

NETLOGIC MICROSYSTEMS INC  
Form DEF 14A  
September 30, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary proxy statement

**Confidential, for use of the Commission only**

Definitive proxy statement

Definitive additional materials

Soliciting material pursuant to §240.14a-12

**NETLOGIC MICROSYSTEMS, INC.**

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than Registrant)

Payment of filing fee (Check the appropriate box):

No fee required.

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Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

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Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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NETLOGIC MICROSYSTEMS, INC.

1875 Charleston Road

Mountain View, CA 94043

September 30, 2009

Dear Stockholder:

On May 31, 2009, NetLogic Microsystems, Inc. and its wholly owned subsidiary Roadster Merger Corporation, or merger sub, entered into an agreement and plan of merger and reorganization to acquire RMI Corporation, a provider of high-performance and low-power multi-core, multi-threaded processors. The agreement provides for NetLogic to pay the RMI stockholders as acquisition consideration a combination of cash and shares of NetLogic common stock at closing and, subject to the attainment of revenue milestones for the acquired business, at the end of a twelve-month post-closing earn-out period. The nominal value of the consideration to be paid at closing as specified in the merger agreement is \$181.35 million plus \$2.0 million as an advance earn-out payment. The nominal value of the maximum remaining earn-out consideration as specified in the merger agreement is \$68.0 million. In addition, the agreement provides for NetLogic to issue common stock, restricted stock units and stock options as equity incentives (most of which are subject to vesting requirements based on continued employment) to employees of RMI. The actual value of the consideration to be paid at closing and as earn-out consideration may be more or less than the nominal values specified in the merger agreement, as explained in the accompanying proxy statement.

The actual number of shares and amount of cash payable by NetLogic as acquisition consideration will depend on several variables, including the applicable closing price for our common stock, as more fully explained in the accompanying proxy statement. The exact number of shares of common stock to be issued (and total amount of cash to be paid) at the closing date and the end of the earn-out measurement period is not presently known. The maximum number of shares of common stock that we would be required to issue as acquisition consideration (including the earn-out portion, assuming attainment of all objectives) is approximately 9,050,000 shares, although based on the recent prices for our common stock we expect the actual number of shares that will be issued to be between 4,940,000 and 7,900,000. Similarly, although we expect the actual number of shares to be issued as incentive awards to be between 1,830,000 and 3,630,000, the maximum number of additional shares of common stock that we would be required to issue to continuing RMI employees as incentive awards is approximately 4,030,000 shares (assuming full vesting and exercise of all stock options and restricted stock units to be issued and an applicable closing price of \$26.97 per share). We currently have approximately 22,300,000 shares of common stock outstanding so the issuance of the maximum of 13,080,000 shares would represent a roughly 58.7% increase in the number of shares of NetLogic common stock outstanding prior to the merger. In all events, the total number of shares that we may be required to issue in connection with the merger will exceed 20% of the number of shares issued and outstanding prior to the merger, and therefore, under the Nasdaq Listing Rules we must obtain the approval of our stockholders for the shares that could be issued in the transaction. This is also a condition to the obligation of each party to consummate the merger.

**You are cordially invited to attend the special meeting of NetLogic stockholders to be held on October 23, 2009, 8:00 a.m., Pacific time, at the offices of Bingham McCutchen LLP, 1900 University Avenue, 4th Floor, East Palo Alto, California 94303. At the Special Meeting, we will ask you to consider and vote on the proposal to approve the issuance of a maximum of 13,080,000 shares of NetLogic common stock in connection with the proposed acquisition of RMI.**

**Your vote is very important.** We cannot complete the merger and the other transactions contemplated by the merger agreement unless the proposed issuance of NetLogic common stock is approved by the affirmative vote of a majority of the shares of NetLogic common stock present in person and voting on the proposal or represented by proxy and voting on the proposal.

The accompanying proxy statement will provide you with information regarding the merger and other transactions contemplated by the merger agreement and information about RMI. **We urge all of our stockholders to read this proxy statement in its entirety, including the section**

entitled Risk Factors beginning on page 8.

On behalf of our board of directors, we thank you for your support and appreciate your consideration of this matter. We look forward to seeing you at the special meeting.

Sincerely,

/s/ Ronald S. Jankov

Ronald S. Jankov

*President and Chief Executive Officer*

First mailed to stockholders on

or about October 2, 2009

**YOUR VOTE IS IMPORTANT.**

**PLEASE REMEMBER TO PROMPTLY RETURN YOUR PROXY.**

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**ADDITIONAL INFORMATION**

This proxy statement incorporates important business and financial information about NetLogic Microsystems, Inc. from other documents that are not included in this proxy statement. However, these documents have been furnished to you with this proxy statement. For a listing of the documents incorporated by reference into and accompanying this proxy statement, see *Where You Can Find More Information; Incorporation by Reference* beginning on page 105 of this proxy statement. Additional copies of these documents are available to you without charge upon your written or oral request. Please note that copies of the documents furnished with this proxy statement or requested by you will not include exhibits, unless the exhibits are specifically incorporated by reference into the documents or this proxy statement. You can obtain these documents through the Securities and Exchange Commission website at [www.sec.gov](http://www.sec.gov) or by requesting them in writing or by telephone at the address below:

By mail:                   NetLogic Microsystems, Inc.  
                              1875 Charleston Road  
                              Mountain View, California 94043  
                              Attention: Office of the Secretary

By telephone:           (650) 961-6676

You should rely only on the information contained in this proxy statement. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should disregard anything included in an earlier document that is inconsistent with what is in, or incorporated by reference into, this proxy statement.

You should assume that the information in this proxy statement is accurate only as of the date indicated on the front cover of this proxy statement. The business, financial condition, results of operations and prospects described in this proxy statement may have changed since that date and may change again.

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**NETLOGIC MICROSYSTEMS, INC.**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

**To be held on October 23, 2009**

To the Stockholders of NetLogic Microsystems, Inc.:

The special meeting of stockholders of NetLogic Microsystems, Inc., or NetLogic, will be held on October 23, 2009, at 8:00 a.m., Pacific time, at the offices of Bingham McCutchen LLP, 1900 University Avenue, 4th Floor, East Palo Alto, California 94303. The special meeting is being held for the following purposes:

1. To approve the issuance of a maximum of 13,080,000 shares of NetLogic common stock as merger consideration and to new employees in connection with the proposed acquisition by NetLogic of RMI Corporation, or RMI;
2. To vote upon a proposal to adjourn the special meeting of the NetLogic stockholders, including for the purpose of soliciting additional proxies, in the discretion of the proxies or either of them; and
3. To transact any and all other business that may properly come before the special meeting or any adjourned session of the special meeting.

Approval of the first proposal set forth above is required for consummation of the proposed acquisition of RMI and the other transactions contemplated by the Agreement and Plan of Merger and Reorganization dated as of May 31, 2009 among NetLogic, RMI and Roadster Merger Corporation, a newly-formed, wholly-owned subsidiary of NetLogic. These matters are described more fully in the attached proxy statement, which includes, as Annex A, the complete text of the merger agreement, and we urge you to read the proxy statement carefully.

**The NetLogic board of directors has approved the merger agreement, the merger and the other transactions contemplated by the merger agreement and recommends that NetLogic stockholders vote to approve the issuance of NetLogic common stock in connection with the merger.**

Only stockholders who owned shares of NetLogic common stock at the close of business on September 25, 2009, the record date for the special meeting, are entitled to notice of, and to vote at, the special meeting and any adjournment or postponement of it.

**Your vote is very important.** To ensure that you are represented at the special meeting, please register your vote as promptly as possible in accordance with the instructions set forth on the enclosed proxy card. A return addressed envelope is enclosed for your convenience. If you attend the special meeting, you may vote in person even though you have returned a proxy card previously. Your proxy is revocable in accordance with the procedures set forth in the proxy statement.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Roland B. Cortes

Roland B. Cortes

Secretary

Mountain View, California

September 30, 2009

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\* \* \*

Documents Furnished With This Proxy Statement

Annual Report on Form 10-K, filed with the SEC on March 4, 2009

Quarterly Report on Form 10-Q, filed with the SEC on May 5, 2009

Quarterly Report on Form 10-Q, filed with the SEC on August 5, 2009

Current Report on Form 8-K, filed with the SEC on May 6, 2009

Current Report on Form 8-K, filed with the SEC on June 25, 2009

Current Report on Form 8-K, filed with the SEC on July 20, 2009

Description of NetLogic's Common Stock and Series AA Junior Participating Preferred Stock Purchase Rights, contained in the Registration Statement on Form S-3 filed with the SEC on June 4, 2009

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**QUESTIONS AND ANSWERS ABOUT THE  
PROPOSED TRANSACTIONS AND THE SPECIAL MEETING**

*The following are some of the questions you may have as a NetLogic stockholder and answers to those questions. These questions and answers only highlight some of the information contained in this proxy statement. You should read carefully this entire document, including Annex A hereto, to fully understand the proposed transactions and the voting procedures for the special meeting of NetLogic stockholders.*

**Q: Why am I receiving this proxy statement?**

A: NetLogic Microsystems, Inc., or NetLogic, and our wholly owned subsidiary Roadster Merger Corporation, or merger sub, have entered into an Agreement and Plan of Merger and Reorganization, or merger agreement, with RMI Corporation, or RMI, pursuant to which we have agreed to acquire RMI and pay the RMI stockholders a combination of cash and shares of our common stock as consideration in exchange for their RMI stock. The merger agreement also requires us to make available for issuance to RMI employees additional shares of our common stock as retention, transition and future incentive awards. As a result of being listed for trading on the NASDAQ Global Select Market, issuances of our common stock are subject to the NASDAQ Listing Rules. Under Rule 5635(a), we must seek stockholder approval with respect to issuances of our common stock when the shares to be issued are being issued in connection with the acquisition of the stock of another company and are equal to 20% or more of our outstanding common stock before the issuance. NetLogic is holding a special meeting of its stockholders in order to obtain stockholder approval of the issuance of our common stock pursuant to the merger agreement.

