SYNAPTICS INC
Form 10-K
August 19, 2013
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Fiscal Year Ended June 29, 2013**

**Commission File Number 000-49602**

# SYNAPTICS INCORPORATED

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

| | |
|---|---|
| **Delaware** | **77-0118518** |
| **(State or other jurisdiction of** | **(I.R.S. Employer** |

| incorporation or organization) | Identification No.) |
|---|---|

**1251 McKay Drive**

| **San Jose, California** | **95131** |
|---|---|
| **(Address of principal executive offices)** | **(Zip Code)** |

**(408) 904-1100**

**Registrant s telephone number, including area code**

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of each class | Name of each exchange on which registered |
|---|---|
| **Common Stock, par value $.001 per share** | **The Nasdaq Global Select Market** |
| | **The Nasdaq Global Select Market** |
| **Preferred Stock Purchase Rights** | |

**Securities registered pursuant to Section 12(g) of the Act:** None

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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

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

The aggregate market value of Common Stock held by nonaffiliates of the registrant (24,385,533 shares), based on the closing price of the registrant s Common Stock as reported on the Nasdaq Global Select Market on December 28, 2012 of $29.58, was $721,324,066. For purposes of this computation, all officers, directors, and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such officers, directors, or 10% beneficial owners are, in fact, affiliates of the registrant.

As of August 5, 2013, there were outstanding 33,448,995 shares of the registrant s Common Stock, par value $.001 per share.

**Documents Incorporated by Reference**

Portions of the registrant s definitive Proxy Statement for the 2013 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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**SYNAPTICS INCORPORATED**

**ANNUAL REPORT ON FORM 10-K**

**FISCAL 2013**

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**Statement Regarding Forward-Looking Statements**

*The statements contained in this report on Form 10-K that are not purely historical are forward-looking statements within the meaning of applicable securities laws. Forward-looking statements include statements regarding our expectations, anticipation, intentions, beliefs, or strategies regarding the future, whether or not those words are used. Forward-looking statements also include statements regarding revenue, margins, expenses, and earnings analysis for fiscal 2014 and thereafter; our positioning in our target markets; our ability to continue to enhance our market position and increase our business through introducing market leading interface solutions; the strength of our intellectual property portfolio, engineering know-how, systems engineering experience, and technological expertise; the success of our product development strategies; the attractiveness of our product solutions, including their performance, cost, customer satisfaction, market position, and potential; continued success of our virtual manufacturing platform; the strength of our customer relationships; the amounts of revenue generated as a result of sales to significant customers; our competitive position and competitive factors; acquisitions or strategic alliances; the success of particular product or marketing programs; and liquidity and anticipated cash needs and availability. All forward-looking statements* *included in this report are based on information available to us as of the filing date of this report, and we assume no obligation to update any such forward-looking statements. Our actual results could differ materially from the forward-looking statements. Among the factors that could cause actual results to differ materially are the factors discussed in Item 1A. Risk Factors.*

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PART I

**ITEM 1. BUSINESS**

**Overview**

We are a leading worldwide developer and supplier of custom-designed human interface solutions that enable people to interact more easily and intuitively with a wide variety of mobile computing, communications, entertainment, and other electronic devices. We currently target the markets for mobile product applications, including smartphones and feature phones; tablets; the personal computer, or PC, product applications market, primarily notebook computers, and other select electronic device markets, with our customized human interface solutions. Every solution we deliver either contains or consists of our touch-based semiconductor solution, which includes our capacitive sensing ASIC, customer-specific firmware, and software.

We are a market leader in providing human interface solutions to our target markets. Our original equipment manufacturer, or OEM, customers include most of the world s largest OEMs for smartphones and feature phones and tier one PC OEMs. We generally supply our human interface solutions to our OEM customers through their contract manufacturers, which take delivery of our products and pay us directly for them.

Our website is located at www.synaptics.com. Through our website, we make available free of charge all of our Securities and Exchange Commission, or SEC, filings, including our annual reports on Form 10-K, our proxy statements, our quarterly reports on Form 10-Q, and our current reports on Form 8-K, as well as Form 3, Form 4, and Form 5 Reports for our directors, officers, and principal stockholders, together with amendments to those reports filed or furnished pursuant to Sections 13(a), 15(d), or 16 under the Securities Exchange Act of 1934, as amended, or the Exchange Act. These reports are available immediately after their electronic filing with the SEC. Our website also includes corporate governance information, including our Code of Conduct, our Code of Ethics for the CEO and Senior Financial Officers, and our Board Committee Charters.

