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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2009

OR

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

Commission File No. 000-51448

**Hittite Microwave Corporation**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**04-2854672**  
(I.R.S. Employer  
Identification Number)

**20 Alpha Road**  
**Chelmsford, Massachusetts 01824**  
(Address of Principal Executive Offices and Zip Code)

**(978) 250-3343**  
(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a "smaller reporting company" (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

As of October 30, 2009, Hittite Microwave Corporation had 30,124,216 shares of common stock, par value \$0.01 per share, outstanding.

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**HITTITE MICROWAVE CORPORATION**

**FORM 10-Q**

**SEPTEMBER 30, 2009**

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**HITTITE MICROWAVE CORPORATION**  
**Condensed Consolidated Balance Sheets**  
**(Unaudited)**

<u>(in thousands, except per share data)</u>	<u>September 30, 2009</u>	<u>December 31, 2008</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 215,171	\$ 180,856
Accounts receivable, net of allowance for doubtful accounts of \$334 and \$234, respectively	19,549	27,650
Inventories	17,788	13,981
Deferred costs	110	139
Income taxes receivable	1,935	20
Prepaid expenses and other current assets	1,086	1,127
Deferred taxes	7,161	6,206
<b>Total current assets</b>	<b>262,800</b>	<b>229,979</b>
Property and equipment, net	20,293	17,927
Other assets	5,769	7,178
<b>Total assets</b>	<b>\$ 288,862</b>	<b>\$ 255,084</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 3,308	\$ 2,778
Accrued commissions	843	1,307
Accrued payroll and benefits	2,400	2,497
Accrued other expenses	3,310	3,032
Customer advances	542	723
Deferred revenue	4,317	2,748
<b>Total current liabilities</b>	<b>14,720</b>	<b>13,085</b>
Long-term income taxes payable	4,948	4,689
Deferred taxes	712	381
<b>Total liabilities</b>	<b>20,380</b>	<b>18,155</b>
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, \$.01 par value: 5,000 shares authorized; no shares issued or outstanding at September 30, 2009 and December 31, 2008	—	—
Common stock, \$.01 par value: 200,000 shares authorized; 30,124 and 30,291 shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively	301	303
Additional paid-in capital	130,716	121,274
Accumulated other comprehensive income (loss)	196	(73)
Retained earnings	137,269	115,425
<b>Total stockholders' equity</b>	<b>268,482</b>	<b>236,929</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 288,862</b>	<b>\$ 255,084</b>

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

**HITTITE MICROWAVE CORPORATION**  
**Condensed Consolidated Statements of Operations**  
**(Unaudited)**

<b>(in thousands, except per share data)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Revenue	\$ 41,469	\$ 45,528	\$ 119,337	\$ 133,858
Cost of revenue	11,623	12,504	34,238	38,588
Gross profit	29,846	33,024	85,099	95,270
Operating expenses:				
Research and development	5,609	6,404	16,877	17,978
Sales and marketing	3,778	3,988	10,881	12,021
General and administrative	2,185	2,117	7,179	6,282
Total operating expenses	11,572	12,509	34,937	36,281
Income from operations	18,274	20,515	50,162	58,989
Interest income	85	826	350	2,833
Other income (expense), net	(7)	(88)	13	(216)
Income before income taxes	18,352	21,253	50,525	61,606
Provision for income taxes	6,367	7,555	17,769	21,396
Net income	\$ 11,985	\$ 13,698	\$ 32,756	\$ 40,210
Earnings per share:				
Basic	\$ 0.41	\$ 0.45	\$ 1.12	\$ 1.31
Diluted	\$ 0.40	\$ 0.44	\$ 1.10	\$ 1.29
Weighted average shares outstanding:				
Basic	29,438	30,464	29,372	30,654
Diluted	29,933	30,907	29,816	31,176

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

**HITTITE MICROWAVE CORPORATION**  
**Condensed Consolidated Statements of Cash Flows**  
**(Unaudited)**

(in thousands)	Nine Months Ended September 30,	
	2009	2008
<b>Cash flows from operating activities:</b>		
Net income	\$ 32,756	\$ 40,210
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation	3,876	4,290
Amortization	1,078	1,078
Deferred taxes	(623)	(1,144)
Provision for doubtful accounts	341	55
Provision for inventory obsolescence	1,101	895
Stock-based compensation	4,879	4,104
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	7,810	(6,002)
Inventories	(4,908)	872
Deferred costs	29	69
Other assets	384	(1,173)
Deferred revenue and customer advances	1,388	(2,361)
Accounts payable	531	804
Accrued expenses	(299)	1,626
Income taxes	(1,667)	1,361
	<u>46,676</u>	<u>44,684</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(6,179)	(4,172)
Purchases of available-for-sale investments	—	(28,294)
Sales and maturities of available-for-sale investments	—	127,301
	<u>(6,179)</u>	<u>94,835</u>
<b>Cash flows from financing activities:</b>		
Proceeds from exercise of stock options	3,047	1,997
Purchase of Company common stock	(10,916)	(22,220)
Excess income tax benefit related to stock-based compensation plans	1,530	772
	<u>(6,339)</u>	<u>(19,451)</u>
Effect of exchange rate changes on cash and cash equivalents	157	(125)
Net increase in cash and cash equivalents	34,315	119,943
Cash and cash equivalents, beginning of period	180,856	65,735
Cash and cash equivalents, end of period	<u>\$ 215,171</u>	<u>\$ 185,678</u>

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

**HITTITE MICROWAVE CORPORATION**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**1. General**

The interim consolidated financial statements presented herein have been prepared by Hittite Microwave Corporation (the Company), are unaudited and, in the opinion of management, include all adjustments, consisting only of normal, recurring adjustments and accruals, necessary for a fair presentation of the Company's financial position at September 30, 2009, results of operations for the three- and nine-month periods ended September 30, 2009 and September 30, 2008 and cash flows for the nine-month periods ended September 30, 2009 and September 30, 2008 in accordance with accounting principles generally accepted in the United States. Events subsequent to September 30, 2009 have been evaluated through the November 6, 2009 issuance date of these consolidated financial statements. Interim results are not necessarily indicative of results for a full year. The condensed consolidated balance sheet presented as of December 31, 2008 has been derived from the audited consolidated financial statements as of that date.

The consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain all of the information that is included in the annual financial statements and notes of the Company. The consolidated financial statements and notes presented herein should be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

The Company operates in one reportable segment: the design, development and production of integrated circuits, modules, and subsystems.

**2. Recent Accounting Pronouncements**

In June 2009, the Financial Accounting Standards Board (FASB) issued authoritative guidance that is included in Accounting Standards Codification (ASC) 105, "Generally Accepted Accounting Principles." This guidance establishes the FASB Accounting Standards Codification as the source of authoritative U.S. Generally Accepted Accounting Principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. The Company adopted this guidance effective July 1, 2009. This guidance does not change GAAP, therefore its adoption had no impact on the Company's financial position or results of operations. References to GAAP in this Quarterly Report on Form 10-Q have been updated to reflect the ASC.

In September 2006, the FASB issued authoritative guidance that is included in ASC 820, "Fair Value Measurements and Disclosures." This guidance clarifies the definition of fair value, establishes guidelines for measuring fair value and expands the related disclosure requirements. The Company adopted this guidance effective January 1, 2008, except as it applies to certain non-financial assets and non-financial liabilities, for which the guidance was implemented effective January 1, 2009. Such adoption did not have a material impact on the Company's financial position or results of operations. See Note 4 for disclosures regarding the fair value of the Company's financial instruments.

In December 2007, the FASB issued authoritative guidance that is included in ASC 805, "Business Combinations." This guidance establishes principles and requirements for how an acquirer recognizes and measures the identifiable assets and goodwill acquired, liabilities assumed and noncontrolling interests. The guidance also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. In April 2009, the FASB amended and clarified this guidance with respect to the initial recognition and measurement, subsequent measurement and disclosure of contingent assets and liabilities arising from a business combination. The Company adopted this guidance effective January 1, 2009. Such adoption did not have a material impact on the Company's financial position or results of operations.

In March 2008, the FASB issued authoritative guidance that is included in ASC 815, "Derivatives and Hedging." This guidance requires enhanced disclosures to enable investors to better understand the effects of derivative instruments and hedging activities on an entity's financial position, results of operations and cash flows. The Company adopted this guidance effective January 1, 2009. Such adoption did not have a material impact on the Company's financial position or results of operations.

In April 2008, the FASB issued authoritative guidance that is included in ASC 350, "Intangibles — Goodwill and Other." This guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible. The guidance improves the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. The Company adopted this guidance effective January 1, 2009. Such adoption did not have a material impact on the Company's financial position or results of operations.

In April 2009, the FASB issued authoritative guidance that is included in ASC 320, "Investments - Debt and Equity Securities." This guidance amends the guidance for recognizing other-than-temporary impairments of debt securities and requires additional disclosures with respect to both debt and equity securities. The Company adopted this guidance effective January 1, 2009. Such adoption did not have a material impact on the Company's financial position or results of operations.

In April 2009, the FASB issued authoritative guidance that is included in ASC 825, "Financial Instruments." This guidance requires that disclosures regarding the fair value of financial instruments be provided in interim financial statements. The Company adopted this guidance effective January 1, 2009. Such adoption did not have a material impact on the Company's financial position or results of operations.

In May 2009, the FASB issued authoritative guidance that is included in ASC 855, "Subsequent Events." This guidance provides guidance related to the accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued, and specifies related disclosure requirements. The Company adopted this guidance for the quarterly period ended June 30, 2009. Such adoption did not have a material impact on the Company's financial position or results of operations.

In October 2009, the FASB issued Accounting Standards Update (ASU) 2009-13, "Multiple-Deliverable Revenue Arrangements," which amends ASC 605-25. ASU 2009-13 modifies how consideration is allocated for the purpose of revenue recognition when an arrangement involves multiple deliverables and expands the related disclosure requirements. The guidance eliminates the residual method of revenue allocation, and requires that the vendor use its best estimate to allocate arrangement consideration between the deliverables in cases where neither vendor-specific objective evidence nor third-party evidence is available. ASU 2009-13 will be

effective for the Company on January 1, 2011, with early adoption permitted. The Company is currently evaluating the impact the adoption of ASU 2009-13 will have on its financial position and results of operations.