**Q: What are the proposals on which I am being asked to vote?**

A: You are being asked to vote on a proposal to approve the issuance of up to a maximum of 9,050,000 shares of our common stock (equal to approximately 40.6% of our outstanding common stock prior to such issuance) as merger consideration and a maximum of 4,030,000 shares under certain circumstances as equity incentive awards to continuing RMI employees in connection with our proposed acquisition of RMI. You also are being asked to vote to adopt a proposal that would permit the proxies appointed by you, individually or together, to adjourn the special meeting of NetLogic stockholders, including for the purpose of soliciting additional proxies.

**Q: How does NetLogic propose to acquire RMI?**

A: Subject to our obtaining the requisite stockholder approval and the satisfaction of certain other closing conditions described in this proxy statement, we have agreed to acquire RMI through the merger of merger sub with and into RMI, following which RMI would be a wholly-owned subsidiary of NetLogic.

**Q: Who is RMI?**

A: RMI is a leading provider of high-performance and low-power multi-core, multi-threaded processors for networking, communications, data center, security, storage, industrial and connected media applications. RMI's headquarters are located in Cupertino, California with branch and subsidiary offices in Texas, India, Hong Kong, Korea, Japan, Taiwan, China, France and Cayman Islands. Formerly known as Raza Microelectronics, Inc., RMI was incorporated in Delaware in December 2001 and changed its name to RMI Corporation in December 2007.

**Q: What will NetLogic pay the RMI stockholders as merger consideration?**

- A: The merger agreement provides for NetLogic to pay cash to the holders of RMI common stock and to issue shares of our common stock to the holders of RMI preferred stock as merger consideration upon conversion of their RMI stock in the merger. A portion of the merger consideration is payable upon completion of the acquisition and another portion is payable, subject to the attainment of revenue milestones applicable to the acquired business, at the end of a twelve-month post-closing earn-out period. The formulas for determining the merger consideration payable to RMI stockholders under the merger agreement are complex. The

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merger agreement provides for the allocation of the calculated value of the merger consideration between the shares of the different classes and series of RMI capital stock. The allocation depends in part on whether the total value of the merger consideration exceeds the aggregate liquidation preference of all shares of RMI capital stock outstanding as of the closing date, determined in a manner consistent with the provisions of RMI's charter, and, in part, on the average closing price of a share of NetLogic common stock as determined under the merger agreement. In general, RMI common stockholders will receive cash in the amount of the calculated value of the merger consideration that is allocable to the RMI common stock, and the RMI preferred stockholders will receive shares of our common stock in the amount of the calculated value of the merger consideration that is allocable to the RMI preferred stock.

**Q: How is the amount of merger consideration to be determined?**

A: The nominal value of the merger consideration to be paid at the closing date as specified in the merger agreement is equal to \$181.35 million plus \$2.0 million as an advance earn-out payment. The total number of shares of our common stock to be issued to the holders of RMI preferred stock at the closing date will be equal to the amount of calculated value that is allocable to the shares of RMI preferred stock divided by the applicable closing price of our common stock. The applicable closing price will generally be the same as the average closing price of our common stock for the 20-trading day period ending on the third trading day prior to the closing date, but it cannot be more than \$34.90 or less than \$26.97, which price range we refer to as the collar. The total amount of cash to be paid to the holders of RMI common stock at the closing date will be equal to the amount of calculated value that is allocable to the shares of RMI common stock under the merger agreement, plus the \$2 million advance earn-out credit referenced above. In calculating the amount of cash payable to the holders of RMI common stock, the collar does not limit the amount of cash they are paid. The size of the cash payment may therefore be greater than or less than the portion of the nominal value allocable to the RMI common stock. The nominal value of the maximum remaining earn-out consideration as specified in the merger agreement is \$68.0 million, which will be allocated, determined and paid in the same manner and kind as the merger consideration payable at the closing date but will be reduced by the advance earn-out credit paid to the holders of RMI common stock at the closing date, and may be reduced further by up to \$1 million for a special bonus payment to the chief executive officer of RMI in the circumstances specified in the merger agreement.

**Q: How will changes in our stock price between now and the closing date affect the amount of cash we pay and the number of shares we issue as merger consideration?**

A: The average closing price of our common stock measured over the 20-trading day period ending August 26, 2009 (as if the closing had occurred on August 31, 2009) was \$40.26. If this had been the average closing price of our common stock for purposes of the merger agreement, the resulting calculated value of the merger consideration payable at closing would be approximately \$211.5 million, consisting of a cash payment of approximately \$9.2 million and the issuance of approximately 5,026,000 shares of our common stock. If our stock price increases prior to the closing so as to cause the average closing price to increase as well, the size of the cash payment will increase and the number of shares we issue will decrease. The size of the cash payment will continue to increase, theoretically without limit, as long as our stock price continues to rise. If our stock price decreases prior to the closing so as to cause the average closing price to decrease as well, the amount of cash and the total value of the merger consideration will decrease and the number of shares we issue will increase. More particularly, inside the collar (i.e., between \$26.97 and \$34.90), changes in the stock price will not alter the total value of the merger consideration or the size of the cash payment, although the number of shares we issue will increase as the stock price falls and decrease as the stock price rises. Outside the collar, the calculated value of the merger consideration will change in proportion to changes to the average closing price, although the amount of cash we pay and number of shares we issue generally will not change in proportion to changes to the average closing price. Moreover, the size of the cash payment will increase, theoretically without limit, as long as our stock price continues to rise. These same trends would apply to any earn-out consideration, except that once the stock price falls below \$22.81, there will no longer be a cash component to the earn-out consideration.

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**Q: What is an example of how much cash and how many shares of our common stock would be delivered to RMI stockholders as merger consideration?**

A: Solely by way of example, using an average closing price of \$32.72, the closing price of our common stock on May 29, 2009, which was the last trading day prior to signing the merger agreement:

the estimated amount of cash to be paid to the holders of RMI common stock on the closing date would be approximately \$8.0 million, and a total of approximately 5,360,000 shares of our common stock would be issued to the holders of RMI preferred stock (without offset for escrow amounts);

if the maximum earn-out was achieved, the additional amount of cash to be paid by us at full achievement of the earn-out would be approximately \$6.5 million, and a total of approximately 1,850,000 additional shares of our common stock would be issued to the holders of RMI preferred stock (calculated without offset for escrow amounts); and

the total merger consideration value would be approximately \$251.35 million.

**Q: What is the maximum number of shares that NetLogic will be required to issue to RMI preferred stockholders as merger consideration?**

A: Based on the formulas set forth in the merger agreement, the maximum aggregate number of shares of common stock that we would be required to issue to the holders of RMI preferred stock as merger consideration is approximately 9,050,000 shares, consisting of approximately 6,500,000 shares on the closing date and approximately 2,550,000 shares at the end of the twelve-month earn-out period. These numbers assume that the applicable closing price will be \$26.97 per share and that all of the earn-out objectives will be attained. However, based on the average closing price per share of our common stock for the 20-trading day period ending July 28, 2009 (as if the closing had occurred on July 31, 2009), the maximum number of shares of common stock to be issued as merger consideration, assuming payment of 100% of the earn-out consideration (and including the CEO special bonus payment), would be approximately 6,740,000.

**Q: How many additional shares of common stock will NetLogic be required to issue to RMI employees as equity incentive awards?**

A: We have agreed in the merger agreement:

to issue fully vested shares of our common stock with a total value of \$8.65 million to specified RMI employees on the closing date;

to grant within 60 days after the closing date restricted stock units, or RSUs, to acquire \$10 million of our common stock to specified employees of RMI who continue as RMI employees or become NetLogic employees, of which 50% will vest after six months and the remaining 50% will vest after 12 months for most employees; and

to grant within 60 days after the closing date RSUs and/or stock options for \$45 million of our common stock to specified employees of RMI who continue as RMI employees or become NetLogic employees, subject to vesting and other terms to be determined by us (with an RSU to acquire one share of our common stock to be equated with an option to purchase two shares).

The number of shares of our common stock to be provided as such retention, transition and future incentive awards will be determined by dividing the total amounts specified above by the applicable closing price of our common stock, as described above. Therefore, the minimum number of additional shares of common stock that we would be required to issue to continuing RMI employees as incentive awards (including

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shares issuable upon exercise of options) is approximately 1,824,000 shares and the maximum number is approximately 4,030,000 shares. These numbers use the range of applicable closing prices of \$26.97 to \$34.90 and assume that the \$45 million of long-term incentive awards will be in the form of options in the calculation of the maximum and RSUs in the calculation of the minimum. By comparison, using the closing

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price of a share of our common stock of \$32.72 on May 29, 2009 as the applicable closing price, and assuming that 50% of the long-term incentive awards are RSUs, we would issue approximately 2,064,000 shares to the RMI employees.

**Q: Will there be any restrictions on the merger consideration applicable after the merger?**

A: One hundred percent of the shares of our common stock issued to holders of RMI preferred stock at the closing date will be subject to a complete trading lock-up for six months following the closing date, and fifty percent of the shares will be subject to a complete trading lock-up for one year following the closing date. The merger agreement further provides that 10.2% of the total number of shares of our common stock to be issued at the closing date will be placed into escrow for a period of one year to provide a fund for indemnity against specified damages we might suffer. If total indemnity claims at the end of the one-year period exceed the value of the shares held in escrow, we will have the right to place up to 10% of the earn-out consideration otherwise issuable to the RMI stockholders into escrow, pending the resolution of all claims. In addition, 0.3% of the total number of shares of our common stock to be issued at the closing date will be placed into escrow as a source for reimbursement of the stockholder representative's expenses.

