2008	
	Market Value	Cost Basis	Market Value	Cost Basis
Within 1 year	$ 35,200	$ 35,190	$ 36,142	$ 36,042
After 1 year through 5 years	4,050	4,046	4,366	4,276
	$ 39,250	$ 39,236	$ 40,508	$ 40,318

The Company did not hold any auction rate securities or structured investment vehicles as of April 27, 2008.

In the first quarter of fiscal years 2009 and 2008, the Company incurred $110,000 unrealized loss and $234,000 of unrealized gain, respectively (net of tax), on investments. These unrealized gains and losses are the result of fluctuations in the market value of our investments and are included in the accumulated other comprehensive income portion of the Consolidated Condensed Balance Sheets. The tax associated with these comprehensive income items for the first quarter of fiscal years 2009 and 2008 was a reduction to the deferred tax liability of $72,000 and an increase to the deferred tax liability of $158,000, respectively.

Investments and cash and cash equivalents generated interest income of $1.8 million and $4.3 million in the first quarter of fiscal years 2009 and 2008, respectively.

Note 10: Fair Value

SFAS No. 157 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance. SFAS No. 157 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. SFAS No. 157 establishes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

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To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is disclosed is determined based on the lowest level input that is significant to the fair value measurement.

Items recorded or measured at fair value on a recurring basis in the accompanying condensed financial statements consisted of the following items as of April 27, 2008:

(in thousands)	Total	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Temporary investments	$ 35,200	$ 35,200		
Investments, maturities in excess of 1 year	4,050	4,050		
Other investments-deferred compensation	6,538	6,538		
	$ 45,788	$ 45,788	$	$
Liabilities				
Deferred compensation	$ (6,838)	$ (6,838)		
	$ (6,838)	$ (6,838)	$	$

Note 11: Inventories

Inventories, consisting of material, material overhead, labor, and manufacturing overhead, are stated at the lower of cost (first-in, first-out) or market and consist of the following:

Inventories (in thousands):

	April 27, 2008	January 27, 2008
Raw materials	$ 1,954	$ 1,681
Work in process	20,049	17,565
Finished goods	10,651	9,656
	$ 32,654	$ 28,902

Note 12: Intangible Assets

Goodwill is deemed to have an indefinite life and is not amortized, but it is subject to an annual impairment test. Presented below is a summary of changes to goodwill resulting from the realization of a tax benefit from a fully reserved acquisition related deferred tax asset during the first quarter of fiscal year 2009.

(in thousands)	Balance as of January 27, 2008	Adjustments	Balance as of April 27, 2008
Goodwill	$ 32,418	$ (285)	$ 32,133

Intangibles are amortized on a straight-line basis over their estimated useful lives. Amortization expense related to intangible assets was approximately $273,000 and $276,000, respectively, for the first quarter of fiscal years 2009 and 2008. No significant residual value is expected. There are no tax-related benefits from these acquisition related costs.

Intangible assets consist of the following at April 27, 2008:

	Gross Carrying Amount		Accumulated Amortization		Net	
(in thousands)	April 27, 2008	January 27, 2008	April 27, 2008	January 27, 2008	April 27, 2008	January 27, 2008
Core technologies	$ 6,000	$ 6,000	$ (3,091)	$ (2,818)	$ 2,909	$ 3,182

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Note 13: Commitments and Contingencies

Retirement Plans

The Company contributed approximately $262,000 and $226,000, respectively, in the first quarter of fiscal years 2009 and 2008 to the 401(k) retirement plan maintained for its U.S. employees. In addition, the Company contributed approximately $185,000 and $160,000, in the first quarter of fiscal years 2009 and 2008, respectively, to a defined contribution plan for Swiss employees.

Legal Matters

From time to time in the ordinary course of its business, the Company is involved in various claims, litigation, and other legal actions that are normal to the nature of its business, including with respect to intellectual property, contract, product liability, employment, and environmental matters.

The Company records any amounts recovered in these matters when collection is certain. Liabilities for claims against the Company are accrued when it is probable that a liability has been incurred and the amount can reasonably be estimated. Any amounts recorded are based on periodic reviews by outside counsel, in-house counsel and management and are adjusted as additional information becomes available or assessments change.

While some insurance coverage is maintained for such matters, there can be no assurance that the Company has a sufficient amount of insurance coverage, that asserted claims will be within the scope of coverage of the insurance, or that the Company will have sufficient resources to satisfy any amount due not covered by insurance.

Management is of the opinion that the ultimate resolution of such matters now pending will not, individually or in the aggregate, have a material adverse effect on the Company s consolidated results of operations, financial position or cash flows. However, the outcome of legal proceedings cannot be predicted with any degree of certainty.

The following discussion is limited to certain recent developments concerning our legal matters. This update should be read in conjunction with the discussion in Note 13 to the financial statements in Item 8 of the Company s Form 10-K for the year ended January 27, 2008 and, unless otherwise indicated, all proceedings discussed in the Form 10-K remain outstanding.