Our fiscal year is the 52- or 53-week period ending on the last Saturday in June. The fiscal years presented in this report were a 53-week period ended June 30, 2012, and 52-week periods ended June 29, 2013 and June 25, 2011.

*Mobile Product Applications Markets*

We believe our intellectual property portfolio, engineering know-how, systems engineering experience, technological expertise, and experience in providing human interface solutions to major OEMs of electronic devices position us to be a key technological enabler for multiple consumer electronic devices targeted to meet the growing mobile product applications markets, which include all touchscreen and video display products. Based on these strengths, we are addressing the opportunities created by the growth of mobile computing communications and entertainment devices. Mobile product applications include smartphones and feature phones, tablets, large touchscreen applications, global positioning devices, as well as a variety of mobile, handheld, wireless, and entertainment devices. Our array of human interface solutions for mobile product applications are designed to enrich the interface on mobile smartphones and feature phones, tablets, and peripherals, allowing the user to more easily use or navigate complex menu systems on their devices. We believe our existing technologies, our range of product solutions, and our emphasis on ease of use, small size, low power consumption, advanced functionality, durability, and reliability enable us to serve multiple aspects of the markets for mobile product applications and other electronic devices.

Our human interface solutions for mobile product applications constitutes an important percentage of our net revenue. Net revenue for our human interface solutions for mobile product applications accounted for approximately 64% and 49% of our net revenue in fiscal 2013 and 2012, respectively. Our ongoing success in serving these markets will depend upon the continued growth of the mobile smartphone and feature phone portion of the overall mobile phone market; our continued growth in the tablet and large touchscreen applications markets; our ability to demonstrate to mobile product applications OEMs the advantages of our human interface solutions in terms of performance, usability, size, durability, power consumption, integration, and industrial design possibilities; and the success of products utilizing our human interface solutions. In addition, our success will depend on our ability to demonstrate to mobile product applications OEMs the advantages of our flexible touchscreen fulfillment model and systems engineering expertise.

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Industry projections for the mobile smartphone market for the period 2013 through 2017 show a compound annual growth rate of 13.4%, reflecting the trend towards greater functionality in mobile smartphone products to meet and address the expanded needs and expectations of the consumer-oriented market. These products require a simple, durable, and intuitive human interface solution to enable the user to navigate efficiently through menus and scroll through information contained in the host device. We believe we are well positioned to take advantage of this growing market based on our technology, engineering know-how, systems engineering experience, and the acceptance of our human interface solutions by OEMs in this market.

The tablet and large touchscreen markets also represent an opportunity for our touchscreen intellectual property portfolio, engineering know-how, and technological expertise. Touchscreen solutions required for the tablet market range from basic e-book vendor solutions to multi-function solutions designed for more complex operating systems. Tablet-based capacitive touch interface devices are now offered by several leading PC and mobile phone OEMs and utilize various operating systems, including Android and Windows 8. Industry projections for the tablet market for the period 2013 through 2017 show a compound annual growth rate of 15.7%.

*PC Product Applications Market*

We provide custom human interface solutions for navigation, cursor control, and multimedia controls for many of the world s premier PC OEMs. In addition to notebook applications, other PC product applications for our technology include peripherals, such as keyboards, mice, and monitors, as well as remote control devices for desktops, PCs, and digital home applications. Our solutions for the PC product applications market include the TouchPad , a touch-sensitive pad that senses the position and movement of a person s finger on its surface; the ClickPad , a TouchPad application that eliminates the need for physical buttons; the TouchStyk , a self-contained, easily integrated pointing stick module; and dual pointing solutions that combine both a TouchPad and a pointing stick into a single notebook computer, enabling users to use the interface of their choice; the ForcePad , a ClickPad that is thinner than conventional touchpads and provides for force sensitivity; and ThinTouch®, a keyboard that is thinner than the conventional keyboard.

The latest industry projections for notebook unit growth for the period 2013 through 2017 show a compound annual growth rate of 4% compared with a decrease of 0.2% for desktop computers, reflecting the continued migration from desktops to notebooks fueled by users desire for mobile computing and on-the-go access to applications, information, and digital content. Based on the strength of our technology and engineering know-how, we believe we are well positioned to take advantage of the growth opportunity in the notebook computer market. We believe we are well positioned within the notebook computer market as our product lines of touch pads, pointing sticks and keyboards allow us to address 100% of the notebook computer market.