In October 2009, the FASB issued ASU 2009-14, "Certain Revenue Arrangements That Include Software Elements," which amends ASC 985-605. ASU 2009-14 modifies the scope of the software revenue guidance in ASC 985-605 to exclude tangible products that contain both software components and non-software components. ASU 2009-14 will be effective for the Company on January 1, 2011, with early adoption permitted. The Company does not believe that the adoption of ASU 2009-14 will have a material effect on its financial position or results of operations.

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### 3. Comprehensive Income

Comprehensive income consists of the following:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net income	\$ 11,985	\$ 13,698	\$ 32,756	\$ 40,210
Foreign currency translation adjustments	206	(383)	269	(188)
Comprehensive income	<u>\$ 12,191</u>	<u>\$ 13,315</u>	<u>\$ 33,025</u>	<u>\$ 40,022</u>

### 4. Fair Value of Financial Instruments

The Company measures at fair value certain financial assets and financial liabilities. Fair value is the price that would be received for an asset, or the exit price that would be paid to transfer a liability, in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. There are three levels of inputs used to measure fair value, arranged in a hierarchy that maximizes the use of observable inputs:

- 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 that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities.
- Level 3:** Unobservable inputs that are supported by little or no market activity.

Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and considers factors specific to the asset or liability. The following table sets forth the Company's financial assets that were measured at fair value within the fair value hierarchy:

(in thousands)	September 30, 2009			
	Level 1	Level 2	Level 3	Total
Money market funds	<u>\$ 191,955</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 191,955</u>

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**5. Inventories**

Net inventories consist of the following:

<u>(in thousands)</u>	<u>September 30, 2009</u>	<u>December 31, 2008</u>
Raw materials	\$ 7,944	\$ 7,397
Work in process	5,747	2,986
Finished goods	4,097	3,598
	<u>\$ 17,788</u>	<u>\$ 13,981</u>

**6. Commitments and Contingencies**

Indemnification

In connection with the sale of products in the ordinary course of business, the Company often makes representations affirming, among other things, that its products do not infringe on the intellectual property rights of others, and agrees to indemnify customers against third-party claims for such infringement. Further, the Company's by-laws require it to indemnify its officers and directors against any action that may arise out of their services in that capacity, and the Company has also entered into indemnification agreements with respect to all of its directors. The Company has not been subject to any material liabilities under such provisions and therefore believes that its exposure for these indemnification obligations is minimal. Accordingly, the Company has no liabilities recorded for these indemnity agreements as of September 30, 2009 or December 31, 2008.

Product Warranties

The Company provides product warranties in conjunction with certain product sales. Generally, product sales are accompanied by a one-year warranty period. These warranties cover factors such as nonconformance to specifications and defects in material and workmanship. Estimated standard warranty costs are recorded in the period in which the related product sales occur. The warranty liability recorded at each balance sheet date reflects the estimated number of months of warranty coverage outstanding for products delivered multiplied by the average of historical monthly warranty costs, as well as any additional amounts for major warranty issues that may exceed a normal claims level. The Company's warranty accrual and related expense were immaterial to the Company's financial position and results of operations for the periods presented herein.

Intellectual Property Claims

In recent years there has been significant litigation involving intellectual property rights in many technology-based industries, including the Company's. Although the Company has not to date incurred any liabilities as a result of claims that its products infringe any patents or other proprietary rights of third parties, it has from time to time received notice of such claims from third parties and could be subject to other such claims in the future. Since patent applications often are not disclosed until a patent issues, it is not always possible for the Company to know whether patent applications are pending that might be infringed by its products, and there could be issued patents that are pertinent to the Company's business of which it is not aware. The Company's products may also be claimed to infringe intellectual property rights of others as a result of activities by its foundries or other suppliers with respect to which it has no control or knowledge. During the first quarter of 2008, the Company received a letter from a third party asserting that sales by the Company of certain of the Company's products infringe a patent that allegedly applies to a semiconductor process used by certain of the Company's foundries in manufacturing wafers supplied by those foundries to the Company for use in these products. The Company is investigating this claim of infringement. The Company believes that to the extent it might incur liability as a result of infringement by any of its foundries of this or any other third party's patent, the Company would be entitled to be indemnified by such foundry. During the third quarter of 2008, another third party commenced an action against the Company in which it alleges that certain of the Company's products infringe patents held by the third party. The Company has filed an answer denying that the Company infringes and asserting defenses, including that the patents in question are invalid. During the third quarter of 2009, another third party commenced an action against the Company, in which it alleges that one of the Company's products infringes a patent held by the third party. The Company is investigating this claim. There can be no assurance that these or any other pending or future litigation or claims relating to infringement of third-party intellectual property rights can be resolved in a manner favorable to the Company. Any claims relating to the alleged infringement by the Company of third-party proprietary rights, whether meritorious or not, could be time-consuming to defend and could harm the Company's working relationships with the Company's foundries and customers, damage the Company's reputation, result in substantial and unanticipated costs associated with litigation, require the Company to enter into royalty or licensing agreements, which may not be available on acceptable terms or at all, or result in the payment by the Company of substantial damages. If the Company were found to infringe the intellectual property rights of any third party and if a license were not available on reasonable terms, the Company could be required to redesign the infringing product so as not to infringe, which could be time consuming and costly, or if this is not feasible, could be required to withdraw the infringing product from the market.

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## 7. Earnings per Share

The following table sets forth the computation of basic and diluted net income per share:

(in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<b>Basic earnings per share:</b>				
Net income	\$ 11,985	\$ 13,698	\$ 32,756	\$ 40,210
Weighted average common shares outstanding	29,438	30,464	29,372	30,654
Basic earnings per share	<u>\$ 0.41</u>	<u>\$ 0.45</u>	<u>\$ 1.12</u>	<u>\$ 1.31</u>
<b>Diluted earnings per share:</b>				
Net income	\$ 11,985	\$ 13,698	\$ 32,756	\$ 40,210
Weighted average common shares outstanding	29,438	30,464	29,372	30,654
Effect of dilutive stock options and restricted stock	495	443	444	522
Adjusted weighted average shares — diluted	29,933	30,907	29,816	31,176
Diluted earnings per share	<u>\$ 0.40</u>	<u>\$ 0.44</u>	<u>\$ 1.10</u>	<u>\$ 1.29</u>

The dilutive effect of outstanding options and restricted stock is reflected in diluted earnings per share by application of the treasury stock method, which includes consideration of unamortized compensation cost and tax benefits on stock-based compensation.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This information should be read in conjunction with our audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in our Annual Report on Form 10-K for the year ended December 31, 2008.

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

*Revenue.* Our revenue is derived primarily from the sale of standard and custom products. We develop standard products from our own specifications, which we sell through our direct sales organization, our network of independent sales representatives, a distributor and our website. We also develop custom products to meet the specialized requirements of individual customers, which are sold by our direct sales organization.

We sell our products to original equipment manufacturers (OEMs), that supply advanced electronic systems to commercial and military end users, and to these OEMs' contract manufacturers. In general, the decision to purchase our product is made by the OEM, which has designed our product into its system. In the event that we sell to an OEM's contract manufacturer, the contract manufacturer typically does not have discretion to replace our product with one from a different supplier.

Our sales cycle varies substantially, ranging from a period of a month or less when a customer selects a standard product from our catalog or website, to as long as two years or more for custom products. In the sales process, our sales and application engineers work closely with the OEM customer to analyze the customer's system requirements and select an appropriate standard product or establish a technical specification for a custom product. In the case of a custom product, we also select a semiconductor process and foundry, and evaluate test wafers and finished components before manufacturing in commercial quantities can begin. Volume purchases of our products by an OEM customer, or its contract manufacturer, generally do not occur until the OEM customer has made the decision to begin production of the system incorporating our product. Our receipt of substantial revenue from sales of a product to an OEM customer depends on that customer's commercial success in manufacturing and selling its system incorporating our product. It may take several years for a newly introduced standard product to generate substantial revenue, if ever. However, the life cycles of our standard products tend to be lengthy.

Although most of our revenue is derived from sales of our products, we also receive a small percentage of our revenue from customer-sponsored research and development activities. These activities range from pure research, in which we investigate IC design techniques on new semiconductor technologies at the request of a government agency or commercial customer, to custom development projects in which we are paid to enhance or modify an existing product or develop a new product to meet a customer's specifications.

Historically, a portion of our customer-sponsored research and development activities have been funded by U.S. government agencies under the Small Business Innovation Research (SBIR) program. We are no longer eligible to compete for new SBIR awards and, as of September 30, 2009, have completed substantially all of our existing SBIR projects. Revenue from SBIR contracts was immaterial in both 2008 and the nine months ended September 30, 2009. There has been no impact to our other U.S. government- or commercial-sponsored research and development activities. Research and development expense will increase as we reassign engineering resources from government-sponsored SBIR programs to Hittite funded research and development projects.

*Cost of revenue.* Cost of revenue consists primarily of the cost of semiconductor wafers that we purchase from our foundries and other materials such as packages, epoxies, connectors and production masks. Cost of revenue also includes personnel costs and overhead related to our manufacturing and engineering operations, including occupancy and equipment costs, shipping costs, charges for inventory obsolescence and warranty obligations and amortization of certain intangible assets.

*Research and development.* Research and development expense consists primarily of personnel costs of our research and development organization, costs of development wafers, license fees for computer-aided design software, costs of development testing and evaluation, costs of developing automated test software, and related occupancy and equipment costs. We expense all research and development costs as incurred.

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*Sales and marketing.* Sales and marketing expense consists primarily of personnel costs of our sales and marketing organization, sales commissions paid to independent sales representatives, costs of advertising, trade shows, corporate marketing, promotion, travel, related occupancy and equipment costs, amortization of certain intangible assets and other marketing costs.

*General and administrative.* General and administrative expense consists primarily of personnel costs of our executive management, finance, and other administrative staff, outside professional fees, related occupancy and equipment costs and other corporate expenses.