**Q: Why does NetLogic want to acquire RMI?**

A: We believe the combination with RMI presents valuable synergies in products, technologies, skill sets, operations, customer base and organizational cultures that can be leveraged to enable us to build an enterprise greater than the sum of its parts. RMI's industry-leading multi-core, multi-threaded processors will complement our existing portfolio of advanced knowledge-based processors, content processors, network search engines and 10 to 100 Gigabit Ethernet PHY products. This will allow us to provide a more comprehensive portfolio of differentiated solutions to enhance our customers' ability to support the complexity and speeds of next-generation converged IP networks. In addition, the combination of the two companies' R&D centers will bring together critical skill sets in high-speed circuit design, processor architectures, innovative low-power techniques in advanced manufacturing process nodes, as well as software expertise to continue to deliver best-in-class products and solutions, especially in the advanced 40 nanometer process technology in which both companies are currently designing next-generation products.

**Q: Are there risks associated with the acquisition of RMI?**

A: Yes. The material risks associated with the acquisition that are known to us are discussed in the section entitled "Risk Factors" beginning on page 8. Those risks include, among others, the possibility that we may not be successful in our expansion into the markets currently served by RMI, we may fail to realize the anticipated operational synergies and other expected benefits of the acquisition and we may not be successful in assimilating and retaining RMI's employees and otherwise integrating its business with our own.

**Q: What vote is required to approve the proposals?**

A: The proposal to approve the issuance of our common stock in connection with the acquisition of RMI must be approved by the affirmative vote of a majority of the shares of our common stock present in person and voting on the proposal or represented by proxy and voting on the proposal. The proposal to permit the proxies to adjourn the special meeting, including for the purpose of soliciting additional proxies, must be approved by the affirmative vote of the majority of shares of our common stock present in person or represented by proxy at the meeting and entitled to vote on the record date, regardless of whether a quorum is present.

**Q: What will happen if the proposed stock issuance is not approved by NetLogic's stockholders?**

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- A: If our stockholders fail to approve the issuance of shares of our common stock in connection with the merger upon a vote at our special meeting, each of RMI and NetLogic will have the right to terminate the merger agreement.



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**Q: Will there be any change to the board of directors or the executive officers of NetLogic after the merger?**

A: No. Our directors and executive officers immediately following the closing of the merger are expected to be the same as our directors and executive officers immediately prior to the closing of the merger.

**Q: What will happen to my common stock upon completion of the acquisition?**

A: Each share of our common stock will be unaffected by the acquisition and will remain outstanding. Holders of our common stock will continue to hold the shares that they currently hold. However, because we will be issuing shares of our common stock at closing to the holders of RMI preferred stock as part of the merger consideration (and additional shares of common stock as incentives to continuing RMI employees), and equity incentive awards upon the consummation of the acquisition, each share of our existing common stock will represent a smaller ownership percentage of a larger company.

**Q: Will I have appraisal or dissenters rights with respect to the acquisition?**

A: NetLogic stockholders will not have appraisal or dissenters rights with respect to the acquisition of RMI.

**Q: When do you expect the acquisition to be completed?**

A: The merger agreement and the merger have been approved by the board of directors of each company. Holders of approximately 92.5% of the outstanding shares of RMI preferred stock and holders of approximately 53.5% of the outstanding shares of RMI common stock had signed written consents approving the merger agreement, the merger and certain related matters, which satisfies the basic requirements for approval of the merger and merger agreement by the RMI stockholders under the Delaware General Corporation Law, the RMI certificate of incorporation and the merger agreement. An additional merger agreement closing condition requires that holders of no more than 5% of the outstanding shares of preferred stock and 30% of the outstanding shares of common stock of RMI exercise appraisal rights, and RMI intends to continue soliciting written consents from its stockholders in order to satisfy this additional condition and minimize the number of shares that may exercise appraisal rights. Other closing conditions include the approval by our stockholders of the issuance of the shares of common stock to be delivered by us in the transaction (which is the subject of this proxy statement), as well as required regulatory filings and reviews. The Hart-Scott-Rodino notification period for the merger expired without regulatory action on August 13, 2009. We expect the transaction to close in October 2009.

**Q: Does NetLogic's board of directors recommend voting in favor of the proposal?**

A: Yes. After careful consideration, our board of directors unanimously determined that the proposed issuance of common stock in the acquisition under the terms of the merger agreement is in the best interests of NetLogic and our stockholders. As a result, our board of directors unanimously recommends that you vote FOR the proposal.

**Q: Who is entitled to vote at the special meeting?**

A: Stockholders of record as of the close of business on September 25, 2009, the record date, are entitled to vote on each of the proposals at the special meeting. Each stockholder is entitled to one vote per each share of our common stock held by such stockholder on the record date with respect to each proposal.

**Q: How do I vote?**

- A. You may sign and date each paper proxy card you receive and return it in the prepaid envelope. If you return your signed proxy but do not indicate your voting preferences, we will vote on your behalf FOR the proposals specified in this proxy statement. You may also follow the instructions on the proxy card to submit voting instructions for your shares by telephone or via the Internet. Please note that there are separate telephone and Internet voting arrangements depending upon whether shares are registered in your name or in the name of a bank or broker.

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**Q: If my NetLogic shares are held in street name by my broker, will my broker vote my shares for me?**

A: Your broker will vote your NetLogic shares with respect to the proposals set forth in the accompanying notice to stockholders only if you provide instructions on how to vote by completing and returning a proxy card or instruction form provided to you by your broker.

**Q: How may I revoke or change my vote?**

A: You have the right to revoke your proxy any time before the meeting by notifying our corporate secretary of your revocation or returning a later-dated proxy. The last vote received chronologically will supersede any prior vote. You may also revoke your proxy by voting in person at the special meeting. Attendance at the meeting, without voting at the meeting, will not in and of itself serve as a revocation of your proxy.

**Q: What happens if I abstain from voting?**

A: If an executed proxy card is returned and the stockholder has explicitly abstained from voting on any proposal, the shares represented by the proxy will be considered present at the special meeting for the purpose of determining a quorum. In addition, while they will not count as votes cast in favor of the proposal, they will count as votes cast on the proposal to approve the stock issuance in connection with the acquisition of RMI. As a result, an abstention on the proposal will have the same effect as a vote AGAINST the proposal.

**Q: Where can I find additional information about the special meeting and the proposed acquisition of RMI?**

A: This proxy statement includes important information about the merger and the other transactions contemplated by the merger agreement and the special meeting of the stockholders of NetLogic. A copy of the merger agreement is attached as Annex A to this proxy statement. Our stockholders should read this information carefully and in its entirety.

**Q: What should I do now?**

A: After carefully reading and considering the information contained in this proxy statement, including the Annex A, please fill out and sign the proxy card, and then mail your completed and signed proxy card in the enclosed prepaid envelope as soon as possible so that your shares of our common stock may be voted at the special meeting. Alternatively, you may follow the instructions on the proxy card and submit instructions on voting your shares of our common stock by telephone or over the Internet. Your proxy card or your telephone or Internet directions will instruct the persons identified as your proxy to vote your shares at the NetLogic stockholders meeting as directed by you. If you hold your shares of our common stock through a broker or other nominee, you should follow the instructions provided by your broker or other nominee when instructing them on how to vote your shares of our common stock.

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### **SUMMARY OF MATERIAL TERMS OF THE PROPOSED TRANSACTIONS**

*This summary highlights selected information contained in this proxy statement and may not contain all of the information that is important to you. You should read carefully this entire document, including Annex A, for a more complete understanding of the proposed transactions and voting procedures for the special meeting of the NetLogic stockholders.*

#### **The Companies**

*NetLogic Microsystems, Inc.*

NetLogic Microsystems, Inc.

1875 Charleston Road

Mountain View, California 94043

Telephone: (650) 961-6676

NetLogic Microsystems, Inc., or NetLogic, is a semiconductor company that designs, develops and sells proprietary high-performance processors and high-speed integrated circuits that are used by original equipment manufacturers in routers, switches, wireless infrastructure equipment, network security appliances, datacenter servers, network access equipment and network storage devices to accelerate the delivery of voice, video, data and multimedia content for advanced enterprise, datacenter, communications and mobile wireless networks. Our knowledge-based processors, physical layer products, and network search engine products are incorporated in systems used throughout multiple types of networks that comprise the global Internet infrastructure, including the enterprise, metro, access, edge and core networking markets, and are designed into systems offered by leading networking original equipment manufacturers, or OEMs, such as AlaxalA Networks Corporation, Alcatel-Lucent, ARRIS Group, Inc., Brocade Communication Systems, Inc., Cisco Systems, Inc., Huawei Technologies Co., Ltd., Juniper Networks, Inc., McAfee, Inc. and ZTE Corporation.

#### *Roadster Merger Corporation*

Roadster Merger Corporation

1875 Charleston Road

Mountain View, California 94043

Telephone: (650) 961-6676

Roadster Merger Corporation, or merger sub, is a Delaware corporation and wholly-owned subsidiary of NetLogic. Merger sub was formed for the sole purpose of effecting the proposed merger.

#### *RMI Corporation*

RMI Corporation

18920 Forge Drive

Cupertino, California 95014

Telephone: (408) 434-5700

RMI Corporation, or RMI, is a fabless semiconductor company that provides high performance multi-core, multi-threaded processor solutions for networking, communications, data center, security and storage applications, as well as ultra low-power processors for high-volume enterprise, industrial and connected media applications. RMI's proprietary architecture and innovative processor designs deliver high throughput,

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increased processing capacity and advanced functionality while minimizing power consumption. RMI s products are designed into high-performance 3G/4G mobile wireless infrastructure, security appliances, storage appliances,

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service gateways, switches and routers, enterprise networked devices and connected media devices by leading OEMs such as Aruba Networks, Inc., Cisco Systems, Inc., Dell, Digital Cube, H3C Technologies, Hewlett-Packard Company, Huawei Technologies Co., Ltd., Huawei-Symantec Technologies, Juniper Networks, Inc., McAfee, Inc., Samsung and Thinkware, Inc. RMI was incorporated in Delaware in December 2001.

### **The Merger**

#### *Merger Agreement (Page 35)*

On May 31, 2009, NetLogic and merger sub entered into an agreement and plan of merger and reorganization with RMI. We have agreed, subject to the terms and conditions of the merger agreement, to acquire RMI and to pay the RMI stockholders a combination of cash and shares of our common stock as consideration.