Class Action Lawsuit. In August 2007, a purported class action lawsuit was filed against the Company and certain current and former officers on behalf of persons who purchased or acquired Semtech securities from September 11, 2002 until July 19, 2006. The case alleges violations of Federal securities laws in connection with the Company s past stock option practices. A very similar lawsuit, filed in October 2007 by another plaintiff, has not been served. In February 2008, the Mississippi Public Employees Retirement System (MPERS) filed a motion in the US District Court for the Central District of California for consolidation of the cases described above, appointment of MPERS as lead plaintiff, and approval of selection of counsel. The MPERS motion was granted in late March 2008. The Company is analyzing the amended complaint received in early June 2008 and is unable to predict the outcome of this litigation.

Environmental Matters. In 2001, the Company was notified by the California Department of Toxic Substances Control (State) that it may have liability associated with the clean-up of the one-third acre Davis Chemical Company site in Los Angeles, California. The Company has been included in the clean-up program because it was one of the companies that used the Davis Chemical Company site for waste recycling and/or disposal between 1949 and 1990. The Company joined with other potentially responsible parties and entered into a Consent Order with the State that required the group to perform a soils investigation at the site and submit a remediation plan. The State has approved the remediation plan, which, completes the group s obligations under the Consent Order. Although the Consent Order does not require the group to remediate the site and the State has indicated it intends to look to other parties for remediation, the State has not yet issued no further action letters to the group members. To date, the Company s share of the group s expenses has not been material and has been expensed.

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Stockholder Protection Agreement

Effective June 11, 1998, the Company s board of directors approved a Stockholder Protection Agreement to issue a Right for each share of common stock outstanding on July 31, 1998 and each share issued thereafter (subject to certain limitations). These Rights, if not cancelled by the Board of Directors, can be exercised into a certain number of Series X Junior Participating Preferred Stock after a person or group of affiliated persons acquire 25% or more of the Company s common stock and subsequently allow the holder to receive certain additional Company or acquirer common stock if the Company is acquired in a hostile takeover. The Rights expire on July 30, 2008.

Indemnification

In the normal course of its business, the Company indemnifies other parties, including customers, distributors, and lessors, with respect to certain matters. These obligations typically arise under contracts under which the Company customarily agrees to hold the other party harmless against losses arising from a breach of representations and covenants related to certain matters, such as acts or omissions of Company employees, infringement of third-party intellectual property rights, and certain environmental matters. Over at least the last decade, the Company has not incurred any significant expense as a result of agreements of this type. The Company cannot estimate the amount of potential future payments, if any, that it might be required to make as a result of these agreements. Accordingly, the Company has not accrued any amounts for such indemnification obligations in the first three months of fiscal year 2009.

The Company has also entered into agreements with its current and former directors and some current and former Company executives indemnifying them against certain liabilities incurred in connection with their duties. The Company s Certificate of Incorporation and Bylaws contain similar indemnification obligations with respect to the Company s current and former directors and employees, as does the California Labor Code. In some cases there are limits on, and exceptions to, the Company s potential indemnification liability. In the first three months of fiscal years 2009 and 2008, the Company incurred expense of $16,000 and $322,000, respectively, by advancing legal expenses to current and former directors, officers and executives under pre-existing indemnification agreements and to other current and former employees under the California Labor Code and a resolution of the Board authorizing such advances. These advances are associated with Government inquiries, derivative and class action litigation, and other matters related to or stemming from the Company s historical stock option practices. All such advances are subject to an undertaking to repay the funds to the Company in certain circumstances. The Company expects to continue to incur significant expense in connection with such advances associated with matters related to historical stock option practices. The Company cannot estimate the amount of potential future payments, if any, that it might be required to make as a result of these agreements with respect to other matters.

Note 14: Taxes

The effective tax rate differs from the 35 percent statutory corporate tax rate primarily due to the impact of lower foreign tax rates.

As of April 27, 2008, the gross liability for uncertain tax positions was $11.1 million, unchanged from January 27, 2008. Included in this amount is $9.7 million of net tax benefits that, if recognized, would impact the effective tax rate. The $9.7 million includes $6.2 million and $6.3 million as of April 27, 2008 and January 27, 2008, respectively, which has not yet reduced income tax payments and, therefore, has been netted against non-current deferred tax assets. The remaining $3.5 million and $3.4 million liability as of April 27, 2008 and January 27, 2008, respectively, is included in non-current Accrued Taxes.

The Company s policy is to include interest and penalties related to income tax matters within the provision for taxes on the Consolidated Statements of Income. As of April 27, 2008 and January 27, 2008 the Company had $28,000 and $26,000, respectively, accrued for interest and penalties.

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Tax years prior to 2004 (fiscal year 2005) are generally not subject to examination by the Internal Revenue Service (IRS) except for items with tax attributes that could impact open tax years. At the end of the fourth quarter of fiscal year 2008, the IRS commenced an examination of tax years 2004 (fiscal year 2005) through 2006 (fiscal year 2007). For state returns, the Company is generally not subject to income tax examinations for years prior to 2003 (fiscal year 2004). Our significant foreign tax presence is in Switzerland. Our material Swiss tax filings have been examined through fiscal year 2007. The Company is also subject to routine examinations by various foreign tax jurisdictions in which it operates. The Company is not aware of any tax positions for which it was reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within twelve months.