**Our Strategy**

Our objective is to continue to enhance our position as a leading supplier of human interface solutions for the mobile product applications markets, including smartphones and feature phones, for the tablet and large touchscreen markets, and for the PC product applications market. Key aspects of our strategy to achieve this objective include those set forth below.

*Extend Our Technological Leadership*

We plan to utilize our extensive intellectual property portfolio, engineering know-how, and technological expertise to extend the functionality of our product solutions and offer innovative product solutions to customers across multiple markets. We intend to continue utilizing our technological expertise to reduce the overall size, weight, cost, and power consumption of our human interface solutions while increasing their applications, capabilities, and performance. We plan to continue enhancing the ease of use and functionality of our solutions. We also plan to expand our research and development efforts through increased investment in our engineering activities, the hiring of additional engineering personnel, and strategic acquisitions and alliances. We believe that these efforts will enable us to meet customer expectations and to achieve our goal of supplying on a timely and cost-effective basis the most advanced, easy-to-use, functional human interface solutions to our target markets.

*Enhance Our Position in the Mobile Smartphone, Feature Phone, Tablet, and PC Product Application Markets*

We intend to continue introducing market-leading human interface solutions in terms of performance, functionality, size, and ease of use for the smartphone, feature phone, tablet, and PC product applications markets. We plan to continue enhancing our customers industrial design alternatives and device functionality through innovative product development based on our existing capabilities and technological advances.

*Capitalize on Growth of New and Evolving Markets*

We intend to capitalize on the growth of new and evolving markets, such as the tablet market and the ultrabook portion of the PC product applications market, brought about by the convergence of computing, communications, and entertainment devices. We plan to offer innovative, intuitive human interface solutions that address the evolving portability, connectivity, and functionality requirements of these new markets. We plan to offer these solutions to existing and potential OEM customers to enable increased functionality, reduced size, lower cost, and enhanced industrial design features and to enhance the user experience of their products. We plan to utilize our existing technologies as well as aggressively pursue new technologies as new markets evolve that demand new solutions.

*Emphasize and Expand Customer Relationships*

We plan to emphasize and expand our strong and long-lasting customer relationships and to establish successful relationships with new customers. In each market we serve, we plan to provide the most advanced human interface solutions for our customers products. We believe that our human interface solutions enable our customers to deliver a positive user experience and to differentiate their products from those of their competitors. We continually strive to enhance the competitive position of our customers by providing them with innovative, distinctive, and high-quality human interface solutions in a timely and cost-effective basis. To do so, we work continually to improve our productivity, to reduce costs, and to speed the delivery of our human interface solutions. We endeavor to streamline the entire design and delivery process through our ongoing design, engineering, and production improvement efforts. We also focus on providing timely support to our customers after the purchase of our human interface solutions.

We plan to increase our business with existing customers and attract new customers by offering both custom designed solutions, as well as design tools, documentation, a family of capacitive sensing ASICs, and technical support to assist the development of human interface designs in products for smartphones and feature phones, tablets, notebooks, PC peripherals, and other digital entertainment devices. We offer our smartphone and feature phone customers a choice of determining the most optimal way to meet their emerging and growing needs: our traditional custom module solutions or our chip or tail solutions, which enable customers to utilize our proprietary solutions together with third-party components and assembly. Our chip solution consists of our proprietary controller ASIC, customer-specific firmware, and software. Our tail solution consists of our proprietary controller ASIC, associated electronics, customer-specific firmware, software, and flexible circuit material. Touchscreen solutions for mobile phones, tablets, and notebooks are primarily a chip solution.

*Pursue Strategic Relationships and Acquisitions*

We intend to develop and expand strategic relationships to enhance our ability to offer value-added human interface solutions to our customers, penetrate new markets, and strengthen the technological leadership of our product solutions. We also intend to consider the potential acquisition of companies in order to expand our technological expertise and to establish or strengthen our presence in selected target markets.

*Continue Virtual Manufacturing*

We plan to expand and diversify our production capacity through third-party relationships, thereby strengthening our virtual manufacturing platform. This strategy results in a scalable business model; enables us to concentrate on our core competencies of research and development, technological advances, and product design and engineering; and reduces our capital expenditures and working capital requirements. Our virtual manufacturing strategy allows us to maintain a variable cost model, in which we do not incur most of our manufacturing costs until our product solutions have been shipped and billed to our customers.