#### *Structure of Acquisition (Page 35)*

We will acquire RMI through the merger of merger sub with and into RMI, with RMI surviving as our wholly-owned subsidiary.

#### *Merger Consideration (Page 35)*

The merger agreement provides for us to pay the RMI stockholders merger consideration consisting of the issuance of shares of our common stock to the holders of RMI preferred stock, the payment of cash to the holders of RMI common stock and the escrow of a portion of the shares of our common stock issued to the RMI preferred stockholders as a source of indemnity for future claims and a source of payment for the expenses of the RMI stockholders representative. A portion of the merger consideration is payable upon completion of the acquisition and another portion is payable, subject to the attainment of revenue milestones applicable to the acquired business, at the end of a twelve-month post-closing earn-out period. We are issuing shares of our common stock to the RMI preferred stockholders and cash to the RMI common stockholders as a result of the parties agreement to seek the written consent of certain RMI stockholders to the merger shortly after execution of the merger agreement. As a consequence of using a written consent in lieu of voting agreements, we would be unable to register our common shares to be issued in the merger under the federal securities laws. We will issue shares of our common stock to the RMI preferred stockholders pursuant to a private placement exemption from registration under the Securities Act of 1933, and will pay cash to the RMI common stockholders, for whom a private placement exemption would not be available, in an amount approximately equal to the value of the common shares they otherwise would have received in the merger.

#### *Consideration Payable At Closing (Page 36)*

The nominal value of the merger consideration specified by the merger agreement to be paid on the closing date is equal to \$181.35 million. The merger agreement specifies formulas for calculating the actual value of the merger consideration and determining the allocation of the calculated value of the merger consideration between the shares of the different series of RMI preferred stock and the shares of RMI common stock. The calculated value of the merger consideration will be equal to its nominal value if the average closing price of our common stock, measured over the 20-trading day period that ends on the third trading day prior to the closing date, is between \$26.97 and \$34.90. We refer to this range of prices as the collar. To the extent that the average closing price is greater than \$34.90 or less than \$26.97, the calculated value of the merger consideration will be greater than or less than the nominal value by the same proportion as the average closing price is greater than or less than the corresponding collar price. As a practical matter, the effect of the collar is to cap the maximum number and minimum number of shares we will be required to issue to the RMI preferred stockholders if the average closing price is below or above the range of the collar, subject to relatively small incremental changes outside the collar. Above the collar, for example, assuming average closing prices of \$40.00, \$45.00 and \$50.00, we would issue approximately

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6,662,000, 6,560,000 and 6,480,000 shares, respectively, as merger consideration (including the earn-out portion, assuming attainment of all objectives). Below the collar, assuming average closing prices of \$25.00, \$20.00 and \$15.00, we would issue approximately 8,890,000, 9,050,000 and 9,050,000 shares, respectively, as merger consideration (including the earn-out portion, assuming attainment of all objectives). The size of the cash payment we make to the RMI common stockholders will not be capped by the collar because the amount of cash we pay is equal to the calculated value of consideration allocated to the common stock.

*Earn-out Consideration (Page 36)*

The maximum nominal value of the earn-out portion of the merger consideration is \$70 million, which will be allocated, determined and paid in the same manner and kind as the merger consideration payable at the closing date but the portion payable to the former holders of RMI common stock will be reduced by the \$2 million advance earn-out credit paid to them on the closing date, and the total earn-out payment may be reduced further by up to \$1 million for a special bonus payment to the chief executive officer of RMI if the acquired RMI business achieves post-closing revenue targets. Mr. Abdi will only receive this special incentive consideration if the amount of revenue recognized by RMI during the 12-month earn-out measurement period is greater than 75% of the revenue target for the earn-out. Earn-out consideration, if any, will be paid within 90 days after the end of the 12-month earn-out measurement period.

*Escrow (Page 38)*

The merger agreement provides that 10.2% of the total number of shares of our common stock to be issued at the closing date will be placed into escrow for a period of one year to provide a fund for indemnity against specified damages to us, as described in the merger agreement. If total indemnity claims at the end of the one-year period exceed the value of the shares held in escrow, we will have the right to place up to 10% of the total number of shares of our common stock otherwise issuable to the holders of RMI preferred stock as earn-out consideration into escrow, pending the resolution of all claims. In addition, 0.3% of the total number of shares of our common stock to be issued at the closing date will be placed into escrow as a source for reimbursement of the RMI stockholder representative's expenses.

*Resale Restrictions on NetLogic Common Stock (Page 33)*

One hundred percent of the shares of our common stock issued as merger consideration at the closing date will be subject to a complete trading lock-up for six months following the closing date, and 50% of the shares will be subject to a complete trading lock-up for one year following the closing date.

*Equity Incentive Awards to RMI Employees (Page 32)*

Depreciation, depletion and amortization

3,383

9.2

%

3,259

|                   |        |
|-------------------|--------|
|                   | 8.6    |
| %                 |        |
|                   | 6,751  |
|                   | 9.7    |
| %                 |        |
|                   | 6,433  |
|                   | 9.0    |
| %                 |        |
|                   | 26,441 |
|                   | 71.8   |
| %                 |        |
|                   | 27,367 |
|                   | 72.1   |
| %                 |        |
|                   | 50,095 |
|                   | 71.7   |
| %                 |        |
|                   | 51,462 |
|                   | 71.9   |
| %                 |        |
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**Gross profit**

10,399

28.2

%

10,559

27.9

%

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25

19,811

28.3

%

20,079

28.1

%

Selling, general and administrative expenses

|   |       |
|---|-------|
|   | 2,081 |
|   | 5.6   |
| % | 1,945 |
|   | 5.2   |
| % | 4,266 |
|   | 6.1   |
| % | 4,310 |
|   | 6.0   |
| % |       |

**Operating profit**

|   |        |
|---|--------|
|   | 8,318  |
|   | 22.6   |
| % |        |
|   | 8,614  |
|   | 22.7   |
| % |        |
|   | 15,545 |
|   | 22.2   |
| % |        |
|   | 15,769 |
|   | 22.0   |
| % |        |

Other expense (income):

Interest expense

627

1.7

%

666

1.7

%

1,280

1.8

%

1,320

1.8

%

Other, net

(42

)

(0.1

)%

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30

|    |       |
|----|-------|
|    | (44   |
| )  |       |
|    | (0.1  |
| )% |       |
|    | (63   |
| )  |       |
|    | (0.1  |
| )% |       |
|    | (46   |
| )  |       |
|    | (0.1  |
| )% |       |
|    | 585   |
|    | 1.5   |
| %  |       |
|    | 622   |
|    | 1.6   |
| %  |       |
|    | 1,217 |
|    | 1.7   |
| %  |       |
|    | 1,274 |

%

**Income before income taxes**

7,733

21.0

%

7,992

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32



|                    |        |
|--------------------|--------|
|                    | 21.1   |
| %                  |        |
|                    | 14,328 |
|                    | 20.5   |
| %                  |        |
|                    | 14,495 |
|                    | 20.3   |
| %                  |        |
| Income tax expense |        |
|                    | 1,938  |
|                    | 5.3    |
| %                  |        |
|                    | 2,329  |
|                    | 6.1    |
| %                  |        |
|                    | 3,719  |
|                    | 5.3    |
| %                  |        |
|                    | 4,170  |
|                    | 5.8    |
| %                  |        |
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**Net income**

|    |        |
|----|--------|
| \$ | 5,795  |
|    | 15.7   |
| %  |        |
| \$ | 5,663  |
|    | 14.9   |
| %  |        |
| \$ | 10,609 |
|    | 15.2   |
| %  |        |
| \$ | 10,325 |
|    | 14.4   |
| %  |        |

**Income per share of common stock:**

|       |      |
|-------|------|
| Basic |      |
| \$    | 0.90 |

|                   |    |
|-------------------|----|
| \$                |    |
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\$

\$

Diluted

\$

0.90

\$

0.88

\$

1.65

\$

1.61

See accompanying notes to condensed consolidated financial statements.



Table of Contents**UNITED STATES LIME & MINERALS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands of dollars)

(Unaudited)

|   | <b>SIX MONTHS ENDED</b> |             |
|---|-------------------------|-------------|
|   | <b>June 30,</b>         |             |
|   | <b>2011</b>             | <b>2010</b> |
| <b>Operating Activities:</b>  |                         |             |
| Net income  | \$ 10,609               | \$ 10,325   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                         |             |
| Depreciation, depletion and amortization  | 6,841                   | 6,627       |
| Amortization of deferred financing costs  | 22                      | 13          |
| Deferred income taxes   | 1,341                   | 1,761       |
| Gain on disposition of property, plant and equipment                              | 10                      | (15)        |
| Stock-based compensation  | 414                     | 322         |
| Changes in operating assets and liabilities:                                      |                         |             |
| Trade receivables   | (4,310)                 | (5,395)     |
| Inventories   | 908                     | 132         |
| Prepaid expenses and other current assets   | 508                     | 1,068       |
| Other assets  | (21)                    | (118)       |
| Accounts payable and accrued expenses   | 92                      | 912         |
| Other liabilities   | 53                      | (59)        |
| Net cash provided by operating activities   | 16,467                  | 15,574      |
| <b>Investing Activities:</b>  |                         |             |
| Purchase of property, plant and equipment   | (3,887)                 | (5,091)     |
| Proceeds from sale of property, plant and equipment                               | 83                      | 26          |
| Net cash used in investing activities   | (3,804)                 | (5,065)     |
| <b>Financing Activities:</b>  |                         |             |
| Repayments of term loans  | (2,500)                 | (2,500)     |
| Purchase of treasury shares   | (126)                   | (126)       |
| Net cash used in financing activities   | (2,626)                 | (2,626)     |
| Net increase in cash and cash equivalents   | 10,037                  | 7,882       |
| Cash and cash equivalents at beginning of period                                  | 36,223                  | 16,466      |
| Cash and cash equivalents at end of period  | \$ 46,260               | \$ 24,348   |

See accompanying notes to condensed consolidated financial statements.