### **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements. The preparation of financial statements, in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. By their nature, these estimates and judgments are subject to an inherent degree of uncertainty. On an ongoing basis, we re-evaluate our judgments and estimates including those related to uncollectible accounts receivable, inventories, intangible assets, stock-based compensation, income taxes, warranty obligations, accrued expenses and other contingencies. We base our estimates and judgments on our historical experience and on other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates, and material effects on our operating results and financial position may result.

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For a description of the accounting policies which, in our opinion, involve the most significant application of judgment, or involve complex estimation, and which could, if different judgments or estimates were made, materially affect our reported results of operations, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates” in our Annual Report on Form 10-K for the year ended December 31, 2008.

### **Results of Operations**

#### Comparison of the Three Month Periods Ended September 30, 2009 and 2008

*Revenue.* In the three months ended September 30, 2009, our revenue decreased \$4.1 million, or 8.9%, to \$41.5 million, compared with \$45.5 million in the corresponding period of 2008. Revenue from sales to customers outside the United States accounted for 57.0% of our total revenue in the three months ended September 30, 2009, compared with 60.2% in the corresponding period of 2008. Our revenue decrease was primarily attributable to decreased sales to the broadband, cellular infrastructure, and microwave and millimeterwave communications markets, caused primarily by the recent global economic downturn and related credit crisis that have been affecting us along with the entire semiconductor industry.

*Gross margin.* In the three months ended September 30, 2009, our gross margin was 72.0%, compared with 72.5% in the corresponding period of 2008. The decrease in gross margin was primarily attributable to pricing and production cost variances, partially offset by relatively favorable project costs experienced on certain government contracts in 2009 as compared to 2008.

In light of the recent global recession, we took steps early in 2009 to reduce expenses across our business, and maintained these measures during the three months ended September 30, 2009. While we may decide to reduce expenses further, we believe that increased spending in research and development will be required for us to remain competitive in the future, and our mid- and long-term plans for growth also require increased spending to support our operations, sales, marketing and administrative functions. Accordingly, our goal is to manage expenses in a manner that balances near-term financial goals with our longer term strategic objectives.

*Research and development expense.* In the three months ended September 30, 2009, our research and development expense decreased \$0.8 million, or 12.4%, to \$5.6 million, and represented 13.5% of our revenue, compared with \$6.4 million, or 14.1% of our revenue, in the corresponding period of 2008. The decrease in our research and development expense was attributable to a \$0.3 million decrease in personnel costs, a \$0.2 million decrease in depreciation and a \$0.3 million decrease in other costs. The decrease in personnel costs reflects cost savings initiatives, partially offset by the cost increase associated with a shift in engineering resources from customer sponsored activities, the costs for which are charged to cost of revenue, to internal research and development activities.

*Sales and marketing expense.* In the three months ended September 30, 2009, our sales and marketing expense decreased \$0.2 million, or 5.3%, to \$3.8 million, and represented 9.1% of our revenue, compared with \$4.0 million, or 8.8% of our revenue, in the corresponding period of 2008. The decrease in our sales and marketing expense was primarily attributable to a \$0.1 million decrease in personnel costs, primarily due to recent cost savings initiatives, and a \$0.1 million net decrease in other costs.

*General and administrative expense.* In the three months ended September 30, 2009, our general and administrative expense increased \$0.1 million, or 3.2%, to \$2.2 million, and represented 5.3% of our revenue, compared with \$2.1 million, or 4.6% of our revenue, in the corresponding period of 2008. The increase in our general and administrative expense was primarily attributable to a \$0.2 million increase in professional fees, partially offset by a \$0.1 million net decrease in other costs.

*Interest income.* In the three months ended September 30, 2009, our interest income decreased \$0.7 million to \$0.1 million, compared with \$0.8 million in the corresponding period of 2008, as a result of lower effective yields, due to prevailing market conditions, partially offset by the impact of higher cash and investment balances.

*Provision for income taxes.* Our provision for income taxes decreased \$1.2 million to \$6.4 million in the three months ended September 30, 2009, compared with \$7.6 million in the corresponding period of 2008, representing an effective tax rate of 34.7% and 35.5% in 2009 and 2008, respectively. The effective tax rate decreased primarily as a result of a decrease in state income taxes and an increase in foreign tax benefit partially offset by a decrease in our tax-exempt interest income. Generally, the effective tax rates differ from the federal and state statutory tax rates primarily due to the impact of federal and state tax credits, tax-exempt interest income and tax benefits from manufacturing activities.

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### Comparison of the Nine month Periods Ended September 30, 2009 and 2008

*Revenue.* In the nine months ended September 30, 2009, our revenue decreased \$14.5 million, or 10.8%, to \$119.3 million, compared with \$133.9 million in the corresponding period of 2008. Revenue from sales to customers outside the United States accounted for 60.0% of our total revenue in the nine months ended September 30, 2009, compared with 59.4% in the corresponding period of 2008. Our revenue decrease was primarily attributable to decreased sales to the broadband, microwave and millimeterwave communications, military, space and test and measurement markets, caused primarily by the recent global economic downturn and related credit crisis, partially offset by an increase in sales to the cellular infrastructure market.

*Gross margin.* In the nine months ended September 30, 2009, our gross margin was 71.3%, compared with 71.2% in the corresponding period of 2008. The increase in gross margin was primarily attributable to a favorable change in product mix, offset by unfavorable pricing and production cost variances. In addition, we experienced relatively favorable project costs on certain government contracts in 2009 as compared to 2008.

*Research and development expense.* In the nine months ended September 30, 2009, our research and development expense decreased \$1.1 million, or 6.1%, to \$16.9 million, and represented 14.1% of our revenue, compared with \$18.0 million, or 13.4% of our revenue, in the corresponding period of 2008. The decrease in our research and development expense was attributable to a \$0.4 million decrease in depreciation, a \$0.3 million decrease in personnel costs and a \$0.4 million decrease in other costs. The decrease in personnel costs reflects cost savings initiatives, partially offset by the cost increase associated with a shift in engineering resources from customer sponsored activities, the costs for which are charged to cost of revenue, to internal research and development activities.

*Sales and marketing expense.* In the nine months ended September 30, 2009, our sales and marketing expense decreased \$1.1 million, or 9.5%, to \$10.9 million, and represented 9.1% of our revenue, compared with \$12.0 million, or 9.0% of our revenue, in the corresponding period of 2008. The decrease in our sales and marketing expense was primarily attributable to a \$0.5 million decrease in personnel costs, a \$0.1 million decrease in travel costs and a \$0.3 million net decrease in other costs, primarily due to recent cost savings initiatives. In addition, third party commissions decreased \$0.2 million, due to our decrease in revenue.

*General and administrative expense.* In the nine months ended September 30, 2009, our general and administrative expense increased \$0.9 million, or 14.3%, to \$7.2 million, and represented 6.0% of our revenue, compared with \$6.3 million, or 4.7% of our revenue, in the corresponding period of 2008. The increase in our general and administrative expense was primarily attributable to a \$0.6 million increase in professional fees and a \$0.3 million increase in bad debt expense.

*Interest income.* In the nine months ended September 30, 2009, our interest income decreased \$2.5 million to \$0.3 million, compared with \$2.8 million in the corresponding period of 2008, as a result of lower effective yields, due to prevailing market conditions, partially offset by the impact of higher cash and investment balances.

*Provision for income taxes.* Our provision for income taxes decreased \$3.6 million to \$17.8 million in the nine months ended September 30, 2009, compared with \$21.4 million in the corresponding period of 2008, representing an effective tax rate of 35.2% and 34.7% in 2009 and 2008, respectively. The effective tax rate increased primarily as a result of the decrease in our tax-exempt interest income, partially offset by a decrease in state income taxes. Generally, the effective tax rates differ from the federal and state statutory tax rates primarily due to the impact of federal and state tax credits, tax-exempt interest income and tax benefits from manufacturing activities.

### **Liquidity and Capital Resources**

As of September 30, 2009, we held \$215.2 million of cash and cash equivalents. During the third quarter of 2009, given our cash position, we canceled our \$30.0 million bank credit facility, which had been inactive over the past year and had no outstanding balance.

In the nine months ended September 30, 2009, cash provided by our operations was \$46.7 million, of which the principal components were our net income of \$32.8 million and non-cash charges of \$11.3 million, as well as a net decrease in operating assets and liabilities of \$3.3 million, partially offset by a net increase in deferred taxes of \$0.6 million. The net decrease in operating assets and liabilities includes a \$7.8 million decrease in accounts receivable,

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due to our decrease in revenue and the timing of customer invoices, and a decrease in other net operating assets and liabilities of \$0.4 million, partially offset by a \$4.9 million increase in standard catalog and project inventories.

In the nine months ended September 30, 2009, we invested \$6.2 million in the purchase of capital equipment, primarily for production test equipment and tooling. We received \$3.0 million from the exercise of stock options and \$1.5 million from the tax benefit related to these exercises.

In April 2008, our board of directors authorized a stock repurchase program to offset the dilutive impact of equity-based compensation granted to our employees. The shares may be repurchased from time to time on the open market or in privately negotiated transactions. Since April 2008, we have repurchased 1,712,765 shares for \$52.5 million, including 396,258 shares purchased for \$10.9 million in the nine months ended September 30, 2009. The estimated cost of shares to be purchased over the next three to six months is approximately \$11.4 million, based on the last sale price of our common stock on September 30, 2009, as reported by the Nasdaq Global Market. The timing, price and volume of this and any additional repurchases will be based on market conditions, relevant securities law and other factors as appropriate and repurchases may be suspended or discontinued at any time.

We believe that our cash, cash equivalents and cash generated from operations will be sufficient to meet our anticipated cash requirements for at least the next 12 months. Our future capital requirements will depend on many factors, including our rate of revenue growth or decline, the timing and extent of spending to support product development efforts, the expansion of our sales and marketing activities, the timing and introduction of new products, the costs to ensure access to adequate manufacturing capacity and the continuing market acceptance of our products. There is no assurance that additional financing, if required or desired, will be available in amounts or on terms acceptable to us, if at all.