Note 15: Restructuring Costs

During the quarter ended April 27, 2008, the Company initiated a restructuring plan within the Standard Semiconductor Products segment to reorganize certain Company operations, consolidate research and development activities and reduce its workforce. The reorganization and consolidation are expected to be completed in the second quarter of fiscal year 2009. During the first quarter of fiscal year 2009, the Company recorded costs of $2.2 million for employee severance and facility consolidation costs. Restructuring charges are presented separately in operating costs and expenses on the Consolidated Condensed Statements of Income.

The following table summarizes the restructuring charge and liability balance included in accrued liabilities and other long-term liabilities on the Consolidated Condensed Balance Sheet as of April 27, 2008.

(in thousands)	Restructuring Change	Asset Writedown	Cash Payments	Restructuring at April 27, 2008
Severance and benefits	$ 763.6	$	$ (299.2)	$ 464.4
Lease termination costs	631.0			631.0
Open commitments	294.1			294.1
Asset impairment	470.1	(470.1)		
Other costs	11.0			11.0
	$ 2,169.8	$ (470.1)	$ (299.2)	$ 1,400.5

The outstanding liability for restructuring costs is classified on the Company s Consolidated Condensed Balance Sheet as of April 27, 2008 as follows:

(in thousands)	
Accrued liabilities	$ 1,168.9
Other long-term liabilities	231.6
	$ 1,400.5

Note 16: Business Segment and Concentration of Risk

The Company operates in two reportable segments: Standard Semiconductor Products and Rectifier, Assembly and Other Products.

The Standard Semiconductor Products segment makes up the vast majority of overall sales and includes the power management, protection, advanced communication and sensing product lines. The Rectifier, Assembly and Other Products segment includes the Company s line of assembly and rectifier devices, which are the remaining products from its original founding as a supplier into the military, aerospace and industrial equipment markets.

The accounting policies of the segments are the same as those described above and in the Company s Form 10-K for the year ended January 27, 2008 in the summary of significant accounting policies. The Company evaluates segment performance based on the net sales and operating income of each segment. Management does not track segment data or evaluate segment performance on additional financial information. As such, there are no separately identifiable segment assets nor are there any separately identifiable statements of income data below operating income.

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The Company does not track or assign assets to individual reportable segments. Accordingly, depreciation expense and capital additions are not tracked by reportable segments.

Net Sales (in thousands)

	Three Months Ended	
	April 27, 2008	April 29, 2007
Standard Semiconductor Products	$ 66,272	$ 55,498
Rectifier, Assembly and Other Products	8,172	5,068
Net Sales	$ 74,444	$ 60,566

Operating Income (in thousands)

	Three Months Ended	
	April 27, 2008	April 29, 2007
Standard Semiconductor Products	$ 4,702	$ 3,204
Rectifier, Assembly and Other Products	3,953	1,412
Total Operating Income	$ 8,655	$ 4,616

Certain corporate level expenses not directly attributable to a reportable segment are allocated to the segments based on percentage of sales. These include expenses associated with matters related to the Company s historical stock option practices, including the now-completed restatement of past financial statements and the on-going government inquiries, derivative litigation and class action litigation. Included in operating income in the first quarter of fiscal years 2009 and 2008 for the Standard Semiconductor Products segment is approximately $129,000 of recovery and $1.9 million of expense, respectively, associated with matters related to the Company s historical stock option practices.

Included in operating income for the Standard Semiconductor Products segment for the first quarter of fiscal years 2009 and 2008 are legal fees incurred by the Company in suing insurance companies to recover amounts associated with the resolution of a past customer dispute. All matters related to this dispute are now considered resolved and the Company does not expect to incur any further costs associated with this matter.

One end-customer that is a leading manufacturer of cellular phones and consumer equipment, and that buys products directly from the Company, accounted for approximately 13% of net sales in the first quarters of fiscal year 2009 and fiscal year 2008. One of our Asian distributors accounted for approximately 14% of net sales in the first quarters of fiscal year 2009 and fiscal year 2008.

As of April 27, 2008, one of the Company s Asian distributors accounted for approximately 12% of net accounts receivable. As of April 29, 2007, the same Asian distributors accounted for approximately 13% of net accounts receivable. Sales to the Company s customers are generally made on open account, subject to credit limits the Company may impose, and the receivables are subject to the risk of being uncollectible.

A summary of net external sales by region follows. The Company does not track customer sales by region for each individual reporting segment.

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Sales by Region (% of net sales)

	Three Months Ended	
	April 27, 2008	April 29, 2007
Domestic	25%	22%
Asia-Pacific	60%	64%
Europe	15%	14%
Total	100%	100%

The Company relies on a limited number of outside subcontractors and suppliers for the production of silicon wafers, packaging and certain other tasks. Disruption or termination of supply sources or subcontractors, due to natural disasters or other causes, could delay shipments and could have a material adverse effect on the Company. Although there are generally alternate sources for these materials and services, qualification of the alternate sources could cause delays sufficient to have a material adverse effect on the Company. Several of the Company s outside subcontractors and suppliers, including third-party foundries that supply silicon wafers, are located in foreign countries, including China, Taiwan, Singapore, Thailand, Malaysia, the Philippines, Germany, Israel and Canada. The Company s largest source of silicon wafers is an outside foundry located in China and a significant amount of the Company s assembly and test operations are conducted by third-party contractors in Malaysia, the Philippines and China.