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UNITED STATES LIME & MINERALS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by the Company without independent audit. In the opinion of the Company's management, all adjustments of a normal and recurring nature necessary to present fairly the financial position, results of operations and cash flows for the periods presented have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the period ended December 31, 2010. The results of operations for the three- and six-month periods ended June 30, 2011 are not necessarily indicative of operating results for the full year.

2. Organization

The Company is headquartered in Dallas, Texas, and operates through two business segments. Through its lime and limestone operations, the Company is a manufacturer of lime and limestone products, supplying primarily the construction, steel, municipal sanitation and water treatment, oil and gas services, aluminum, paper, utilities, glass, roof shingle and agriculture industries and utilities and other industries requiring scrubbing of emissions for environmental purposes. The Company operates lime and limestone plants and distribution facilities in Arkansas, Colorado, Louisiana, Oklahoma and Texas through its wholly owned subsidiaries, Arkansas Lime Company, Colorado Lime Company, Texas Lime Company, U.S. Lime Company, U.S. Lime Company - Shreveport, U.S. Lime Company - St. Clair and U.S. Lime Company - Transportation.

In addition, through its wholly owned subsidiary, U.S. Lime Company - O & G, LLC ( U.S. Lime O & G ), under a lease agreement (the O & G Lease ), the Company has royalty interests ranging from 8.85% to 20% and a 20% non-operating working interest, resulting in an overall average revenue interest of 34.1%, with respect to oil and gas rights in the 34 wells drilled on the Company's approximately 3,800 acres of land located in Johnson County, Texas, in the Barnett Shale Formation. Through U. S. Lime O & G, the Company also has a drillsite and production facility lease agreement and subsurface easement (the Drillsite Agreement ) relating to approximately 538 acres of land contiguous to the Company's Johnson County, Texas property. Pursuant to the Drillsite Agreement, the Company receives a 3% royalty interest and a 12.5% non-operating working interest in the six wells drilled from two pad sites located on the Company's property.

3. Accounting Policies

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Revenue Recognition. The Company recognizes revenue for its lime and limestone operations in accordance with the terms of its purchase orders, contracts or purchase agreements, which are upon shipment, and when payment is considered probable. The Company's returns and allowances are minimal. Revenues include external freight billed to customers with related costs in cost of revenues. External freight billed to customers included in 2011 and 2010 revenues was \$7.2 million and \$7.6 million for the three-month periods, and \$13.1 million and \$14.6 for the six-month periods, respectively, which approximates the amount of external freight included in cost of revenues. Sales taxes billed to customers are not included in revenues. For its natural gas interests, the Company recognizes revenue in the month of production and delivery.

Successful-Efforts Method Used for Natural Gas Interests. The Company uses the successful-efforts method to account for oil and gas exploration and development expenditures. Under this method, drilling and completion costs for successful exploratory wells and all development well costs are

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capitalized and depleted using the units-of-production method. Costs to drill exploratory wells that do not find proved reserves are expensed.

Fair Values of Financial Instruments. Accounting for fair value measurements involves a single definition of fair value, along with a conceptual framework to measure fair value, with fair value defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company applies valuation techniques that (1) place greater reliance on observable inputs and less reliance on unobservable inputs and (2) are consistent with the market approach, the income approach and/or the cost approach, and includes enhanced disclosures of fair value measurements in its financial statements. The Company's financial liabilities measured at fair value on a recurring basis at June 30, 2011 and December 31, 2010 are summarized below (in thousands):

|                                | June 30,<br>2011 | December 31,<br>2010 | Significant<br>Other<br>Observable Inputs (Level 2) |                      | Valuation<br>Technique |
|--------------------------------|------------------|----------------------|---|----------------------|------------------------|
|                                |                  |                      | June 30,<br>2011                                    | December 31,<br>2010 |                        |
| Interest rate swap liabilities | \$ (3,532)       | (3,732)              | (3,532)   | (3,732)              | Cash flows<br>approach |

The primary observable inputs for valuing the Company's interest rate swaps are LIBOR interest rates.

New Accounting Pronouncements.

In June 2011, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income (ASU 2011-05), which allows an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments to the Codification in the ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of ASU 2011-05 will not have a material impact on the Company's financial condition, results of operations or cash flows.

In May 2011, the FASB issued Accounting Standards Update 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04). The amendments in ASU 2011-04 generally represent clarification of Topic 820, but also include instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. ASU 2011-04 results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards. The amendments are effective for interim and annual periods beginning after December 15, 2011 and are to be applied prospectively. Early application is not permitted. The Company does not expect the adoption of ASU 2011-04 will have a material impact on its financial condition, results of operations or cash flows.



Table of Contents4. Business Segments

The Company has two operating segments engaged in distinct business activities: Lime and Limestone Operations and Natural Gas Interests. All operations are in the United States. In evaluating the operating results of the Company's segments, management primarily reviews revenues and gross profit. The Company does not allocate interest or public company costs to its business segments.

The following table sets forth operating results and certain other financial data for the Company's two business segments (in thousands):

|   | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |      |        |        |
|---|--------------------------------|--------|------------------------------|------|--------|--------|
|   | 2011                           | 2010   | 2011                         | 2010 |        |        |
| <b>Revenues</b>                                 |                                |        |                              |      |        |        |
| Lime and limestone operations                   | \$                             | 33,382 | 36,151                       | \$   | 63,584 | 67,632 |
| Natural gas interests                           |                                | 3,458  | 1,775                        |      | 6,322  | 3,909  |
| Total revenues                                  | \$                             | 36,840 | 37,926                       | \$   | 69,906 | 71,541 |
| <b>Depreciation, depletion and amortization</b> |                                |        |                              |      |        |        |
| Lime and limestone operations                   | \$                             | 3,053  | 3,107                        | \$   | 6,056  | 6,123  |
| Natural gas interests                           |                                | 330    | 152                          |      | 695    | 310    |
| Total depreciation, depletion and amortization  | \$                             | 3,383  | 3,259                        | \$   | 6,751  | 6,433  |
| <b>Gross profit</b>                             |                                |        |                              |      |        |        |
| Lime and limestone operations                   | \$                             | 7,814  | 9,303                        | \$   | 15,353 | 17,207 |
| Natural gas interests                           |                                | 2,585  | 1,256                        |      | 4,458  | 2,872  |
| Total gross profit                              | \$                             | 10,399 | 10,559                       | \$   | 19,811 | 20,079 |
| <b>Capital expenditures</b>                     |                                |        |                              |      |        |        |
| Lime and limestone operations                   | \$                             | 2,005  | 1,816                        | \$   | 2,918  | 3,327  |
| Natural gas interests                           |                                | 141    | 503                          |      | 969    | 1,764  |
| Total capital expenditures                      | \$                             | 2,146  | 2,319                        | \$   | 3,887  | 5,091  |

5. Income Per Share of Common Stock

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

|  | Three Months Ended<br>June 30, |       | Six Months Ended<br>June 30, |      |        |        |
|--|--------------------------------|-------|------------------------------|------|--------|--------|
|  | 2011                           | 2010  | 2011                         | 2010 |        |        |
| <b>Numerator:</b>                                    |                                |       |                              |      |        |        |
| Income for basic and diluted income per common share | \$                             | 5,795 | 5,663                        | \$   | 10,609 | 10,325 |
| <b>Denominator:</b>                                  |                                |       |                              |      |        |        |
| Weighted-average shares for basic income per share   |                                | 6,417 | 6,401                        |      | 6,415  | 6,399  |
| <b>Effect of dilutive securities:</b>                |                                |       |                              |      |        |        |

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|   |    |       |  |       |    |       |  |       |
|---|----|-------|--|-------|----|-------|--|-------|
| Employee and director stock options (1)   |    | 16    |  | 17    |    | 17    |  | 17    |
| Adjusted weighted-average shares and assumed exercises for diluted income per share |    | 6,433 |  | 6,418 |    | 6,432 |  | 6,416 |
| Income per share of common stock:   |    |       |  |       |    |       |  |       |
| Basic   | \$ | 0.90  |  | 0.88  | \$ | 1.65  |  | 1.61  |
| Diluted   | \$ | 0.90  |  | 0.88  | \$ | 1.65  |  | 1.61  |

(1) Options to acquire 10.0 and 2.0 shares of common stock were excluded from the calculation of dilutive securities for the 2011 and 2010 periods, respectively, as they were anti-dilutive because the exercise price exceeded the average per share market price for the periods presented.

Table of Contents6. Comprehensive Income and Accumulated Other Comprehensive Loss

The following table presents the components of comprehensive income (in thousands):

|                                       | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |           |
|---------------------------------------|--------------------------------|----------|------------------------------|-----------|
|                                       | 2011                           | 2010     | 2011                         | 2010      |
| Net income                            | \$ 5,795                       | \$ 5,663 | \$ 10,609                    | \$ 10,325 |
| Reclassification to interest expense  | 404                            | 462      | 818                          | 938       |
| Deferred tax benefit (expense)        | 90                             | 251      | (73)                         | 345       |
| Mark-to-market of interest rate hedge | (650)                          | (1,153)  | (618)                        | (1,888)   |
| Comprehensive income                  | \$ 5,639                       | \$ 5,223 | \$ 10,736                    | \$ 9,720  |

Accumulated other comprehensive loss consisted of the following (in thousands):

|   | June 30,<br>2011 | December 31,<br>2010 |
|---|------------------|----------------------|
| Mark-to-market for interest rate hedges, net of tax benefit | \$ (2,249)       | \$ (2,376)           |
| Minimum pension liability adjustments, net of tax benefit   | (633)            | (633)                |
| Accumulated other comprehensive loss                        | \$ (2,882)       | \$ (3,009)           |

7. Inventories

Inventories are valued principally at the lower of cost, determined using the average cost method, or market. Costs for raw materials and finished goods include materials, labor, and production overhead. Inventories consisted of the following (in thousands):

|                                 | June 30,<br>2011 | December 31,<br>2010 |
|---------------------------------|------------------|----------------------|
| Lime and limestone inventories: |                  |                      |
| Raw materials                   | \$ 3,453         | \$ 3,669             |
| Finished goods                  | 1,237            | 2,087                |
|                                 | 4,690            | 5,756                |
| Service parts inventories       | 5,003            | 4,844                |
| Total inventories               | \$ 9,693         | \$ 10,600            |

8. Banking Facilities

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The Company's credit agreement includes a ten-year \$40 million term loan (the Term Loan), a ten-year \$20 million multiple draw term loan (the Draw Term Loan) and a \$30 million revolving credit facility (the Revolving Facility) (collectively, the Credit Facilities). At June 30, 2011, the Company had \$322 thousand of letters of credit issued, which count as draws under the Revolving Facility.