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**Product Solutions**

We develop and enhance interface technologies that enrich the user s experience in interacting with the user s mobile computing, communications, and entertainment devices. We engage with our customers in the design of their custom products and offer product solutions ranging from ASICs, which may include customer-specific firmware, to full module solutions. Our innovative and intuitive human interface solutions can be engineered to accommodate many diverse platforms and our expertise in human factors and usability can be utilized to improve the features and functionality of our solutions. Our extensive array of technologies includes ASICs, firmware, software, mechanical and electrical designs, and pattern recognition and touch-sensing technologies.

Our custom-designed human interface solutions are custom engineered, total solutions for our customers, and include sensor design, module layout, ASICs, firmware, and software features for which we provide manufacturing and design support, and device testing. This allows us to be a one-stop supplier for complete human interface design from the early design stage, to manufacturing, to testing and support. Through our engineering know-how and technological expertise, we seek to provide our customers with solutions that address their individual design issues and result in high-performance, feature-rich, and reliable interface solutions. We believe our interface solutions offer the following characteristics:

- *Ease of Use*. Our interface solutions offer the ease of use and intuitive interaction that users demand.
- *Small Size*. The small, thin size of our interface solutions enables our customers to reduce the overall size and weight of their products in order to satisfy consumer demand for portability.
- *Low Power Consumption*. The low power consumption of our interface solutions enables our customers to offer products with longer battery life or smaller battery size.
- *Advanced Functionality*. Our interface solutions offer advanced features, such as virtual scrolling, customizable tap zones, edge motion, and tapping and dragging icons, to enhance the user experience.
- *Reliability*. The reliability of our interface solutions satisfies consumer requirements for dependability, which is a major component of consumer satisfaction.
- *Durability*. Our interface solutions withstand repeated use, harsh physical treatment, and temperature fluctuations while providing a superior level of performance.

We believe these characteristics will enable us to continue to enhance our position as a technological enabler within the markets for mobile product applications, including smartphones, feature phones, and tablets, and the PC product applications markets.

Our human interface solutions are intended to satisfy our customers specification needs, including features and functionality, industrial design, mechanical, and electrical requirements. Our products also offer unique integration options, including allowing our capacitive sensors to be placed underneath the plastic of the device, which allows for streamlined and stylized designs, and LED integration to indicate status or enhance industrial design.

Our emphasis on technological leadership and design capabilities positions us to provide unique human interface solutions that address specific customer requirements. Our long-term working relationships with large, global OEMs provide us with experience in satisfying their demanding design specifications and other requirements. Our custom product solutions provide OEMs with numerous benefits, including the following:

- system integration;

reduced product development costs;

shorter product time to market;

compact and efficient platforms;

improved product functionality and utility; and

product differentiation.

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We work with our customers in order to meet their technical and functional specifications, their industrial design requirements, and their desire to differentiate their products from those of their competitors. This collaborative effort reduces the duplication and overlap of investment and resources, enabling our OEM customers to devote more time and resources to the market development of their products.

We utilize capacitive technology rather than resistive or mechanical technology in our product solutions. Unlike resistive and mechanical technology, our solid-state capacitive technology has no moving parts and does not require activation force, thereby providing a durable, more reliable solution that can be integrated into both curved and flat surfaces. Capacitive technologies also allow for much thinner sensors than resistive or mechanical technology, providing for slimmer, more compact and unique industrial designs.

**Products**

Our family of product solutions allows our customers to solve their interface needs and differentiate their products from those of their competitors.

*ClearPad*

ClearPad enables the user to interact directly with the display on electronic devices, such as mobile smartphones and feature phones and tablets. Our ClearPad has distinct advantages, including low-profile form factor; high reliability, durability, and accuracy; and low power consumption. We typically sell our ClearPad solution as a chip or tail, together with customer-specific firmware, to sensor manufacturers to use in the production of discrete touchscreen products. A discrete touchscreen product typically consists of a transparent, thin capacitive sensor that can be placed over any display, such as a Liquid Crystal Display, or LCD, or an Organic Light Emitting Diode, or OLED, and combined with a flexible circuit material and a touch controller chip. Each ClearPad solution is custom designed to integrate customer-specific input preferences such as pen input, gloved finger recognition, proximity, finger hover, and air swipe functionality.