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### **Recent Accounting Pronouncements**

In June 2009, the Financial Accounting Standards Board (FASB) issued authoritative guidance that is included in Accounting Standards Codification (ASC) 105, “Generally Accepted Accounting Principles.” This guidance establishes the FASB Accounting Standards Codification as the source of authoritative U.S. Generally Accepted Accounting Principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. We adopted this guidance effective July 1, 2009. This guidance does not change GAAP, therefore its adoption had no impact on our financial position or results of operations. References to GAAP in this Quarterly Report on Form 10-Q have been updated to reflect the ASC.

In September 2006, the FASB issued authoritative guidance that is included in ASC 820, “Fair Value Measurements and Disclosures.” This guidance clarifies the definition of fair value, establishes guidelines for measuring fair value and expands the related disclosure requirements. We adopted this guidance effective January 1, 2008, except as it applies to certain non-financial assets and non-financial liabilities, for which the guidance was implemented effective January 1, 2009. Such adoption did not have a material impact on our financial position or results of operations. See Note 4 for disclosures regarding the fair value of our financial instruments.

In December 2007, the FASB issued authoritative guidance that is included in ASC 805, “Business Combinations.” This guidance establishes principles and requirements for how an acquirer recognizes and measures the identifiable assets and goodwill acquired, liabilities assumed and noncontrolling interests. The guidance also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. In April 2009, the FASB amended and clarified this guidance with respect to the initial recognition and measurement, subsequent measurement and disclosure of contingent assets and liabilities arising from a business combination. We adopted this guidance effective January 1, 2009. Such adoption did not have a material impact on our financial position or results of operations.

In March 2008, the FASB issued authoritative guidance that is included in ASC 815, “Derivatives and Hedging.” This guidance requires enhanced disclosures to enable investors to better understand the effects of derivative instruments and hedging activities on an entity’s financial position, results of operations and cash flows. We adopted this guidance effective January 1, 2009. Such adoption did not have a material impact on our financial position or results of operations.

In April 2008, the FASB issued authoritative guidance that is included in ASC 350, “Intangibles — Goodwill and Other.” This guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible. The guidance improves the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. We adopted this guidance effective January 1, 2009. Such adoption did not have a material impact on our financial position or results of operations.

In April 2009, the FASB issued authoritative guidance that is included in ASC 320, “Investments - Debt and Equity Securities.” This guidance amends the guidance for recognizing other-than-temporary impairments of debt securities, and requires additional disclosures with respect to both debt and equity securities. We adopted this guidance effective January 1, 2009. Such adoption did not have a material impact on our financial position or results of operations.

In April 2009, the FASB issued authoritative guidance that is included in ASC 825, “Financial Instruments.” This guidance requires that disclosures regarding the fair value of financial instruments be provided in interim financial statements. We adopted this guidance effective January 1, 2009. Such adoption did not have a material impact on our financial position or results of operations.

In May 2009, the FASB issued authoritative guidance that is included in ASC 855, “Subsequent Events.” This guidance provides guidance related to the accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued, and specifies related disclosure requirements. We adopted this guidance for the quarterly period ended June 30, 2009. Such adoption did not have a material impact on our financial position or results of operations.

In October 2009, the FASB issued Accounting Standards Update (ASU) 2009-13, “Multiple-Deliverable Revenue Arrangements,” which amends ASC 605-25. ASU 2009-13 modifies how consideration is allocated for the purpose of revenue recognition when an arrangement involves multiple deliverables and expands the related disclosure requirements. The guidance eliminates the residual method of revenue allocation, and requires that the vendor use its best estimate to allocate arrangement consideration between the deliverables in cases where neither vendor-specific objective evidence nor third-party evidence is available. ASU 2009-13 will be effective for us on January 1, 2011, with early adoption permitted. We are currently evaluating the impact the adoption of ASU 2009-13 will have on our financial position and results of operations.

In October 2009, the FASB issued ASU 2009-14, “Certain Revenue Arrangements That Include Software Elements,” which amends ASC 985-605. ASU 2009-14 modifies the scope of the software revenue guidance in ASC 985-605 to exclude tangible products that contain both software components and non-software components. ASU 2009-14 will be effective for us on January 1, 2011, with early adoption permitted. We do not believe that the adoption of ASU 2009-14 will have a material effect on our financial position or results of operations.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

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

*Foreign currency risk.* To date, our international customer agreements have been denominated primarily in United States dollars. Accordingly, we have limited exposure to foreign currency exchange rates and do not enter into foreign currency hedging transactions. The functional currency of each our foreign operations is the local currency. Accordingly, the effects of exchange rate fluctuations on the net assets of these operations are accounted for as translation gains or losses in accumulated other comprehensive income within stockholders’ equity. We do not believe that a change of 10% in such foreign currency exchange rates would have a material impact

on our financial position or results of operations.

**Item 4. Controls and Procedures**

- (a) *Evaluation of disclosure controls and procedures.* Our management, under the supervision and with the participation of our Chief Executive Officer and the Chief Financial Officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to provide a reasonable level of assurance that we record, process, summarize and report the information we must disclose in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, within the time periods specified in the SEC's rules and forms, and

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that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding disclosure.

The effectiveness of a system of disclosure controls and procedures is subject to various inherent limitations, including cost limitations, judgments used in decision making, assumptions about the likelihood of future events, the soundness of internal controls, and the risk of fraud. Because of these limitations, there can be no assurance that any system of disclosure controls and procedures will be successful in preventing all errors or fraud or in making all material information known in a timely manner to the appropriate levels of management.

- (b) *Changes in internal control over financial reporting.* There were no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

In September 2008, Analog Devices, Inc. commenced an action against us in the United States District Court for the District of Massachusetts, in which it alleges that certain of our products infringe patents held by Analog Devices. We have filed an answer denying that we infringe and asserting defenses, including that the patents in question are invalid. Discovery in the action is proceeding.

In August 2009, ON Semiconductor Corporation and its subsidiary, Semiconductor Components Industries, LLC, commenced an action against us, along with Hynix Semiconductor, Inc., Elpida Memory, Inc. and Nanya Technology Corporation and entities affiliated with those defendants, in the United States District Court for the Eastern District of Texas. The ON Semiconductor action alleges that one of our products infringes a patent owned by ON Semiconductor. The action seeks injunctive relief and damages in an unspecified amount. We are investigating ON Semiconductor's claim of infringement against us.

### Item 1a. Risk Factors

The Private Securities Litigation Reform Act of 1995 contains certain safe harbor provisions regarding forward-looking statements. This Quarterly Report on Form 10-Q, and other information provided by us or statements made by our directors, officers or employees from time to time, may contain "forward-looking" statements and information, which involve risks and uncertainties. Actual future results may differ materially. Statements indicating that we "expect," "estimate," "believe," "are planning" or "plan to" are forward-looking, as are other statements concerning future financial results, product offerings or other events that have not yet occurred. There are several important factors that could cause actual results or events to differ materially from those anticipated by the forward-looking statements. Such factors include those described below, which have not changed in any material respect as compared with the risk factors in our Annual Report on Form 10-K for the year ended December 31, 2008. Although we have sought to identify the most significant risks to our business, we cannot predict whether, or to what extent, any of such risks may be realized. We also cannot assure that we have identified all possible issues which we might face. We undertake no obligation to update any forward-looking statements that we make.

#### ***The recent global recession and related credit crisis are adversely affecting our business, results of operations and financial condition.***

The recent global recession has affected all sectors of the economy, resulting in declines in economic growth and consumer confidence, increases in unemployment rates and uncertainty about economic stability. Global credit and financial markets have also experienced extreme disruptions, including diminished liquidity and credit availability and rapid fluctuations in market valuations. Our business continued to be significantly affected by these conditions in the third quarter of 2009, and there is no certainty that economic conditions will not deteriorate further. These uncertainties affect businesses such as ours in a number of ways, making it difficult to accurately forecast and plan our future business activities. Deteriorating economic conditions may lead consumers and businesses to reduce or postpone spending, which may cause our customers to cancel, decrease or delay their existing and future orders with us. The inability of customers to obtain credit could negatively affect our revenue and our ability to collect receivables. In addition, financial difficulties experienced by our suppliers, independent sales representatives or distributor could result in product delays, increased accounts receivable defaults and inventory challenges. If the current uncertain economic conditions continue or further deteriorate, we may recognize charges relating to restructuring costs or the impairment of assets. These trends could have a material adverse impact on our business, our ability to achieve targeted results of operations and our financial condition as a result of, among other things:

- reduced demand for our products;
- increased risk of order cancellations or delays;
- increased pressure on the prices for our products;
- greater difficulty in collecting accounts receivable; and
- risks to our liquidity, including the possibility that we might not have access to our cash and short-term investments when needed.

We are unable to predict the likely duration and severity of the recent global downturn and disruption in credit and financial markets, but the longer the duration the greater the risks we face in operating our business.

***We believe that we currently are in a period of relatively low sequential growth, the duration of which we cannot predict.***

Thus far in 2009, we have seen a decrease in customer bookings in comparison to 2008, as the recent global economic downturn and related credit crisis have affected us along with the entire semiconductor industry. Although we believe that we have excellent prospects for long-term growth once global economic conditions improve, we believe that we currently are in a period of relatively low sequential growth, the duration of which we cannot predict. Taking into account the impact of the recent global economic downturn and related disruption in credit markets on our major end markets, we expect revenue in the fourth quarter of 2009 to be \$42.5 million to \$43.5 million, compared to \$41.5 million for the third quarter of 2009, \$39.7 million for the second quarter of 2009 and \$38.2 million for the first quarter of 2009. Further reductions in demand and the possibility that economic conditions will deteriorate further may cause us to be unable to meet our expected revenue for the fourth quarter of 2009, and there can be no assurance that our revenue in subsequent quarters will meet or exceed that level.

***Our efforts to control operating expenses during the recent global recession may limit our ability to maintain our competitive position and meet operational challenges, which could harm our business and financial results.***

Effectively managing our operations and maintaining our competitiveness while continuing to deliver acceptable financial performance in this environment represents a significant challenge. In light of the recent global recession, we took steps early in 2009 to reduce expenses across our business, and maintained these measures during the three months ended September 30, 2009. These expense control measures could limit our ability to meet our product development targets and make necessary improvements to our operational, financial and information technology organizations and systems. We may decide to reduce operating expenses further, which could harm our business. If we are unable or choose not to reduce operating expenses further, our profitability may suffer.