Note 17: Matters Related to Historical Stock Option Practices

Since May 2006, the Company has incurred substantial expenses for legal, accounting, tax and other professional services in connection with matters associated with or stemming from its historical stock option practices, including the now-completed internal review, Special Committee investigation, and restatement of past financial statements, and the on-going government inquiries, derivative litigation and class action litigation.

In the first quarter of fiscal year 2009 and 2008, respectively, approximately $55,000, net of a $250,000 insurance recovery for certain investigative costs, and $2.1 million of these expenses were charged to Selling, General and Administrative. The Company expects to continue to incur significant expense in connection with the on-going matters. These expenses include claims for advancement of legal expenses to current and former directors, officers and executives under pre-existing indemnification agreements and to other current and former employees under the California Labor Code and a resolution of the Board authorizing such advances. All such advances, which totaled approximately $16,000 and $322,000 for the first quarters of fiscal year 2009 and 2008, are subject to an undertaking to repay the funds to the Company in certain circumstances. See Note 13 for additional information regarding indemnification.

ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our financial condition and results of operations together with the consolidated condensed financial statements and the notes to the consolidated condensed financial statements included elsewhere in this Form 10-Q.

Forward Looking Statements

This discussion contains forward-looking statements. Forward-looking statements are statements other than historical information or statements of current condition and relate to matters such as our future financial performance, future operational performance and our plans, objectives and expectations. Some forward-looking statements may be identified by use of terms such as expects, anticipates, intends, estimates, believes projects, should, will, plans and similar words. In light of the risks and uncertainties inherent in all such projected matters, forward-looking statements should not be regarded as a representation by the Company or any other person that our objectives or plans will be achieved or that any of our operating expectations or financial forecasts will be realized. Results could differ materially from those projected in forward-looking statements, due to factors including, but not limited to, those set forth in the Risk Factors and Quantitative and Qualitative Disclosure About Market Risk sections of this Form 10-Q and the Risk Factors section of our annual report on Form 10-K for the year ended January 27, 2008. We undertake no duty to update any forward-looking statements, whether as a result of new information, future events or otherwise.

In addition to regarding forward-looking statements with caution, you should consider that the preparation of financial statements requires us to draw conclusions and make interpretations, judgments, assumptions and estimates with respect to factual, legal, and accounting matters. Different conclusions, interpretations, judgments, assumptions, or estimates could result in materially different results. See Note 1 to the financial statements included in this report.

Overview

We design, produce and market a broad range of products that are sold principally to customers in the consumer, industrial, computing and communications end-markets. The consumer market includes handheld products, set-top boxes, digital televisions, digital video recorders, Bluetooth headsets and other consumer equipment. Included in the industrial customer base is automated meter reading, military and aerospace, medical, automated test equipment, security, automotive, home automation, and other industrial equipment. The computing market includes desktops, servers, notebooks, graphics, printers, and other computer peripherals. The communications market includes base stations, optical networks, switches and routers, wireless LAN, and other communication infrastructure equipment. Our end-customers are primarily original equipment manufacturers and their suppliers, including Alcatel, Apple, Cisco, Compal Electronics, Dell, Hewlett Packard, Intel, LG Electronics, Motorola, Nokia Siemens Networks, Phonak, Quanta Computer, Research In Motion, Samsung, Sanyo, Siemens, and Sony.

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

Most of our sales to customers are made on the basis of individual customer purchase orders. Many customers include liberal cancellation provisions in their purchase orders. Trends within the industry toward shorter lead-times and just-in-time deliveries have resulted in our reduced ability to predict future shipments. As a result, we rely on orders received and shipped within the same quarter for a significant portion of our sales. Sales made directly to original equipment manufacturers during the first quarter of fiscal year 2009 were 43% of net sales. The remaining 57% of net sales were made through independent distributors.

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We divide and operate our business based on two reportable segments: Standard Semiconductor Products and Rectifier, Assembly and Other Products. We evaluate segment performance based on the net sales and operating income of each segment. We do not track segment data or evaluate segment performance on additional financial information. We do not track balance sheet items by individual reportable segments. As such, there are no separately identifiable segment assets nor are there any separately identifiable statements of income data (below operating income). The Standard Semiconductor Products segment makes up the vast majority of overall sales and includes our power management, protection, advanced communication and sensing product lines. The Rectifier, Assembly and Other Products segment includes our line of assembly and rectifier devices, which are the remaining products from our founding as a supplier into the military and aerospace market.

Our business involves reliance on foreign-based entities. Most of our outside subcontractors and suppliers, including third-party foundries that supply silicon wafers, are located in foreign countries, including China, Taiwan, Singapore, Thailand, Malaysia, the Philippines, Germany, Israel and Canada. During the first quarter of fiscal year 2009, approximately 47% of our silicon, in terms of cost of wafers purchased, was manufactured in China. Foreign sales for the first quarter of fiscal year 2009 constituted approximately 74% of our net sales compared to 78% in the first quarter of fiscal year 2008. Approximately 81% of foreign sales in the first quarter of fiscal year 2009 were to customers located in the Asia-Pacific region. The remaining foreign sales were primarily to customers in Europe, Canada, and Mexico.