The Term Loan requires quarterly principal payments of \$833 thousand, which began on March 31, 2006, equating to a 12-year amortization, with a final principal payment of \$10.0 million due on December 31, 2015. The Draw Term Loan requires quarterly principal payments of \$417 thousand, based on a 12-year amortization, which began on March 31, 2007, with a final principal payment of \$6.7 million due on December 31, 2015. The maturity of the Term Loan, the Draw Term Loan and the Revolving Facility can be accelerated if any event of default, as defined under the Credit Facilities, occurs.

As of June 1, 2010, the Company entered into an amendment to its Credit Facilities (the Amendment) primarily to remove or reduce certain restrictions and to extend, by more than three years, the maturity date of the Revolving Facility. In return for these improvements, the Company



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agreed to increase the commitment fee for the Revolving Facility, increase the interest rate margins on existing and new borrowings, reduce the Company's maximum Cash Flow Leverage Ratio (defined below) and pay a \$100 thousand amendment fee.

The Amendment removed from the Credit Facilities: (1) the annual \$10 million maximum non-oil and gas-related capital expenditures limitation; (2) the \$40 million maximum acquisition limitation over the life of the Credit Facilities; and (3) the annual \$1.5 million maximum dividend restriction. In addition, pursuant to the Amendment, the Company may now purchase, redeem or otherwise acquire shares of its common stock so long as its pro forma Cash Flow Leverage Ratio is less than 3.00 to 1.00 and no default or event of default exists or would exist after giving effect to such stock repurchase. The Amendment extended the maturity date of the Revolving Facility to June 1, 2015; previously, the maturity date for the Revolving Facility was April 2, 2012.

As a result of the Amendment, the Revolving Facility commitment fee was increased to a range of 0.250% (previously 0.200%) to 0.400% (previously 0.350%). In addition, the Credit Facilities will now bear interest, at the Company's option, at either LIBOR plus a margin of 1.750% (previously 1.125%) to 2.750% (previously 2.125%), or the Lender's Prime Rate plus a margin of 0.000% (previously minus 0.500%) to plus 1.000% (previously plus 0.375%). The Revolving Facility commitment fee and the interest rate margins are determined quarterly in accordance with a pricing grid based upon the Company's Cash Flow Leverage Ratio, defined as the ratio of the Company's total funded senior indebtedness to earnings before interest, taxes, depreciation, depletion and amortization ( EBITDA ) for the 12 months ended on the last day of the most recent calendar quarter, plus, as added by the Amendment, pro forma EBITDA from any businesses acquired during the period. Lastly, the Amendment reduced the Company's maximum Cash Flow Leverage Ratio to 3.25 to 1 (previously 3.50 to 1).

The Amendment did not amend the security agreement, dated August 25, 2004, pursuant to which the Credit Facilities continue to be secured by the Company's existing and hereafter acquired tangible assets, intangible assets and real property. The Amendment also did not amend the Company's interest rate hedges, discussed below, with respect to the outstanding balances on the Term Loan and the Draw Term Loan that the Company has entered into with Wells Fargo Bank, N.A as counterparty to the hedges.

The Company has hedges that fix LIBOR through maturity at 4.695%, 4.875% and 5.500% on the outstanding balance of the Term Loan, 75% of the outstanding balance of the Draw Term Loan and 25% of the outstanding balance of the Draw Term Loan, respectively. As a result of the Amendment, and based on the current LIBOR margin of 1.750% (1.125% prior to the Amendment), since June 1, 2010 the Company's interest rates have been: 6.445% (5.820% prior to the Amendment) on the outstanding balance of the Term Loan; 6.625% (6.000% prior to the Amendment) on 75% of the outstanding balance of the Draw Term Loan; and 7.250% (6.625% prior to the Amendment) on 25% of the outstanding balance of the Draw Term Loan.

The hedges have been effective as defined under applicable accounting rules. Therefore, changes in fair value of the interest rate hedges are reflected in comprehensive income (loss). The Company will be exposed to credit losses in the event of non-performance by the counterparty to the hedges. Due to interest rate declines, the Company's mark-to-market of its interest rate hedges at June 30, 2011 and December 31, 2010, resulted in liabilities of \$3.5 million and \$3.7 million, respectively, which are included in accrued expenses (\$1.4 and \$1.5 million, respectively) and other liabilities (\$2.1 million and \$2.2 million, respectively) on the Company's Condensed Consolidated Balance Sheets. The Company paid \$404 thousand and \$818 thousand in quarterly settlement payments pursuant to its hedges during the three- and six-month periods ended June 30, 2011, respectively, compared to payments of \$462 thousand and \$938 thousand in the comparable prior year three- and six-month periods, respectively. These payments were included in interest expense in the Condensed Consolidated Statements of Operations.



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A summary of outstanding debt at the dates indicated is as follows (in thousands):

|                                      | <b>June 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|--------------------------------------|--------------------------|------------------------------|
| Term Loan                            | \$ 21,666                | \$ 23,333                    |
| Draw Term Loan                       | 12,500                   | 13,333                       |
| Revolving Facility (1)               |                          |                              |
| Subtotal                             | 34,166                   | 36,666                       |
| Less current installments            | 5,000                    | 5,000                        |
| Debt, excluding current installments | \$ 29,166                | \$ 31,666                    |

(1) The Company had letters of credit totaling \$322 issued on the Revolving Facility at June 30, 2011 and December 31, 2010.

As the Company's debt bears interest at floating rates, the Company estimates the carrying values of its debt at June 30, 2011 and December 31, 2010 approximate fair value.

#### 9. Contingencies

In the second quarter 2010, there was an accident at the Company's St. Clair plant in Oklahoma, resulting in a fatality. All matters relating to the accident have been resolved except for proposed Mine Safety and Health Administration assessments, which are not considered by management to be material to the Company's financial condition, results of operations or cash flows, and are currently being contested by the Company.

#### 10. Income Taxes

The Company has estimated its effective income tax rate for 2011 will be approximately 26.0%. As in prior periods, the primary reason for the effective rate being below the federal statutory rate is due to statutory depletion, which is allowed for income tax purposes and is a permanent difference between net income for financial reporting purposes and taxable income. The Company's effective income tax rate for 2011 is expected to decrease compared to its 2010 rate of 28.0% primarily because of increased statutory depletion in 2011 compared to 2010, resulting from expected increased revenues from its Natural Gas Interests and proportionately higher depletion rates for its Lime and Limestone Operations.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**Forward-Looking Statements.** Any statements contained in this Report that are not statements of historical fact are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements in this Report, including without limitation statements relating to the Company's plans, strategies, objectives, expectations, intentions, and adequacy of resources, are identified by such words as will, could, should, would, believe, expect, intend, plan, schedule, estimate, anticipate, and project. The obligation to publicly update or revise any forward-looking statements. The Company cautions that forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from expectations, including without limitation the following: (i) the Company's plans, strategies, objectives, expectations, and intentions are subject to change at any time at the Company's discretion; (ii) the Company's plans and results of operations will be affected by its ability to maintain and manage its growth; (iii) the Company's ability to meet short-term and long-term liquidity demands, including servicing the Company's debt, conditions in the credit and equity markets, and changes in interest rates on the Company's debt, including the ability of the Company's customers and the counterparty to the Company's interest rate hedges to meet their obligations; (iv) interruptions to

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operations and increased expenses at its facilities resulting from inclement weather conditions, natural disasters, accidents or regulatory requirements; (v) increased fuel, electricity, transportation and freight costs; (vi) unanticipated delays, difficulties in financing, or cost overruns in completing construction projects; (vii) the Company's ability to expand its Lime and Limestone Operations through acquisitions of businesses with related or similar operations, including obtaining financing for such acquisitions, and to successfully integrate acquired operations; (viii) inadequate demand and/or prices for the Company's lime and limestone products due to the state of the U.S. economy, recessionary pressures in particular industries, including highway and housing related construction and steel, and inability to continue to increase or maintain prices for the Company's products; (ix) the uncertainties of development, production, pipeline capacity and prices with respect to the Company's Natural Gas Interests, including reduced drilling activities pursuant to the Company's O & G Lease and Drillsite Agreement, unitization of existing wells, inability to explore for new reserves and declines in production rates; (x) on-going and possible new regulations, investigations, enforcement actions and costs, legal expenses, penalties, fines, assessments, litigation, judgments and settlements, taxes and disruptions and limitations of operations, including those related to climate change and health and safety; and (xi) other risks and uncertainties set forth in this Report or indicated from time to time in the Company's filings with the Securities and Exchange Commission (the "SEC"), including the Company's Form 10-K for the fiscal year ended December 31, 2010.

**Overview.**

The Company has two business segments: Lime and Limestone Operations and Natural Gas Interests.

Through its Lime and Limestone Operations, the Company is a manufacturer of lime and limestone products, supplying primarily the construction, steel, municipal sanitation and water treatment, oil and gas services, aluminum, paper, utilities, glass, roof shingle and agriculture industries and utilities and other industries requiring scrubbing of emissions for environmental purposes. The Company operates lime and limestone plants and distribution facilities in Arkansas, Colorado, Louisiana, Oklahoma and Texas through its wholly owned subsidiaries, Arkansas Lime Company, Colorado Lime Company, Texas Lime Company, U.S. Lime Company, U.S. Lime Company - Shreveport, U.S. Lime Company - St. Clair, and U.S. Lime Company - Transportation. The Lime and Limestone Operations represent the Company's principal business.