Our ClearPad Series 3 product family can provide full-time tracking of ten or more fingers simultaneously and features stylus support and support for various sensor configurations, including traditional discrete sensors, sensor-on-lens, which includes sensor electrodes patterned on the bottom of the glass cover lens; on-cell, which includes sensor electrodes patterned on the display glass; and in-cell, which includes sensor electrodes patterned inside the LCD glass.

Our ClearPad Series 4 product family combines our proprietary capacitive multi-touch technology with a device s display driver in a single-chip solution delivering advanced display noise management and improved capacitive sensing performance. Our display integration on-cell and in-cell solutions provide cost-effective, capacitive, multi-touch interfaces for mobile devices and enables thinner form factors.

Our ClearPad Series 7 product family is designed to meet the requirements of the large touchscreen market for products more closely related to clamshell notebooks, slates, tablets, and similar devices. Our ClearPad Series 7 products include low-cost, single-chip touchscreen solutions and multi-chip touchscreen solutions designed for devices that have more demanding user input requirements, such as gaming applications.

*TouchPad*

Our TouchPad, which takes the place and exceeds the functionality of a mouse, is a small, touch-sensitive pad that senses the position and movement of one or more fingers on its surface through the measurement of capacitance. Our TouchPad provides an accurate, comfortable, and reliable method for screen navigation, cursor movement, and gestures and provides a platform for interactive input for both the consumer and corporate markets. Our TouchPad solutions allow our customers to provide stylish, simple, user-friendly, and intuitive human interface solutions. Our TouchPad solutions offer various advanced features, including scrolling, customizable tap zones, tapping and dragging of icons, and device interaction.

Our TouchPad solutions are available in a variety of sizes, electrical interfaces, and thicknesses. Our TouchPad solutions are designed to meet the electrical and mechanical specifications of our customers. Customized firmware and driver software ensure the availability of specialized features. As a result of their solid state characteristics, our TouchPad solutions have no moving parts that wear out, resulting in a robust and reliable input solution that also allows for unique industrial designs.

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*ClickPad*

Our ClickPad introduces a clickable mechanical design to the TouchPad application that eliminates the need for physical buttons. The buttonless design of our ClickPad allows for unique, intuitive industrial design and makes it an excellent alternative to conventional input and navigation devices. Our ClickPad is activated by pressing down on the internal tact switch to perform a left-button or right-button clicks and provides tactile feedback similar to pressing a physical button. The latest version of ClickPad features ClickEQ, a mechanical solution that provides uniform click depth to maximize the surface area available for gestures and improve click performance over hinged designs.

*ForcePad*

Our ForcePad is a thinner version of our ClickPad, which introduces a new dimension in control through the addition of variable force sensitivity. ForcePad is designed to provide consistent performance across OEM models through its design intelligence and self-calibration features. By varying the amount of force applied, ForcePad is engineered to enable more intuitive and precise user interactions in operating system controls and applications. Designed with thin and light notebooks in mind, ForcePad is 40% thinner than a conventional touch pad.

*ThinTouch™*

ThinTouch is a design technology employing an innovative ramp capability that delivers a full keyboard solution that is 40% thinner than traditional keyboard solutions. ThinTouch provides an innovative design architecture that facilitates improved backlighting, reliability, and improved manufacturability when compared to conventional mechanical keyboards. By combining our TouchPad technology with ThinTouch technology, we expect to deliver keyboard solutions targeted for the next generation of thin and light notebook PC form factors, including ultrabooks.

*Other Products*

Other product solutions we offer include Dual Pointing Solutions, TouchStyk, FlexPad, ClearButtons, and TouchButtons. Our dual pointing solutions offer a TouchPad with a pointing stick in a single notebook computer, enabling users to select their interface of choice. TouchStyk is a self-contained pointing stick module that uses capacitive technology similar to that of our TouchPad. FlexPad is a capacitive sensing interface which is mounted beneath a mechanical keypad and allows the keypad source to be used for scrolling and navigation, character entry, and gesture input. A ClearButton is a clear sensor that can be mounted under plastic, providing OEMs with easy integration and attractive design options for scrolling and buttons. TouchButtons provide capacitive buttons and scrolling controls for an easy-to-use and stylish interface solution designed to replace mechanical buttons.

**Capabilities**

Our products are supported by a variety of feature capabilities allowing for further product differentiation and easy customer integration.

*Proximity Sensing*

Our proximity sensing technology enables users to interact with consumer electronics without touch including our latest 3D-touch capability. With this technology, sensors in a device, such as a notebook PC, mobile phone, peripheral, or digital photo frame, sense the presence of a user s finger or hand to activate a function. These sensors can illuminate LEDs for discoverable buttons, immediately wake devices from power-saving mode, or activate other functionality.