***Our quarterly revenue and operating results are difficult to predict accurately and may fluctuate significantly from period to period. As a result, we may fail to meet the expectations of investors, which could cause our stock price to decline.***

We operate in a highly dynamic industry and our future results could be subject to significant fluctuations, particularly on a quarterly basis. Our quarterly revenue and operating results have fluctuated significantly in the past and may continue to vary from quarter to quarter due to a number of factors, many of which are not within our control. Although some of our customers, such as those who serve the military and space industries, place long-term orders with us or provide us with forecasts of their future requirements for our products, a significant percentage of our revenue in each quarter is dependent on sales that are booked and shipped during that quarter, typically attributable to a large number of orders from diverse customers and markets, which we refer to as our turns business. Accurately forecasting our turns business and our total revenue in any quarter is difficult. In addition, our business is being adversely affected by recent global economic factors, which has made it more difficult for our customers and for us to forecast our near term results. If our operating results do not meet our publicly stated guidance, if any, or the expectations of investors, our stock price may decline. Additional factors that can contribute to fluctuations in our operating results include:

- changes in demand for our products due to global economic conditions;
- the increase, reduction, rescheduling or cancellation of significant customer orders;
- the timing of customer qualification of our products and commencement of volume sales of systems that include our products;
- the rate at which our present and future customers adopt our technologies in our target end markets;
- the timing and success of the introduction of new products and technologies by us and our competitors, and the acceptance of our new products by our customers;
- our gain or loss of a key customer;
- the availability, cost and quality of materials and components that we purchase from third-party vendors and any problems or delays in the fabrication, assembly, testing or delivery of our products;
- changes in our effective tax rate;
- changes in our product mix or customer mix; and
- the quality of our products and any remediation costs.

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Due to these and other factors, quarter-to-quarter comparisons of our historical operating results should not be relied upon as accurate indicators of our future performance.

***Our financial results are exposed to the cyclical nature of the semiconductor industry.***

The recent global recession has reduced demand in the semiconductor industry as well as numerous other industries. In addition to being subject to such broad, macroeconomic conditions, the semiconductor industry is particularly cyclical and has historically experienced significant fluctuations in supply and demand, resulting in product overcapacity, high inventory levels and accelerated erosion of average selling prices, which may occur even during periods of growth in the broader economy. These conditions have sometimes lasted for extended periods of time. Downturns in many sectors of the electronic systems industry have in the past contributed to weak demand for semiconductor products. We experienced slower growth during periods of weak demand in the past, and our business may be adversely impacted by any downturns in the future. Future downturns in the electronic systems industry could adversely impact our revenue and harm our business, financial condition and results of operations.

***Our gross margin fluctuates from period to period, which affects our results of operations.***

Our gross margin has fluctuated on a quarterly basis. For example, our quarterly gross margin since the first quarter of 2006 has ranged from a low of 70.1% to a high of 73.7%. A number of factors can cause our gross margin to fluctuate from period to period. Our gross margin in any period is significantly affected by industry demand and the intensity of competition in the markets into which we sell our products. Our gross margin is also significantly affected by product mix, that is, the percentage of our revenue in that period that is attributable to higher or lower margin products, and by fluctuations in the relative proportion of high volume orders, on which we offer higher discounts. Additional factors affecting our gross margin include changes in the cost of wafers and materials, the timing of indirect costs for pre-production masks and evaluation materials, project cost variations on customer-funded contracts, changes in overhead absorption rates and other manufacturing efficiencies, and other factors, some of which are not under our control. Our margin also can be substantially affected by changes in our manufacturing yields. Our yields depend on many factors that we control, such as product design and the effectiveness of our own assembly and test operations, but they are also affected by the activities of third parties, such as the foundries and packaging subcontractors that supply us with critical materials and services, which are beyond our control. As a result of these or other factors, we may be unable to maintain or increase our gross margin in future periods. A significant decrease in our gross margin would affect our profitability and likely have an adverse effect on our stock price.

***If we fail to develop new products that achieve market acceptance or fail to introduce new products that enable us to address additional markets, our operating results could be adversely affected.***

The markets for our products are characterized by frequent new product introductions and changes in product and process technologies. The future success of our business and continued growth in our revenue will depend on our ability to develop new products for existing and new markets, introduce these products in a cost-effective and timely manner and have our products designed into the products of OEMs. The development of new high performance semiconductor ICs, modules and subsystems is highly complex, and from time to time we may experience delays in completing the development and introduction of new products or fail to efficiently manufacture such products in the early production phase. Our ability to successfully develop, manufacture, introduce and deliver new types of high performance semiconductor ICs, modules and subsystems will depend on various factors, including our ability to:

- attract and retain skilled engineering personnel;
- accurately understand market requirements;
- complete and introduce new products;
- achieve design wins with our customers;
- obtain adequate supplies of materials and components that meet our quality requirements; and
- achieve adequate manufacturing yields.

Furthermore, a newly introduced standard product generally has little immediate impact on our revenue. A new standard product may not generate meaningful revenue for two or more years, if ever. In the meantime, we will have incurred expenses to design and produce the product, and we may not recover these expenses if demand for the product fails to reach forecasted levels.

***We depend on third-party suppliers, including our foundries and packaging subcontractors, for components, materials and services that are critical to the manufacture of our products, which makes us susceptible to shortages, price fluctuations and quality risks that could adversely affect our operating results.***

We purchase a number of the key components and materials used in our products from sole source suppliers. For example, we obtain all the semiconductor wafers used in our products from third-party wafer fabrication facilities, known as foundries. Our principal third-party foundries include Cobham in Virginia, Global

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Communications Semiconductors in California, IBM in Vermont, Jazz Semiconductor in California, Northrop Grumman Space Technology sector in California, Taiwan Semiconductor Manufacturing Company in Taiwan, Telefunken Semiconductors in Germany, TriQuint Semiconductor in Oregon, United Monolithic Semiconductors (UMS) in France and WIN Semiconductors in Taiwan. We typically rely on a single foundry for the production of the wafer used in a particular product. Our reliance on third-party foundries involves several risks, including reduced control over our manufacturing costs, delivery times, reliability and process quality, which can adversely affect the quality of our components produced from these wafers, the possible misappropriation of our technology and the possibility that third parties may claim that our products infringe their intellectual property, as a result of activities by our foundries. Our contracts with our foundries and other sole source suppliers generally commit them to supply specified quantities of components or materials at agreed prices, typically over a one to two-year period.

We also rely on a small number of subcontractors, primarily in Asia, to package some of our products, particularly those that utilize standard plastic packages. We do not have long-term contracts with our third-party packaging subcontractors stipulating fixed prices or packaging volumes. Therefore, in the future, we may be unable to obtain sufficiently high quality or timely packaging of our products. If our packaging subcontractors fail to achieve and maintain acceptable production yields in the future, we could experience increased costs, including warranty and product liability expense and costs associated with customer support, delays in or cancellations or rescheduling of orders or shipments, product returns or discounts and lost net revenue, any of which could have a material adverse effect on our business, financial condition and results of operations.

We believe that our suppliers currently have manufacturing capacity adequate to meet our foreseeable requirements. However, some of our suppliers could in the future extend their lead times or seek to increase the prices of materials we purchase from them as their contracts with us expire. If our key suppliers were to experience difficulties that affected their manufacturing yields or the quality of the materials they supply to us or seek to increase their prices, our cost of revenue could be adversely affected. Longer lead times and quality problems experienced by our suppliers or packaging subcontractors could also prevent us from fulfilling our customers' demands for our products on a timely basis, and thus adversely affect our revenue. Longer lead times could also require us to increase our raw materials inventory levels, in order to be able to meet customers' delivery requirements.

The ability of our suppliers to meet our requirements could be impaired or interrupted by factors beyond their control, such as earthquakes or other natural phenomena, labor strikes or shortages or political unrest. Furthermore, financial or other difficulties faced by our suppliers, or significant changes in demand for the components, materials or services they use in the products they supply to us, could limit the availability of those products, components or materials to us. We believe that a supplier of wafers that are used in a significant number of our products has been experiencing financial difficulties. Failure of this supplier to meet its supply commitments to us would impair our ability to supply customers with the related products and adversely impact our revenue and financial results. We are taking steps to mitigate our exposure to this risk; however, there can be no assurance that these measures would be sufficient to avoid disruption of our business if there were to be a near-term interruption in the supply of wafers that we currently purchase from this supplier. If this or one of our other key suppliers is unable to provide us with its materials, components or services, our operations may be adversely affected. We might experience difficulty identifying alternative sources of supply for the materials, components and services used in our products or that we obtain through outsourcing. We could experience delays if we were required to test and evaluate products and services of potential alternative suppliers. Any of these occurrences could negatively affect our operating results and liquidity and harm our business.

***We are subject to claims that we are infringing third-party intellectual property rights, which could result in costly and lengthy litigation that could harm our business.***

In recent years there has been significant litigation involving intellectual property rights in many technology-based industries, including our own. Although we have not to date incurred any liabilities as a result of claims that our products infringe any patents or other proprietary rights of third parties, we have from time to time received notice of such claims from third parties and we could be subject to other such claims in the future. Since patent applications often are not disclosed until a patent issues, it is not always possible for us to know whether patent applications are pending that might be infringed by our products, and there could be issued patents that are pertinent to our business of which we are not aware. Our products may also be claimed to infringe intellectual property rights of others as a result of activities by our foundries or other suppliers with respect to which we have no control or knowledge. In connection with the sale of our products, we often make representations affirming, among other things, that our products do not infringe on the intellectual property rights of others, and we agree to indemnify customers against third-party claims of such infringement. During the first quarter of 2008, we received a letter from a third party asserting that sales by us of certain of our products infringe a patent that allegedly applies to a semiconductor process used by certain of our foundries in manufacturing wafers they supply to us for use in these products. We are investigating this claim of infringement. We believe that to the extent that we might incur liability as a result of infringement by any of our foundries of this or any other third party's patent, we would be entitled to be indemnified by such foundry. During the third quarter of 2008, another third party commenced an action against us in which it alleges that certain of our products infringe patents held by the third party. We have filed an answer denying that we infringe and asserting defenses, including that the patents in question are invalid. During the third quarter of 2009, another third party commenced an action against us, in which it alleges that one of our products infringes a patent held by the third party. We are investigating this claim. There can be no assurance that these or any other pending or future litigation or claims relating to infringement of third-party intellectual property rights can be resolved in a manner favorable to us. Any claims relating to the alleged infringement by us of third-party proprietary rights, whether meritorious or not, could be time-consuming to defend and could harm our working relationships with our foundries and customers, damage our reputation, result in substantial and unanticipated costs associated with litigation, require us to enter into royalty or licensing agreements, which may not be available on acceptable terms or at all, or result in the payment by us of substantial damages. If we were found to infringe the intellectual property rights of any third party and if a license were not available on reasonable terms, we could be required to redesign the infringing product so as not to infringe, which could be time consuming and costly, or if this is not feasible, we could be required to withdraw the infringing product from the market.