The Company's Natural Gas Interests are held through its wholly owned subsidiary, U.S. Lime Company - O & G, LLC, and consist of royalty and non-operating working interests under the O & G Lease with EOG Resources, Inc. and the Drillsite Agreement with XTO Energy Inc. related to the Company's Johnson County, Texas property, located in the Barnett Shale Formation, on which Texas Lime Company conducts its lime and limestone operations.

For the first six months 2011 compared to the first six months 2010, the decrease in lime and limestone revenues primarily resulted from decreased lime sales volumes, principally due to reduced demand from the Company's oil and gas services and steel customers, partially offset by average product price increases of approximately 2.0% for the Company's lime and limestone products compared to the first six months 2010. The continuing soft economy both impacts demand for the Company's lime and limestone products and presents a challenge to maintain or increase prices for its products. The Company's gross profit from Lime and Limestone Operations decreased in the first half 2011, compared to the comparable 2010 period due to the decreased revenues and a decline in gross profit margin as a percentage of revenues. The decline in gross profit margin was primarily due to the reduced sales volumes and increased operating expenses, primarily for labor and benefits and fuel and other petroleum related costs. Demand for lime by the Company's steel customers increased in the second quarter 2011 compared to the first quarter 2011, and highway construction demand for lime has begun to improve in July 2011.



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Revenues and gross profit from the Company's Natural Gas Interests increased in the first half 2011, as increased production volumes resulting from seven new wells completed in the second half 2010 and increased average prices received per MCF in the second quarter 2011 more than offset the normal declines in production rates on wells completed prior to 2010. The number of producing wells in 2011 increased to 37 compared to 30 in 2010. In addition, in the second quarter 2011 the Company received \$487 thousand due to the resolution of royalty ownership issues on unitized natural gas wells. Three additional new wells drilled in 2010 pursuant to the O & G Lease were completed as producing wells at the end of June 2011, which will bring the total producing wells to 40 in the third quarter 2011. The Company cannot predict the number of additional wells that ultimately will be drilled, if any, or their results.

**Liquidity and Capital Resources.**

Net cash provided by operating activities was \$16.5 million in the six months ended June 30, 2011, compared to \$15.6 million in the comparable 2010 period, an increase of \$893 thousand, or 5.7%. Net cash provided by operating activities is composed of net income, depreciation, depletion and amortization ( DD&A ), deferred income taxes and other non-cash items included in net income, and changes in working capital. In the first half 2011, cash provided by operating activities was principally composed of \$10.6 million net income, \$6.8 million DD&A and \$1.3 million deferred income taxes, compared to \$10.3 million net income, \$6.6 million DD&A and \$1.8 million deferred income taxes in the first half 2010. The most significant changes in working capital in the first half 2011 were a net increases in trade receivables of \$4.3 million and decreases of \$908 thousand and \$508 thousand in inventories and in prepaid expenses and other current assets, respectively. The most significant changes in working capital items in the first half 2010 were net increase in trade receivables and in accounts payable and accrued expenses of \$5.4 million and \$900 thousand, respectively, and a \$1.1 million decrease in prepaid expenses and other current assets. The net increases in trade receivables in the 2011 and 2010 periods primarily resulted from an increase in revenues in the second quarters 2011 and 2010, compared to the fourth quarters 2010 and 2009, respectively.

The Company invested \$3.9 million in capital expenditures in the first half 2011, compared to \$5.1 million in the same period last year. Included in capital expenditures during the first half 2011 and 2010 were \$1.0 million and \$1.8 million, respectively, for drilling, completion and workover costs for the Company's non-operating working interests in natural gas wells.

Net cash used in financing activities was \$2.6 million in the first half of each of 2011 and 2010, including \$2.5 million for repayments of term loan debt.

The Company's credit agreement includes a ten-year \$40 million term loan (the Term Loan ), a ten-year \$20 million multiple draw term loan (the Draw Term Loan ) and a \$30 million revolving credit facility (the Revolving Facility ) (collectively, the Credit Facilities ). At June 30, 2011, the Company had \$322 thousand of letters of credit issued, which count as draws under the Revolving Facility.

The Term Loan requires quarterly principal payments of \$833 thousand, which began on March 31, 2006, equating to a 12-year amortization, with a final principal payment of \$10.0 million due on December 31, 2015. The Draw Term Loan requires quarterly principal payments of \$417 thousand, based on a 12-year amortization, which began on March 31, 2007, with a final principal payment of \$6.7 million due on December 31, 2015. The maturity of the Term Loan, the Draw Term Loan and the Revolving Facility can be accelerated if any event of default, as defined under the Credit Facilities, occurs.

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As of June 1, 2010, the Company entered into an amendment to its Credit Facilities (the Amendment ) primarily to remove or reduce certain restrictions and to extend, by more than three years, the maturity date of the Revolving Facility. In return for these improvements, the Company agreed to increase the commitment fee for the Revolving Facility, increase the interest rate margins on



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existing and new borrowings, reduce the Company's maximum Cash Flow Leverage Ratio (defined below) and pay a \$100 thousand amendment fee.

The Amendment removed from the Credit Facilities: (1) the annual \$10 million maximum non-oil and gas-related capital expenditures limitation; (2) the \$40 million maximum acquisition limitation over the life of the Credit Facilities; and (3) the annual \$1.5 million maximum dividend restriction. In addition, pursuant to the Amendment, the Company may now purchase, redeem or otherwise acquire shares of its common stock so long as its pro forma Cash Flow Leverage Ratio is less than 3.00 to 1.00 and no default or event of default exists or would exist after giving effect to such stock repurchase. The Amendment extended the maturity date of the Revolving Facility to June 1, 2015; previously, the maturity date for the Revolving Facility was April 2, 2012.

As a result of the Amendment, the Revolving Facility commitment fee was increased to a range of 0.250% (previously 0.200%) to 0.400% (previously 0.350%). In addition, the Credit Facilities will now bear interest, at the Company's option, at either LIBOR plus a margin of 1.750% (previously 1.125%) to 2.750% (previously 2.125%), or the Lender's Prime Rate plus a margin of 0.000% (previously minus 0.500%) to plus 1.000% (previously plus 0.375%). The Revolving Facility commitment fee and the interest rate margins are determined quarterly in accordance with a pricing grid based upon the Company's Cash Flow Leverage Ratio, defined as the ratio of the Company's total funded senior indebtedness to earnings before interest, taxes, depreciation, depletion and amortization ( EBITDA ) for the 12 months ended on the last day of the most recent calendar quarter, plus, as added by the Amendment, pro forma EBITDA from any businesses acquired during the period. Lastly, the Amendment reduced the Company's maximum Cash Flow Leverage Ratio to 3.25 to 1 (previously 3.50 to 1).

The Amendment did not amend the security agreement, dated August 25, 2004, pursuant to which the Credit Facilities continue to be secured by the Company's existing and hereafter acquired tangible assets, intangible assets and real property. The Amendment also did not amend the Company's interest rate hedges, discussed below, with respect to the outstanding balances on the Term Loan and the Draw Term Loan that the Company has entered into with Wells Fargo Bank, N.A as counterparty to the hedges.

The Company has hedges that fix LIBOR through maturity at 4.695%, 4.875% and 5.500% on the outstanding balance of the Term Loan, 75% of the outstanding balance of the Draw Term Loan and 25% of the outstanding balance of the Draw Term Loan, respectively. As a result of the Amendment, and based on the current LIBOR margin of 1.750% (1.125% prior to the Amendment), since June 1, 2010 the Company's interest rates have been: 6.445% (5.820% prior to the Amendment) on the outstanding balance of the Term Loan; 6.625% (6.000% prior to the Amendment) on 75% of the outstanding balance of the Draw Term Loan; and 7.250% (6.625% prior to the Amendment) on 25% of the outstanding balance of the Draw Term Loan.

The hedges have been effective as defined under applicable accounting rules. Therefore, changes in fair value of the interest rate hedges are reflected in comprehensive income (loss). The Company will be exposed to credit losses in the event of non-performance by the counterparty to the hedges. Due to interest rate declines, the Company's mark-to-market of its interest rate hedges, at June 30, 2011 and December 31, 2010, resulted in liabilities of \$3.5 million and \$3.7 million, respectively, which are included in accrued expenses (\$1.4 and \$1.5 million, respectively) and other liabilities (\$2.1 million and \$2.2 million, respectively) on the Company's Condensed Consolidated Balance Sheets. The Company paid \$404 thousand and \$818 thousand in quarterly settlement payments pursuant to its hedges during the three- and six-month periods ended June 30, 2011, respectively, compared to payments of \$462 thousand and \$938 thousand in the comparable prior year three- and six-month periods, respectively. These payments were included in interest expense on the Company's Consolidated Statements of Operations.



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The Company is not contractually committed to any planned capital expenditures for its Lime and Limestone Operations until actual orders are placed for equipment. Under the Company's O & G Lease, and pursuant to the Company's subsequent elections to participate as a 20% non-operating working interest owner, unless, within five days after receiving an AFE (authorization for expenditures) for a proposed well, the Company provides notice otherwise, the Company is deemed to have elected to participate as a 20% working interest owner. As a 20% non-operating working interest owner, the Company is responsible for 20% of the costs to drill, complete and workover the well. Pursuant to the Drillsite Agreement, the Company, as a 12.5% non-operating working interest owner, is responsible for 12.5% of the costs to drill, complete and workover each well. As of June 30, 2011, the Company had no material open orders or commitments that are not included in current liabilities on the Company's Condensed Consolidated Balance Sheet.

As of June 30, 2011, the Company had \$34.2 million in total debt outstanding.