Sales into the Computing and Consumer markets have historically been seasonal and generally experience weaker demand in the first and second fiscal quarters of each year followed by stronger demand in the third and fourth fiscal quarters.

Critical Accounting Policies and Estimates

With the exception of the adoption of Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS No. 157) in the first quarter of fiscal year 2009, there have been no significant changes to the our critical accounting policies during the quarter ended April 27, 2008. Refer to the disclosures regarding other critical accounting policies in Management s Discussion and Analysis of Financial Condition and Results of Operations included in the our Annual Report on Form 10-K for the fiscal year ended January 27, 2008.

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RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, our statements of operations data expressed as a percentage of revenues.

	Three Months Ended April 27, 2008	Three Months Ended April 29, 2007
Net sales	**100.0%**	**100.0%**
Cost of sales	45.2%	45.1%
Gross profit	**54.8%**	**54.9%**
Operating costs and expenses:		
Selling, general and administrative	25.0%	30.0%
Product development and engineering	14.9%	16.5%
Acquisition related items	0.4%	0.5%
Insurance related legal expenses	0.0%	0.3%
Restructuring charges	2.9%	0.0%
Total operating costs and expenses	43.2%	47.3%
Operating income	**11.6%**	**7.6%**
Interest and other income, net	2.3%	9.4%
Income before taxes	**14.0%**	**17.1%**
Provision for taxes	3.1%	4.0%
Net income	**10.8%**	**13.1%**

Comparison Of The Three Months Ended April 27, 2008 and April 29, 2007

We report on the basis of 52 and 53 week periods and end our fiscal year on the last Sunday in January. All quarters consist of 13 weeks, except for one 14-week quarter in 53-week years. The first quarter of fiscal years 2009 and 2008 were both 13 week periods.

Net Sales. Net sales for the first quarter of fiscal year 2009 were $74.4 million, an increase of 23% compared to $60.6 million for the first quarter of fiscal year 2008. The increase was driven by strength in sales of our protection, power discrete and power management products.

End-application demand for our products in the first quarter of fiscal year 2009 compared to the first quarter of fiscal year 2008 was impacted by stronger demand for protection products for handheld and networking applications. Net sales were also favorably impacted by continued demand for our power discrete products for industrial and military applications. Demand for our power discrete products was up 61% from the first quarter of fiscal year 2008. Offsetting these strengths, were declines in orders for products supporting the automated test equipment market.

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Our estimates of sales by major end-markets are detailed below:

End-Market

(% of net sales)

	Three Months Ended April 27, 2008	Three Months Ended April 29, 2007
Computer	18%	20%
Communications	19%	21%
Consumer	36%	25%
Industrial	27%	34%
Total	100%	100%

Net sales summarized by reportable segment are detailed below:

Net Sales by Reportable Segment

(in thousands)

	Three Months Ended April 27, 2008			Three Months Ended April 29, 2007			Change
Standard Semiconductor Products	$	66,272	89%	$	55,498	92%	19%
Rectifier, Assembly and Other Products	$	8,172	11%	$	5,068	8%	61%
Net sales	$	74,444	100%	$	60,566	100%	23%

The 19% increase in sales of Standard Semiconductor Products in the first quarter of fiscal year 2009 reflected an increase in Power and Protection product sales largely sold into cellular phone and computing applications. Offsetting some of this increase was reduced demand for automated test equipment products due to overall weakness in the test and measurement market.

Sales of our Rectifier, Assembly and Other Products, which are primarily sold into military and industrial applications, increased 61% in the first quarter of fiscal year 2009 compared to the first quarter of fiscal year 2008 as a result of continued strength in demand from specific industrial and military customers and increased internal production capacity. These products rely on older technology and historically have supported a very limited customer base.

Cost of Sales and Gross Profit. Cost of sales consists primarily of purchased materials and services, labor and overhead associated with product manufacturing. We have experienced long-term price reductions in our manufacturing costs, in part due to our outsourcing of most manufacturing functions. However, declines in the average selling prices of our parts, a trend which is typical in the semiconductor industry, tends to offset much of the manufacturing cost savings. Our gross margin is most impacted by the mix of products used in our customer s particular end-applications. During the first quarter of fiscal year 2009, gross profit increased to $40.8 million from $33.3 million in the first quarter of fiscal year 2008. This 23% increase in gross profit reflects the benefit of higher sales. Gross profit margins were essentially unchanged.

Operating Costs and Expenses. Operating costs and expenses were $32.1 million, or 43% of net sales in the first quarter of fiscal year 2009. Operating costs and expenses for the first quarter of fiscal year 2008 were $28.6 million, or 47% of net sales. Operating costs and expenses in the first quarters of fiscal year 2009 and fiscal year 2008 were impacted by $4.8 million and $2.5 million, respectively, of stock-based compensation. During the first quarter of fiscal year 2009, we initiated a restructuring plan to reorganize certain Company operations, consolidate research and development activities and reduce our workforce. The reorganization and consolidation are expected to be completed in the second quarter of fiscal year 2009. During the first quarter of fiscal year 2009, the Company recorded costs of $2.2 million for employee severance and facility consolidation costs. Upon completion of the restructuring, we expect to realize annual cost benefits of approximately $1.0 million.