***Operations at our Chelmsford, Massachusetts facility that are critical to our business are subject to disruption from a variety of causes, including those that may be beyond our control.***

Our executive management and administrative functions, most of our research and development and product design activities, final assembly of our module and subsystem-level products, and final testing for all of our products are carried out at our headquarters facility in Chelmsford, Massachusetts. These operations are critical to our business, and could be affected by disruptions such as electrical power outages, fire, earthquake, flooding, acts of terrorism, health advisories or risks, or other natural or man-made disasters that could damage that facility. Although we seek to mitigate these risks by maintaining business interruption insurance, insurance may be inadequate to protect against all the consequences of such occurrences. A major disruption affecting our Chelmsford assembly and test operations, in particular, could cause significant delays in shipments until we are able to procure and outfit another suitable

facility or to qualify and contract with alternative third party suppliers, processes which could take

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many months. Even if alternative assembly and test capacity is available, we may not be able to obtain it on a timely basis, or favorable terms, which could result in higher costs and/or a loss of customers.

***We design and manufacture products in our standard product line based upon our internal assessment and forecasts of market requirements, and our results of operations will be adversely affected if we fail to assess market requirements accurately.***

A majority of our revenue is typically derived from sales of our standard products. We order components and materials, such as semiconductor wafers, used in the manufacture of our standard products 12-14 weeks in advance, while our customers typically place orders for those products one to eight weeks in advance, exposing us to inventory and manufacturing costs in advance of anticipated revenue. If we or our customers fail to predict market demand accurately for new and existing standard products, we may experience a delay or reduction of anticipated revenue without having sufficient time to adjust our inventory and operating expenses. As the number of products we offer increases, we may be exposed to increased inventory risk.

Lead times for our manufacturing materials can vary significantly and depend on factors such as specific supplier requirements, the size of the order, contract terms and current market demand. As a result, we make financial commitments in the form of purchase commitments. Furthermore, we generally lack visibility into the finished goods inventories of our customers, which makes it more difficult for us to accurately forecast their requirements. If we overestimate our customers' requirements, we may have excess inventory, which would increase our costs. If we underestimate our customers' requirements, we may have inadequate inventory, which could prevent us from delivering our products to our customers on a timely basis, which could disrupt our customers' production schedules. Any of these occurrences could negatively impact our operating results and our business.

***We design custom products to meet specific requirements of our customers. The amount and timing of revenue from such products can cause fluctuations in our quarterly operating results.***

The design and sales cycle for our custom products, from initial contact by our sales force to the commencement of shipments of those products in commercial quantities, is lengthy and can range from three months to as long as two years or more. In this process, our sales and application engineers work closely with the OEM customer to analyze the customer's system requirements and establish a technical specification for the custom product. We then select a semiconductor process and foundry, evaluate test wafers and components, and establish assembly and test procedures before manufacturing in commercial quantities can begin. The length of this cycle is influenced by many factors, including the difficulty of the technical specification, the novelty and complexity of the design and the customer's procurement processes. OEMs typically do not commit to purchase significant quantities of the custom product until they are ready to commence volume shipment of their own systems, and volume purchases of our products by an OEM customer or its contract manufacturer generally do not occur until the OEM customer has successfully introduced the system incorporating our product. Our receipt of substantial revenue from sales of a custom product depends on that customer's commercial success in manufacturing and selling its system incorporating our product. As a result, a significant period may elapse between our investment of time and resources in a custom product and our receipt of substantial revenue from sales of that product.

The length of this process increases the risk that a customer will decide to cancel or change its product plans. Such a cancellation or change in plans by a customer could cause us to lose anticipated sales. In addition, our business, financial condition and results of operations could be adversely affected if a significant customer curtails, reduces or delays orders during our sales cycle, chooses not to release equipment that contains our products, or is not successful in the sale and marketing its products that incorporate our custom products.

Finally, if we fail to achieve initial design wins in the customer's qualification process, we may lose the opportunity for significant sales to that customer for a lengthy period of time because the customer may be unlikely to change its source for those products in the future due to the significant costs associated with qualifying a new supplier and potentially redesigning its product.

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***We rely on a small number of customers for a significant percentage of our revenue, and the loss of, or a reduction in, orders from these customers could result in a decline in revenue.***

We have historically depended on a small number of customers for a large percentage of our annual revenue. Revenue derived from our 10 largest customers as a percentage of our annual revenue was 34.6% in 2008, 38.8% in 2007 and 42.7% in 2006. No single customer exceeded 10% of our total revenue in 2008, 2007 or 2006. We include in these calculations revenue from products sold to these customers directly by us or through sales representatives and our distributor, as well as from products sold to contract manufacturers for use in a system manufactured by the contract manufacturer for that customer. Our major customers often use our products in multiple systems or programs, sometimes developed by different business units within the customer's organization, each having differing product life cycles, end customers and market dynamics. While the composition of our top 10 customers varies from year to year, we expect that sales to a limited number of customers will continue to account for a significant percentage of our revenue for the foreseeable future. Additionally, we have noted consolidation among OEMs in some of our end markets, which could result in an increased concentration in our sources of revenue. It is possible that any of our major customers could terminate its purchasing arrangements with us or significantly reduce or delay the amount of our products that it orders, purchase products from our competitors or develop its own products internally. The loss of, or a reduction in, orders from any major customer could cause a decline in revenue and adversely affect our results of operations.

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

Semiconductor manufacturers constantly seek to develop new and improved semiconductor process technologies. Our future success depends in part upon our ability to continue to gain access to these semiconductor process technologies in order to adapt to emerging customer requirements and competitive market conditions. If we fail for any reason to remain abreast of new and improved semiconductor process technologies as they emerge, we may lose market share which could adversely affect our operating results.

***Our business depends on international customers, suppliers and operations, and as a result we are subject to regulatory, operational, financial and political risks which could adversely affect our financial results.***

The percentage of our revenue attributable to sales to customers outside the United States, based on the location to which the product shipped, has increased from 54% in 2006 to 56% in 2007 and 59% in 2008. We expect that revenue from customers outside the United States will continue to account for the majority of our revenue. Currently, we maintain international sales offices in Europe and Asia, and we rely on a network of independent sales representatives to sell our products internationally. We also have design centers in Istanbul, Turkey and Ottawa, Ontario, Canada. We have in the past relied on, and expect to continue to rely on, suppliers, manufacturers and subcontractors located in countries other than the United States, including France, Germany, Malaysia, Taiwan and Thailand. Accordingly, we will be subject to several risks and challenges, any of which could adversely affect our business and financial results. These risks and challenges include:

- difficulties and costs of staffing and managing international operations across different geographic areas and cultures;
- compliance with a wide variety of domestic and foreign laws and regulations, including those relating to the import or export of semiconductor products;
- legal uncertainties regarding taxes, tariffs, quotas, export controls, export licenses and other trade barriers;
- seasonal reductions in business activities;
- our ability to receive timely payment and collect our accounts receivable;
- political, legal and economic instability, foreign conflicts, and the impact of regional and global infectious illnesses in the countries in which we and our customers, suppliers, manufacturers and subcontractors are located;
- legal uncertainties regarding protection for intellectual property rights in some countries; and
- fluctuations in freight rates and transportation disruptions.

Political and economic instability and changes in governmental regulations could adversely affect our ability to effectively operate our foreign sales offices and foreign design centers, as well as the ability of our foreign suppliers to supply us with required materials or services. Any interruption or delay in the supply of our required components, products, materials or services, or our inability to obtain these components, materials, products or services from alternate sources at acceptable prices and within a reasonable amount of time, could impair our ability to meet scheduled product deliveries to our customers and could cause customers to cancel orders.

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Additionally, most of our foreign sales, as well as our purchases of material from international suppliers, are denominated in U.S. dollars. An increase in the value of the U.S. dollar relative to foreign currencies could make our products more expensive for our international customers to purchase, thus rendering the prices of our products less competitive. Conversely, a reduction in the value of the U.S. dollar relative to foreign currencies could increase our supply costs. At the present time, we do not have a foreign currency hedging policy in place.

***The segment of the semiconductor industry in which we participate is intensely competitive, and our inability to compete effectively would harm our business.***

The markets for our products are extremely competitive, and are characterized by rapid technological change and continuously evolving customer requirements. We compete primarily with other suppliers of high performance analog and mixed-signal semiconductor components used in RF, microwave and millimeterwave applications. These competitors include large, diversified semiconductor manufacturers with broad product lines, such as Avago, Analog Devices, Cobham and Narda, with whom we compete in a number of our end markets. We also compete in specific markets or product categories with a large number of semiconductor manufacturers such as Eudyna, Linear Technology, NEC, RFMD, Skyworks, TriQuint Semiconductor and UMS. We also encounter competition from manufacturers of advanced electronic systems that also manufacture semiconductor components internally. Some of these competitors, such as NEC, are also our customers. Additionally, in certain product categories we compete with semiconductor manufacturers from which we also obtain foundry services, such as Cobham, TriQuint Semiconductor and UMS. Our competitors may develop new technologies, enhancements of existing products or new products that offer price or performance features superior to ours. Many of our competitors have significantly greater financial, technical, manufacturing, sales and marketing resources than we do, and might be perceived by prospective customers to offer financial and operational stability superior to ours. This is particularly true of competitors in the markets for silicon-based products. We expect competition in our markets to intensify, as new competitors enter the RF, microwave and millimeterwave component market, existing competitors merge or form alliances, and new technologies emerge. If we are not able to compete effectively, our market share and revenue could be adversely affected, and our business and results of operations could be harmed.