**Results of Operations.**

Revenues in the second quarter 2011 decreased to \$36.8 million from \$37.9 million in the comparable prior year quarter, a decrease of \$1.1 million, or 2.9%. Revenues from the Company's Lime and Limestone Operations in the second quarter 2011 decreased \$2.8 million, or 7.7%, to \$33.4 million from \$36.2 million in the comparable 2010 quarter, while revenues from its Natural Gas Interests increased \$1.7 million, or 94.8%, to \$3.5 million from \$1.8 million in the comparable prior year quarter. For the six months ended June 30, 2011, revenues decreased to \$69.9 million from \$71.5 million in the comparable 2010 period, a decrease of \$1.6 million, or 2.3%. Revenues from the Company's Lime and Limestone Operations in the first six months 2011 decreased \$4.0 million, or 6.0%, to \$63.6 million from \$67.6 million in the comparable 2010 period, while revenues from its Natural Gas Interests increased \$2.4 million, or 61.7%, to \$6.3 million from \$3.9 million in the comparable prior year period. The decrease in lime and limestone revenues in the second quarter 2011 as compared to last year's comparable quarter primarily resulted from decreased sales volumes of the Company's lime products due to reduced demand, principally from its highway construction and oil and gas services customers, partially offset by slightly increased prices realized for the Company's lime and limestone products. For the first six months 2011 compared to the first six months 2010, lime and limestone revenues decreased primarily due to reduced demand from the Company's oil and gas services and steel customers, partially offset by slightly increased prices realized for the Company's lime and limestone products.

The Company's gross profit was \$10.4 million for the second quarter 2011, compared to \$10.6 million in the comparable 2010 quarter, a decrease of \$160 thousand, or 1.5%. Gross profit for the first six months 2011 was \$19.8 million, a decrease of \$268 thousand, or 1.3%, from \$20.1 million in the first six months 2010. Included in gross profit for the second quarter and first half 2011 were \$7.8 million and \$15.4 million, respectively, from the Company's Lime and Limestone Operations, compared to \$9.3 million and \$17.2 million, respectively, in the comparable 2010 periods. The 2010 periods included costs incurred and accrued in the second quarter as a result of an accident at the Company's St. Clair plant in Oklahoma. The reduced gross profits for the Company's Lime and Limestone Operations in the second quarter and first half 2011 resulted primarily from the decreased revenues and the decline in gross profit margins as a percentage of revenues, compared to the comparable 2010 periods.

Gross profit from the Company's Natural Gas Interests increased to \$2.6 million and \$4.5 million for the second quarter and first half 2011, respectively, from \$1.3 million and \$2.9 million, respectively, in the comparable 2010 periods. Production volumes from the Company's Natural Gas Interests for the second quarter 2011 totaled 340 thousand MCF from 37 wells, sold at an average price of \$8.75 per MCF, compared to 229 thousand MCF from 30 wells, sold at an average price of \$7.75 per MCF, in the comparable 2010 quarter. Production volumes for the first half 2011 from Natural Gas Interests totaled 743 thousand MCF at an average price of \$7.85 per MCF, compared to the first half



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2010 when 465 thousand MCF was produced and sold at an average price of \$8.40 per MCF. Average price per MCF improved in the second quarter 2011 compared to the second quarter 2010 primarily because of increased prices for natural gas liquids contained in the Company's natural gas, which is attributable to the increase in the price of crude oil over the same periods. For the first half 2011, average price received per MCF was lower compared to the first half 2010 because of lower natural gas prices in the first quarter 2011, partially offset by increased prices for natural gas liquids. In the 2011 periods, the increase in production volumes resulted from seven new wells completed during the second half 2010, partially offset by the normal declines in production rates on wells completed prior to 2010. Gross profit for the second quarter and first half 2011 also included \$463 thousand from the resolution of certain royalty ownership issues on unitized natural gas wells. The Company's natural gas contains liquids, for which prices normally follow crude oil prices. This accounts for the Company's average price per MCF exceeding natural gas prices.

Selling, general and administrative expenses ( SG&A ) were \$2.1 million and \$1.9 million in the second quarters 2011 and 2010, respectively, an increase of \$136 thousand, or 7.0%. As a percentage of revenues, SG&A increased to 5.6% in the 2011 quarter, compared to 5.1% in the comparable 2010 quarter, principally due to decreased revenues in the 2011 quarter. SG&A was \$4.3 million in each of the first six months 2011 and 2010, with a decrease of \$44 thousand in the 2011 period. As a percentage of revenues, SG&A in the first six months 2011 increased to 6.1 %, compared to 6.0% in the comparable 2010 period, once again principally as a result of decreased revenues.

Interest expense in the second quarter 2011 decreased \$39 thousand, or 5.9%, to \$627 thousand from \$666 thousand in the second quarter 2010. Interest expense in the first six months of each of 2011 and 2010 was \$1.3 million, with a decrease of \$40 thousand in the 2011 period. The slight decrease in interest expense in the 2011 periods primarily resulted from decreased average outstanding debt due to the repayment of \$5 million of debt since June 30, 2010, mostly offset by increased interest rates resulting from the June 2010 Amendment to the Company's Credit Facilities. Interest expense included payments of \$404 thousand and \$818 thousand that were made pursuant to the Company's interest rate hedges during the three- and six-month periods ended June 30, 2011, respectively, compared to payments of \$462 thousand and \$938 thousand in the comparable prior year three- and six-month periods, respectively.

Income tax expense decreased to \$1.9 million in the second quarter 2011 from \$2.3 million in the second quarter 2010, a decrease of \$391 thousand, or 16.8%. For the first six months 2011, income tax expense decreased to \$3.7 million from \$4.2 million in the comparable 2010 period, a decrease of \$451 thousand, or 10.8%. The decreases in income tax expense in the 2011 periods compared to the comparable 2010 periods were primarily due to the decreases in the Company's effective income tax rates and income before income taxes. The Company's effective income tax rate for 2011 is expected to decrease compared to its 2010 rate primarily because of increased statutory depletion in 2011 compared to 2010, resulting from expected increased revenues from its Natural Gas Interests and proportionately higher depletion rates for its Lime and Limestone Operations.

The Company's net income was \$5.8 million (\$0.90 per share diluted) in the second quarter 2011, compared to net income of \$5.7 million (\$0.88 per share diluted) in the second quarter 2010, an increase of \$132 thousand, or 2.3%. Net income in the first half 2011 was \$10.6 million (\$1.65 per share diluted), an increase of \$284 thousand, or 2.8%, compared to the first half 2010 net income of \$10.3 million (\$1.61 per share diluted).

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk.

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The Company is exposed to changes in interest rates, primarily as a result of floating interest rates on the Revolving Facility. At June 30, 2011, the Company had \$34.2 million of indebtedness outstanding under floating rate debt. The Company has entered into interest rate hedge agreements to

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swap floating rates for fixed LIBOR rates at 4.695%, plus the applicable margin, through maturity on the Term Loan balance of \$21.7 million, 4.875%, plus the applicable margin, on \$9.4 million of the Draw Term Loan balance and 5.500%, plus the applicable margin, on the remaining \$3.1 million of the Draw Term Loan balance. There was no outstanding balance on the Revolving Facility subject to interest rate risk at June 30, 2011. Any future borrowings under the Revolving Facility would be subject to interest rate risk. See Note 8 of Notes to Condensed Consolidated Financial Statements.

ITEM 4: CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), evaluated the effectiveness the Company's disclosure controls and procedures as of the end of the period covered by this Report. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures as of the end of the period covered by this Report were effective.

No change in the Company's internal control over financial reporting occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

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

The Company's Amended and Restated 2001 Long-Term Incentive Plan allows employees and directors to pay the exercise price for stock options and the tax withholding liability for the lapse of restrictions on restricted stock by payment in cash and/or delivery of shares of the Company's common stock. In the second quarter 2011, pursuant to these provisions the Company received a total of 2,867 shares of its common stock (1,743 shares in payment to exercise stock options and 1,124 shares for the payment of tax withholding liability for the lapse of restrictions on restricted stock). The 2,867 shares were valued at \$40.72 to \$41.01 per share (weighted average of \$40.83 per share), the fair market value of one share of the Company's common stock on the date they were tendered to the Company.

ITEM 5. OTHER INFORMATION

Mine Safety Disclosures.

Under Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, each operator of a coal or other mine is required to include disclosures regarding certain mine safety results in its periodic reports filed with the SEC. The operation of the Company's quarries, underground mine and plants is subject to regulation by the federal Mine Safety and Health Administration ( MSHA ) under the Federal Mine

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Safety and Health Act of 1977. The information required under Section 1503(a) regarding certain mining safety and health matters, broken down by mining complex, for the quarter ended June 30, 2011 is presented in Exhibit 99.1 to this Report.

The Company believes it is responsible to employees to provide a safe and healthy workplace environment. The Company seeks to accomplish this by: training employees in safe work practices; openly communicating with employees; following safety standards and establishing and improving safe work practices; involving employees in safety processes; and recording, reporting and investigating accidents, incidents and losses to avoid reoccurrence.

Following passage of The Mine Improvement and New Emergency Response Act of 2006, MSHA significantly increased the enforcement of mining safety and health standards on all aspects of mining operations. There has also been an increase in the dollar penalties assessed for citations and orders issued in recent years.



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ITEM 6: EXHIBITS

|      |  |
|------|--|
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer. |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer. |
| 32.1 | Section 1350 Certification by the Chief Executive Officer.             |
| 32.2 | Section 1350 Certification by the Chief Financial Officer.             |
| 99.1 | Mine Safety Disclosures.   |
| 101  | Interactive Data Files.  |

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.

UNITED STATES LIME & MINERALS, INC.

August 1, 2011

By:

/s/ Timothy W. Byrne  
Timothy W. Byrne  
President and Chief Executive Officer  
(Principal Executive Officer)

August 1, 2011

By:

/s/ M. Michael Owens  
M. Michael Owens  
Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

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UNITED STATES LIME & MINERALS, INC.

Quarterly Report on Form 10-Q

Quarter Ended

June 30, 2011

Index to Exhibits

| <b>EXHIBIT<br/>NUMBER</b> | <b>DESCRIPTION</b>   |
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