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Operating Costs and Expenses

(in thousands)

	Three Months Ended April 27, 2008		April 29, 2007		Change
Selling, general and administrative	$ 18,621	58%	$ 18,181	63%	2%
Product development and engineering	11,073	34%	10,005	35%	11%
Acquisition related items	273	1%	276	1%	-1%
Insurance related legal expenses		0%	175	1%	-100%
Restructuring charges	2,169	7%		0%	100%
Total operating costs and expenses	$ 32,136	100%	$ 28,637	100%	12%

Operating Income. Operating income was $8.7 million in the first quarter of fiscal year 2009, up from $4.6 million in the first quarter of fiscal year 2008. Operating income was favorably impacted by a 23% increase in net sales and unfavorably impacted by a 12% increase in operating expenses.

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

Operating Income by Reportable Segment

(in thousands)

	Three Months Ended April 27, 2008		Three Months Ended April 29, 2007		Change
Standard Semiconductor Products	$ 4,702	54%	$ 3,204	69%	47%
Rectifier, Assembly and Other Products	$ 3,953	46%	$ 1,412	31%	180%
Total Operating Income	$ 8,655	100%	$ 4,616	100%	88%

Operating income in the first quarter of fiscal year 2008 for the Standard Semiconductor Products segment increased as a result of higher net sales. The benefit of higher sales was partially offset by higher levels of stock based compensation expense and restructuring charges.

Operating income in the first quarter of fiscal year 2008 for the Rectifier, Assembly and Other Products segment increased as a result of higher net sales. Product demand for this segment was strong, with product supply constraining revenue opportunities.

Interest and Other Income, Net. Interest and other income includes interest income from investments and other items. Net interest and other income was $1.7 million in the first quarter of fiscal year 2009 compared to $5.7 million in the first quarter of fiscal year 2008. Beginning in the second quarter, and ending in the fourth quarter, of fiscal year 2008 we repurchased $219.9 million of our common stock. Lower cash balances, resulting from this repurchase activity, and lower market rates of interest resulted in a 42% reduction of interest income ($1.8 million in the first quarter of fiscal year 2009 compared with $4.3 million in the first quarter of fiscal year 2008). Additionally, a gain of approximately $1.3 million on the disposal of property was recorded in the first quarter of fiscal year 2008.

Provision for Taxes. Provision for income taxes was $2.3 million for the first quarter of fiscal year 2009, compared to $2.4 million in the first quarter of fiscal year 2008. The effective tax rate for the first quarter of fiscal years 2009 and 2008 were 22% and 23%, respectively. The favorable mix of regional income resulted in a lower tax expense in the first quarter of fiscal year 2009. Other factors that can influence this rate include variations in income, the source of that income, and exchange rates.

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Liquidity and Capital Resources

Our capital requirements depend on a variety of factors, including but not limited to, the rate of increase or decrease in our existing business base; the success, timing and amount of investment required to bring new products to market; revenue growth or decline; and potential acquisitions. We believe that we have the financial resources necessary to meet business requirements for the next 12 months, including funds needed for working capital requirements, our stock repurchase program and potential future acquisitions or strategic investments. As of April 27, 2008, our total shareholders equity was $364.9 million. At that date we also had approximately $225.2 million in cash and short-term investments, as well as $4.1 million in long-term investments. We have no outstanding debt.

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

(in millions)

	Quarter Ended	
	April 27, 2008	**April 29, 2007**
Sources of Cash		
Operating activities, including working capital changes	$ 14.1	$ 10.7
Proceeds from exercise of compensatory stock plans, including tax benefits	4.0	3.6
Proceeds from disposal of land		9.5
	$ 18.1	***$ 23.8***
Uses of Cash		
Business improvement investments		
Capital expenditures, net of sale proceeds (excluding land sale)	$ (2.1)	$ (0.6)
	$ (2.1)	***$ (0.6)***
Returned to shareholders		
Stock repurchases	$	$ (0.1)
	$	***$ (0.1)***
Cash/Investment Management Activities		
Decrease in investments and foreign exchange effects	$ 1.1	$ 21.9
Net increase (decrease) in cash and cash equivalents	**17.1**	**45.0**

In the quarter ended April 27, 2008, our sources of cash as summarized above, increased cash $18.1 million compared to $23.8 million in the quarter ended April 29, 2007, a decrease of $5.7 million. This decrease is attributable to proceeds from the sale of an unused parcel of land that were received in the first quarter of fiscal year 2008. For the quarter ended April 27, 2008, the Company made capital expenditures of approximately $2.1 million. While the level of stock repurchases was limited in the first quarter of fiscal years 2009 and 2008, the Company has historically used significant levels of cash to repurchase its common stock. The netting of the purchases of available-for-sale investments and the proceeds from the sale and maturities of available-for-sale investments reflect net cash provided of $1.1 million and 21.9 million for the first quarter of fiscal years 2009 and 2008, respectively.