***We rely on the significant experience and specialized expertise of our senior management and engineering staff and must retain and attract qualified engineers and other highly skilled personnel in order to grow our business successfully.***

Our performance is substantially dependent on the continued services and performance of our senior management and our highly qualified team of engineers, many of whom have numerous years of experience and specialized expertise in our business. Highly skilled analog and mixed-signal IC engineers, in particular, are in short supply. We expect to continue to hire additional engineering personnel as we expand our IC design and system-level engineering capabilities. If we are not successful in hiring and retaining highly qualified engineers, we may not be able to extend or maintain our engineering expertise, and our future product development efforts could be adversely affected.

Our future success also depends on our ability to identify, attract, hire, train, retain and motivate highly skilled managerial, operations, sales, marketing and customer service personnel. If we fail to attract, integrate and retain the necessary personnel, our ability to maintain and grow our business could suffer significantly. Further, stock price volatility could impact our ability to retain key personnel.

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

We introduce a significant number of new products every year, and we may not be able to anticipate all of the possible performance or reliability problems that could arise with these products. If such problems occur or become significant, we could experience a reduction in our revenue and increased costs related to inventory write-offs, warranty claims and other expenses which could have an adverse effect on our financial condition.

The materials used to manufacture our products are complex and are provided by a significant number of vendors in our supply chain. While we perform extensive testing and inspections during the manufacturing process, some defects may escape detection in our manufacturing process and subsequently pass through to our customers. These matters have arisen from time to time and may reasonably be expected to occur again in the future. The

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occurrence of defects such as these could result in product returns from, and reduced product shipments to, our customers. Such defects also could result in the loss of or delay in market acceptance of our products or harm our reputation.

Our purchase agreements with our customers typically contain provisions designed to limit our exposure to potential product liability claims. However, the limitation of liability provisions contained in these agreements may not be effective as a result of federal, state or local laws, or ordinances or unfavorable judicial decisions in the United States or other countries. The insurance we maintain to protect against claims associated with the use of our products may not adequately cover all claims asserted against us. In addition, even if ultimately unsuccessful, such claims could result in costly litigation, divert our management's time and resources, and damage our customer relationships.

***Our new test and measurement instrument products are more complex than our core IC, module and subsystem products, and as a result, present quality, regulatory and product liability risks that differ from those we have faced in our core IC business and module business.***

Our new test and measurement instrument products, such as our HMC-T2000 and HMC-T2100 signal generators, are complex microwave test instruments and could be subject to multiple internal component failures and manufacturing and software defects which could result in product failure. Defects in the hardware or software incorporated in these products could cause us to incur significant warranty, support and repair costs, divert the attention of our engineering personnel from our product development efforts and harm our relationship with our customers. Our new test and measurement instrument products operate using line voltages of 100 volts or more and certain products require AC-to-DC power transformers which we purchase from a third party and supply to our customers. The failure of these products or their power transformers could cause safety problems for the operator, including the risk of electrical shock, injury or death in the event of a short circuit or other malfunction, and a product liability claim brought against us, even if unsuccessful, would likely be time consuming and costly to defend. We may be required to comply with various domestic and international legal directives governing the manufacture of our test and measurement instrument products. Failure of our test and measurement system products to meet domestic and international safety and other regulatory requirements for electromagnetic radiation, power consumption or workmanship standards could result in a loss of revenue, loss of market share or failure to achieve market acceptance. We may conclude that it is advisable or necessary, in order to promote the sale of these products, to seek certification of the products by various third parties such as Underwriters Laboratories (UL) in the United States or Conformité Européenne (CE) in Europe. We cannot ensure that we will be able to obtain, or if obtained, maintain any such certifications for our new test and measurement instrument products. Our failure to obtain or maintain such certifications could adversely affect the market acceptance of the products.

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***We use specialized technologies and know-how to design, develop and manufacture our products. Our inability to protect our intellectual property could hurt our competitive position, harm our reputation and adversely affect our results of operations.***

We seek to protect our proprietary technology under United States and foreign laws affording protection for trade secrets, and seek United States and foreign patent, copyright and trademark protection of our products and developments where appropriate. We rely primarily on trade secrets, technical know-how and other unpatented proprietary information relating to our product development and manufacturing activities. While we own a small number of patents, we have not historically emphasized patents as a source of significant competitive advantage. We believe that while the protection afforded by trade secret, patent, copyright and trademark laws may provide some advantages, the competitive position of participants in our industry is largely determined by such factors as the technical and creative skills of their personnel, the frequency of their new product developments and their ability to anticipate and rapidly respond to evolving market requirements. To the extent that a competitor effectively uses its intellectual property portfolio, including patents, to prevent us from selling products that allegedly infringe such competitor's products, our operating results would be adversely affected.

We seek to protect our trade secrets and proprietary information, in part, by requiring our employees to enter into agreements providing for the maintenance of confidentiality and the assignment of rights to inventions made by them while employed by us. We also enter into non-disclosure agreements with our consultants, semiconductor foundries and other suppliers to protect our confidential information delivered to them. There can be no assurance that our confidentiality agreements with employees, consultants and other parties will not be breached, that we will have adequate remedies for any breach or that our trade secrets and other proprietary information will not otherwise become known. There also can be no assurance that others will not independently develop technologies that are similar or superior to our technology or reverse engineer our products. Additionally, the laws of countries in which we operate may afford little or no protection to our intellectual property rights. If we are unable to prevent misappropriation of our technology or to deter independent development of similar technologies, our competitive position and reputation could suffer.

***We generate a portion of our revenue from sales made by third parties, including our independent sales representatives and our distributor, and the failure to manage successfully our relationships with these third parties could cause our revenue to decline and harm our business.***

We rely in part upon third parties, including our independent sales representatives and our distributor, Future Electronics, to promote our products, generate demand and sales leads, and obtain orders for our products. In addition, these parties provide technical sales support to our customers. The activities of these third parties are not within our direct control. Our failure to manage our relationships with these third parties effectively could impair the effectiveness of our sales, marketing and support activities. A reduction in the sales efforts, technical capabilities or financial viability of these parties, a misalignment of interest between us and them, or a termination of our relationship with a major sales representative or our distributor could have a negative effect on our sales, financial results and ability to support our customers. These parties are engaged under short-term contracts, which typically may be terminated by either party on 30 to 60 days notice. It generally takes approximately three to six months for a third party such as a sales representative to become educated about our products and capable of providing quality sales and technical support to our customers. If we were to terminate our relationship with our distributor or one of our larger sales representatives, or if one of them decided to discontinue its relationship with us, sales to current and prospective customers could be disrupted or delayed, and we could experience a diversion of substantial time and resources as we seek to identify, contract with and train a replacement.

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***We may pursue acquisitions and investments in new businesses, products or technologies that involve numerous risks, which could disrupt our business and may harm our financial results.***

In October 2007, we entered into a strategic agreement with Northrop Grumman Space Technology sector to market a specified list of existing Velocium products worldwide, to license related technology and to assume the associated customer relationships, at a cost of \$7.1 million. In August 2005, we acquired substantially all of the assets of Q-Dot, Inc., a subsidiary of Simtek Corporation, for an aggregate purchase price of \$2.5 million. We may make other acquisitions of and investments in new businesses, products and technologies, or we may acquire other operations that expand our current capabilities. Acquisitions present a number of potential risks and challenges that could, if not met, disrupt our business operations, increase our operating costs and reduce the value to us of the acquired company. For example, if we identify an acquisition candidate, we may not be able to successfully negotiate or finance the acquisition on favorable terms. Even if we are successful, we may not be able to integrate the acquired businesses, products or technologies into our existing business and products. Further, there can be no assurance that we will be successful in retaining key employees or customers of the acquired business. In some cases, the consent of a customer may be required before contracts between that customer and a company that we acquire may be assumed by us, and it may not be feasible to obtain all such consents prior to closing. As a result of the rapid pace of technological change, we may misgauge the long-term potential of the acquired business or technology, or the acquisition may not be complementary to our existing business. Furthermore, potential acquisitions and investments, whether or not consummated, may divert our management's attention and require considerable cash outlays at the expense of our existing operations. In addition, to complete future acquisitions, we may issue equity securities, incur debt, assume contingent liabilities or have amortization expenses and write-downs of acquired assets, which could adversely affect our profitability.

***If our principal end markets fail to grow or experience declines, our revenue may suffer.***

Although our products are used in a variety of end markets, our future growth depends to a significant extent on the success of our principal end markets, which include automotive, broadband, cellular infrastructure, fiber optics, microwave and millimeterwave communications, military, space, and test and measurement systems. Given the current economic climate, the rate at which these markets will grow or decline is difficult to predict. These markets may fail to grow or may decline for many reasons, including insufficient consumer demand, lack of access to capital, changes in the United States defense budget and procurement processes and changes in regulatory environments. If demand for electronic systems in which our products are incorporated declines, fails to grow, or grows more slowly than we anticipate, our revenue could decline.

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

As a global company, our effective tax rate is highly dependent upon the geographic composition of worldwide earnings and tax regulations governing each region. We are subject to income taxes in both the United States and various foreign jurisdictions, and significant judgment is required to determine worldwide tax liabilities. Our effective tax rate as well as the actual tax ultimately payable could be adversely affected by changes in the split of earnings between countries with differing statutory tax rates, in the valuation of deferred tax assets, in tax laws or by material audit assessments, which could affect our profitability. In addition, the amount of income taxes we pay is subject to ongoing audits in various jurisdictions, and a material assessment by a governing tax authority could affect our profitability.