During the quarter ended April 27, 2008, we initiated a restructuring plan within the Standard Semiconductor Products segment to reorganize certain operations, consolidate research and development activities and reduce our workforce. The reorganization and consolidation are expected to be completed in the second quarter of fiscal year 2009. During the first quarter of fiscal year 2009, we recorded costs of $2.2 million for employee severance and other facility consolidation costs, including $470,000 of asset writedowns and $299,000 of cash payments. Restructuring charges are presented separately in operating costs and expenses on the Consolidated Condensed Statements of Income.

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In order to develop, design and manufacture new products, we have incurred significant expenditures during the past five years. We intend to continue to focus on those areas that have shown potential for viable and profitable market opportunities, which may require additional investment in equipment and will require continued, and perhaps additional, investment in design and application engineers aimed at developing new products. Certain of these expenditures, particularly the addition of design engineers, do not generate significant payback in the short-term. We plan to finance these expenditures with cash generated by our operations and our existing cash balances.

A meaningful portion of our capital resources, and the liquidity they represent, are held by our foreign subsidiaries. As of April 27, 2008, approximately $149.8 million of cash, cash equivalents, and short-term investments were held in Switzerland, compared to $120.6 million as of April 29, 2007. If we needed these funds for investment in domestic operations, any repatriation could have negative tax consequences.

One of the primary goals of the Company is to constantly improve the cash flows from our existing business activities. As discussed above, we have historically used, and intend to continue to use, cash flow to fund the buyback of our common stock. Additionally, we will continue to seek to maintain and improve our existing business performance with necessary capital expenditures and, potentially, acquisitions that may further improve our base business with prospects of a proper return. Acquisitions, should we undertake them to improve our business, might be made for either cash or stock consideration, or a combination of both.

Our cash, cash equivalents and investments noted above, when combined with lack of any outstanding debt obligations, give us the flexibility to continue to leverage our free cash flow to return value to shareholders (in the form of stock repurchases) while also pursuing business improvement opportunities.

Non-cash Working Capital

Trade accounts receivable, less valuation allowances, increased by $1.7 million to $35.3 million at April 27, 2008 from $33.6 million at January 27, 2008. Inventories also increased, by $3.8 million to $32.7 million at April 27, 2008 from $28.9 million at January 27, 2008. We believe non-cash working capital ratios relative to our revenue and cost of revenue, will remain at levels approximately the same as they currently are.

Capital Expenditures

Capital expenditures were $2.1 million for the quarter ended April 27, 2008 and approximately $699,000 for the quarter ended April 29, 2007. The increase in capital expenditures were made to expand our test capacity and support engineering functions.

Proceeds from exercises of Stock Options

For the first quarter of 2009, cash collected directly from grantee exercises of stock options was $2.8 million as compared with $2.4 million in the first quarter of 2008. We do not directly control the timing of the exercise of vested stock options by our grantees. Such exercises are decisions made by those grantees and are influenced most directly by the level of our stock price and, indirectly, by other considerations of those grantees. Such proceeds are difficult to forecast. While the level of such cash inflow to us is subject to these factors which we don t control, we believe that such proceeds will remain an important secondary source of cash after cash flow from operations.

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Stock Repurchases

We currently have in effect an active stock repurchase program. This program represents our major efforts to return value to our shareholders.

In the first quarter of fiscal year 2009, we announced that the Board of Directors authorized the repurchase of up to $50 million of the Company s common stock. No repurchases have been made under this plan. It is anticipated that we will, from time to time, make open market purchases under this plan using cash generated from operations.

Off-Balance Sheet Arrangements

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

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

Contractual Obligations

There were no material changes in our contractual obligations during the first quarter of fiscal year 2009. Refer to the disclosures regarding other contractual obligations in Management s Discussion and Analysis of Financial Condition and Results of Operations included in the our Annual Report on Form 10-K for the fiscal year ended January 27, 2008.

Inflation

Inflationary factors have not had a significant effect on our performance over the past several years. A significant increase in inflation would affect our future performance.

Available Information

General information about us can be found on our website at www.semtech.com. The information on our website is for informational purposes only and should not be relied on for investment purposes. The information on our website is not incorporated by reference into this Form 10-Q and should not be considered part of this or any other report filed with the Securities and Exchange Commission (SEC).

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

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to a variety of market risks, including commodity risk as discussed below and the risks related to foreign currency, interest rates and market performance that are discussed in item 7A of the Company s Form 10K for fiscal year 2008 that ended on January 27, 2008. Many of the factors that can have an impact on our market risk are external to the Company, and so we are unable to fully predict them.

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Commodity Risk

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

ITEM 4. Controls and Procedures

Disclosure Controls

We carried out, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures were effective to ensure (a) that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (b) that information required to be disclosed is accumulated and communicated to management to allow timely decisions regarding disclosure.

Changes in Internal Controls

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act) occurred during the fiscal quarter ended April 27, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INORMATION

ITEM 1. Legal Proceedings

Information about legal proceedings is set forth in Note 13 to the Consolidated Financial Statements included in this quarterly report.

ITEM 1A. Risk Factors

You should carefully consider and evaluate all of the information in this Form 10-Q and *the risk factors set forth in our Form 10-K for the fiscal year ended January 27, 2008. The risks in the Form 10-K are not the only ones facing our* Company. *Additional risks not now known to us or that we currently deem immaterial may also impair our business operations. If any of these risks actually occur, our business could be materially harmed. If our business is harmed, the trading price of our common stock could decline.*

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During the period covered by this quarterly report, the risk factors associated with our business have not significantly changed, other than as set forth below in this Item 1A, as compared to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended January 27, 2008. Also see Management s Discussion and Analysis of Financial Condition and Results of Operations in this report for a discussion of certain factors that may affect our future performance.