***If we fail to comply with export control regulations we could be subject to substantial fines or other sanctions.***

Certain of our products are subject to the Export Administration Regulations, administered by the Department of Commerce, Bureau of Industry Security, which require that we obtain an export license before we can export products or technology to specified countries. Additionally, some of our products are subject to the International Traffic in Arms Regulations, which restrict the export of information and material that may be used for military or intelligence applications by a foreign person. Failure to comply with these laws could result in sanctions by the government, including substantial monetary penalties, denial of export privileges and debarment from government contracts.

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***If we fail to comply with government contracting regulations, we could suffer a loss of revenue or incur price adjustments or other penalties.***

Some of our revenue is derived from contracts with agencies of the United States government and subcontracts with its prime contractors. As a United States government contractor or subcontractor, we are subject to federal contracting regulations, including the Federal Acquisition Regulations, which govern the allowability of costs incurred by us in the performance of United States government contracts. Certain contract pricing is based on estimated direct and indirect costs, which are subject to change. Additionally, the United States government is entitled after final payment on certain negotiated contracts to examine all of our cost records with respect to such contracts and to seek a downward adjustment to the price of the contract if it determines that we failed to furnish complete, accurate and current cost or pricing data in connection with the negotiation of the price of the contract.

In connection with our United States government business, we are also subject to government audits and to review and approval of our policies, procedures, and internal controls for compliance with procurement regulations and applicable laws. In certain circumstances, if we do not comply with the terms of a contract or with regulations or statutes, we could be subject to downward contract price adjustments or refund obligations or could in extreme circumstances be assessed civil and criminal penalties or be debarred or suspended from obtaining future contracts for a specified period of time. Any such suspension or debarment or other sanction could have an adverse effect on our business.

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

***Some of our long-term contracts may be terminated for the convenience of the customer and may involve significant expenditures on our part that, if the contract is terminated early, we may be unable to recover.***

Our United States government contracts and subcontracts may be funded in increments over a number of government budget periods and typically can be terminated by the government for its convenience. Some of our contracts, such as our \$35 million production order for microwave subsystems that will be used in an advanced U.S. military weapon system, which we announced in February 2009, are long-term contracts for the manufacture of complex subsystems for which we are required to expand our production facilities, hire additional personnel, incur costs to meet customer qualification requirements and make other substantial investments in advance of our receipt of significant revenue. If such a contract is terminated, in addition to the loss of anticipated revenue, we may be unable to recover all of our costs incurred or committed.

***If we fail to comply with environmental regulations we could be subject to substantial fines or be required to suspend production, alter manufacturing processes or cease operations.***

We are subject to a variety of international, federal, state and local governmental regulations relating to the storage, discharge, handling, generation, disposal and labeling of toxic or other hazardous substances used to manufacture our products. If we fail to comply with these regulations, substantial fines could be imposed on us, and we could be required to suspend production, alter manufacturing processes or cease operations, any of which could have a negative effect on our sales, income and business operations. Failure to comply with environmental regulations could subject us to civil or criminal sanctions and property damage or personal injury claims. Compliance with current or future environmental laws and regulations could restrict our ability to expand our facilities or build new facilities or require us to acquire additional expensive equipment, modify our manufacturing processes, or incur other substantial expenses which could harm our business, financial condition and results of operations. In response to environmental concerns, some customers and government agencies have begun to impose requirements for the elimination of hazardous substances, such as lead (which is widely used in soldering connections in the process of semiconductor packaging and assembly), from electronic equipment. For example, in 2003, the European Parliament adopted its Restrictions on Use of Hazardous Substances Directive, or RoHS Directive. Effective July 1, 2006, the RoHS Directive prohibits, with specified exceptions, the sale in the European Union, or EU, market of new electrical and electronic equipment containing more than agreed levels of lead or other hazardous materials. We have an active program in place to meet these customer and governmental requirements,

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including the RoHS Directive, where applicable to us, by making available versions of our products that do not include lead or other RoHS-banned substances. Currently, we find it necessary to carry inventories of both leaded and lead-free versions of certain products, making it more difficult to accurately forecast appropriate inventory levels and increasing the amount of inventory we must carry. The European Parliament has also adopted the Waste Electrical and Electronic Equipment Directive, or WEEE Directive, which makes producers of electrical and electronic equipment financially responsible for specified collection, recycling, treatment and disposal of past and future covered products. Environmental laws and regulations such as these could become more stringent over time, imposing even greater compliance costs and increasing risks and penalties associated with violations, which could seriously harm our business, financial condition and results of operations.

***Dr. Ayasli, our founder and a principal stockholder, controls approximately 23% of our voting power, and is able to exert significant control over the outcome of director elections and other matters requiring stockholder approval, including a change in corporate control.***

Dr. Yalcin Ayasli, our founder, and the Ayasli Children LLC, of which Dr. Ayasli is the sole manager, are the beneficial owners of an aggregate of approximately 23% of our common stock. As a result, Dr. Ayasli has the power to exert significant control over the outcome of matters requiring stockholder approval, such as:

- the election of our directors;
- amendments to our certificate of incorporation or by-laws; and
- approval of mergers, consolidations or the sale of all or substantially all our assets.

Dr. Ayasli's significant ownership interest could adversely affect investors' perception of our corporate governance or delay, prevent or cause a change in control of our company, any of which could adversely affect the market price of our common stock.

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

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to furnish annually a report by our management on our internal control over financial reporting. Such a report is required to contain, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management.

If our management identifies one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal control is effective. If we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal controls, investors could lose confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our stock price.

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*We could be the subject of securities class action litigation due to stock price volatility, which could divert management's attention and adversely affect our financial position or results of operations.*

The stock market in general, and market prices for the securities of technology companies like ours in particular, have experienced volatility that often has been unrelated to the operating performance of the underlying companies. These broad market and industry fluctuations may adversely affect the market price of our common stock, regardless of our operating performance. In several recent situations where the market price of a stock has been volatile, holders of that stock have initiated securities class action litigation against the company that issued the stock. If any of our stockholders were to bring a lawsuit against us, the defense and disposition of the lawsuit could be costly and divert the time and attention of our management and harm our business.

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

Provisions of our certificate of incorporation and by-laws may discourage, delay or prevent a merger, acquisition or change of control that a stockholder may consider favorable. These provisions could also discourage proxy contests and make it more difficult for stockholders to elect directors and take other corporate actions. The existence of these provisions could limit the price that investors might be willing to pay in the future for shares of our common stock. These provisions include authorizing the issuance of "blank check" preferred stock and establishing advance notice requirements for nominations for election to the board of directors and for proposing matters to be submitted to a stockholder vote.

Provisions of Delaware law may also discourage, delay or prevent someone from acquiring or merging with our Company or obtaining control of our Company. Specifically, Section 203 of the Delaware General Corporate Law may prohibit business combinations with stockholders owning 15% or more of our outstanding voting stock and could reduce the value of our Company.

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**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

**Stock Repurchase Program**

In April 2008, our board of directors authorized a stock repurchase program to offset the dilutive impact of equity-based compensation granted to our employees. The shares may be repurchased from time to time in the open market or in privately negotiated transactions. During the three months ended September 30, 2009, we repurchased 2,551 shares of our common stock at a cost of \$0.1 million, as set forth in the table below.

<u>Period</u>	<u>(a) Total number of shares purchased (1)</u>	<u>(b) Average price paid per share</u>	<u>(c) Total number of shares purchased as part of publicly announced plan</u>	<u>(d) Approximate dollar value of shares that may yet be purchased under the plans or programs (in thousands) (2)</u>
July 2009	2,203	\$ 37.60	2,203	
August 2009	348	34.54	348	
September 2009	—	—	—	
Total	<u>2,551</u>		<u>2,551</u>	\$ 11,440

(1) Includes shares repurchased in connection with our stock-based compensation plans.

(2) Value based on an aggregate of 311,029 shares at an assumed purchase price of \$36.78 per share, which was the last sale price of our common stock on September 30, 2009, as reported by the Nasdaq Global Market.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

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**Item 4. Submission of Matters to a Vote of Security Holders**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

<b>Exhibit No.</b>	<b>Description</b>
3.1	Second Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on August 2, 2005, referred to herein as the “Report on Form 8-K”)
3.2	Amended and Restated By-laws (incorporated by reference to Exhibit 3.2 to our Form 10-Q for the quarter ended June 30, 2008)
4.1	Specimen certificate for common stock of Hittite Microwave Corporation (incorporated by reference to Exhibit 4.1 to our Registration Statement on Form S-1, File No. 333-124664)
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a)
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a)
32.1	Certification of Chief Executive Officer pursuant to Section 1350
32.2	Certification of Chief Financial Officer pursuant to Section 1350

**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.

Date: November 6, 2009

HITTITE MICROWAVE CORPORATION  
**(Registrant)**

By: /s/ William W. Boecke  
William W. Boecke  
Chief Financial Officer

## CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Stephen G. Daly, certify that:

1. I have reviewed this report on Form 10-Q of Hittite Microwave Corporation.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 6, 2009

/s/ STEPHEN G. DALY

Stephen G. Daly

*President and Chief Executive Officer*

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## CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, William W. Boecke, certify that:

1. I have reviewed this report on Form 10-Q of Hittite Microwave Corporation.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 6, 2009

/s/ WILLIAM W. BOECKE

William W. Boecke

*Vice President, Chief Financial Officer*

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**CERTIFICATION PURSUANT TO  
18 U. S. C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Hittite Microwave Corporation (the "Company") on Form 10-Q for the period ended September 30, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen G. Daly, Chief Executive Officer of the Company, certify, to my best knowledge and belief, pursuant to 18 U.S.C. §1350, adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 6, 2009

/s/ STEPHEN G. DALY

Stephen G. Daly

*President and Chief Executive Officer*

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Hittite Microwave Corporation and will be retained by Hittite Microwave Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

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**CERTIFICATION PURSUANT TO  
18 U. S. C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Hittite Microwave Corporation (the "Company") on Form 10-Q for the period ended September 30, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William W. Boecke, Chief Financial Officer of the Company, certify, to my best knowledge and belief, pursuant to 18 U.S.C. §1350, adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 6, 2009

/s/ WILLIAM W. BOECKE

William W. Boecke

*Vice President, Chief Financial Officer*

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Hittite Microwave Corporation and will be retained by Hittite Microwave Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

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