We could face claims by individuals prevented from exercising stock options while past financial statements were being restated

The exercise of stock options was prohibited during the restatement process because our filings with the SEC were not current. We could face claims from optionees who were prevented from exercising expiring options or with options that lapsed because exercise was prohibited during the short post-termination period provided for by their award agreements. In fiscal year 2007, the Compensation Committee considered this situation and authorized cash payments to some optionees and we made an accrual for certain other potential claims. During fiscal year 2008, all but one of the optionees who were effected released the Company from related claims and were paid the authorized amounts. In the first quarter of fiscal year 2009, settlement was reached with the remaining individual at a level not materially in excess of the amount accrued in prior fiscal years.

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

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

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

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

Our authority to make equity awards under our Long-Term Stock Incentive Plan will end on June 11, 2008. If our new 2008 Long-Term Equity Incentive Plan (2008 Plan) is not approved by the stockholders in June 2008, retention of executive level employees could be adversely impacted and we may need to increase the cash component of their compensation packages to compensate for the lost equity component. If the 2008 Plan is not approved, we will continue to have authority to grant awards to employees other than executive officers under our Non-Director and Non-Executive Officer Long-Term Stock Incentive Plan until it terminates on September 2, 2009.

Earthquakes or other natural disasters may cause us significant losses

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

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

On May 12, 2008, a large earthquake occurred in China. The Company does not expect this event to result in a significant disruption to operations.

This Form 10-Q also contains forward-looking statements that involve risks and uncertainties. Forward-looking statements are statements other than historical information or statements of current condition and relate to matters such as our future financial performance, future operational performance, and our plans, objectives and expectations. Some forward-looking statements may be identified by use of terms such as expects, anticipates, intends, estimates, believes, projects, should, , will, plans and similar words. In light of the risks and uncertainties inher such projected matters, forward-looking statements should not be regarded as a representation by the Company or any other person that our objectives or plans will be achieved or that any of our operating expectations or financial forecasts will be realized. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described in our most recently filed Form 10-K, in our other filings with the SEC, and in material incorporated herein and therein by reference. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

Recent Sales of Unregistered Securities

The Company did not make any sales of unregistered securities during the first quarter of fiscal year 2009.

Issuer Purchase of Equity Securities

This table provides information with respect to purchases by the Company of shares of common stock during the first quarter of fiscal year 2009.

Issuer Purchases of Equity Securities

Fiscal Month/Year	Total Number of Shares Purchased (2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares That May Yet Be Purchased Under The Program (1)
February 2008 (01/28/08 - 02/24/08)				$50.0 million
March 2008 (02/25/08-03/23/08)				$50.0 million
April 2008 (03/24/08-04/27/08)				$50.0 million

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

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

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Submission of Matters to a Vote of Security Holders

Not applicable.

ITEM 5. Other Information

Not applicable.

ITEM 6. Exhibits

Documents that are not physically filed with this report are incorporated herein by reference to the location indicated.

Exhibit No.	Description	Location
3.2	Bylaws of Semtech Corporation	Exhibit 3.2 to the Company s Annual Report on Form 10-K for the fiscal year ended January 27, 2008.
10.1	Compensatory Arrangements of Certain Officers	Item 5.02 of the Company s Current Report on Form 8-K filed March 5, 2008
10.2	Compensatory Arrangements of Certain Officers	Item 5.02 of the Company s Current Report on Form 8-K filed March 20, 2008
10.3	Form of Long-Term Stock Incentive Plan Restricted Stock Unit Award Certificate	Exhibit 10.1 to the Company s Current Report on Form 8-K filed March 20, 2008
10.4	Semtech Corporation Executive Stock Ownership Guidelines	Exhibit 10.39 to the Company s Annual Report on Form 10-K for the fiscal year ended January 27, 2008.
10.5	Semtech Corporation 2008 Long-Term Equity Incentive Plan (subject to shareholder approval June 26, 2008)	Exhibit 10.40 to the Company s Annual Report on Form 10-K for the fiscal year ended January 27, 2008.
31.1	Certification of the Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934 as amended.	
31.2	Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934 as amended.	
32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (As set forth in Exhibit 32.1 hereof, Exhibit 32.1 is being furnished and shall not be deemed filed .)	
32.2	Certification of the Chief Financial Officer Pursuant 18 U.S.C. 1350, as Adopted Pursuant to Section 906 of the	

Sarbanes-Oxley Act of 2002 (As set forth in Exhibit 32.2 hereof, Exhibit 32.2 is being furnished and shall not be deemed filed .)

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SIGNATURES

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

	SEMTECH CORPORATION Registrant
Date: June 4, 2008	/s/ Mohan R. Maheswaran Mohan R. Maheswaran Chief Executive Officer
Date: June 4, 2008	/s/ Emeka N. Chukwu Emeka N. Chukwu Vice President Finance, Chief Financial Officer