*Design Studio*

Design Studio provides customers an advanced and comprehensive touch system tool set, designed to enable the customer to evaluate touch system performance and efficiently implement its ClearPad touchscreen solution.

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*SignalClarity Technology*

SignalClarity technology provides an improved signal-to-noise ratio for enhanced touch detection and noise immunity and enables smartphone and feature phone OEMs to support inexpensive chargers and work with multiple display types. SignalClarity technology works with multidisplay configurations, including discrete sensors, sensor-on-lens, on-cell, and in-cell stackup solutions.

*Synaptics Gesture Suite*

Our Synaptics Gesture Suite, or SGS™, provides users with an intuitive way to interact productively with their notebook computers. SGS was developed by analyzing the most common workflows from entertainment activities, such as viewing photos and listening to music, to productivity activities, such as accessing emails and presentations. The result is an intelligent usability model that makes it intuitive for consumers to understand and discover features easily, resulting in a better user experience. SGS represents a growing portfolio of gestures available on our interface solutions. These gestures are compatible with a wide range of Microsoft Windows and Linux applications to enhance the value and productivity of notebook PCs and peripheral devices that use our TouchPads. Gestures currently in the market include Pinch, Rotate, ChiralMotion Scrolling, Two-Finger Scrolling, Three-Finger Flick, Three-Finger Down, and Four-Finger Flick.

*ChiralMotion Gesture*

With our ChiralMotion Gesture technology, the user can apply one continuous circular motion to initiate precise and fine-tuned scrolling on any two-dimensional input surface, such as our TouchPad and ClearPad solutions.

ChiralMotion Gesture technology is well suited for small handheld products, such as feature-rich mobile handsets, personal navigation systems, and personal media players that require easy access for entertainment, music, and other digital files. Scrolling through long documents or pages on a notebook PC becomes simple when using a TouchPad enhanced with ChiralMotion and reversing the direction of scrolling simply requires the user to reverse the circular motion of their finger.

*Enhanced Gesture Recognition*

Our Enhanced Gesture Recognition is a suite of ClearPad gestures included in our firmware. Customers can easily enable SingleTouch gestures, such as Tap, Double Tap, Press, and Flick; DualTouch gestures, such as Pinch and Pivot Rotate; and multi-finger gestures for ClearPad directly from our touch module firmware. No additional recognition software is required on the host processor to implement these gestures. This approach lowers host processor resource requirements and ensures that gestures are implemented using our proven pattern-recognition technology.

**Technologies**

We have developed and own an extensive array of technologies, encompassing ASICs, firmware, software, mechanical and electrical designs, display systems, pattern recognition, and touch-sensing technologies. With 260 U.S. patents in force and 157 U.S. patents pending, as well as many non-U.S. counterparts, we continue to develop technology in these areas. We believe these technologies and the related intellectual property rights create barriers for competitors and allow us to provide human interface solutions in a variety of high-growth markets.

Our broad line of human interface solutions currently is based upon the following key technologies:

- capacitive position sensing technology;
- capacitive force sensing technology;
- transparent capacitive position sensing technology;

pattern recognition technology;

mixed-signal integrated circuit technology;

display systems and circuit technology;

multi-touch technology;

proprietary microcontroller technology; and

ThinTouch technology.

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In addition to these technologies, we develop firmware and device driver software that we incorporate into our products, which provide unique features, such as virtual scrolling, customizable tap zones, PalmCheck, EdgeMotion, and tapping and dragging of icons. In addition, our ability to integrate all of our products to interface with major operating systems provides us with a competitive advantage.

*Capacitive Position Sensing Technology*. This technology provides a method for sensing the presence, position, and contact area of one or more fingers or a stylus on a flat or curved surface. Our technology works with very light touch, supports full multi-touch capabilities, and provides highly responsive cursor navigation, scrolling, and selection. It uses no moving parts, can be implemented under plastic, and is extremely durable.

*Capacitive Force Sensing Technology*. This technology senses the direction and magnitude of a force applied to an object. The object can either move when force is applied, like a typical joystick used for gaming applications, or it can be isometric, with no perceptible motion during use, like our TouchStyk. The primary competition for this technology is resistive strain gauge technology. Resistive strain gauge technology requires electronics that can sense very small changes in resistance, presenting challenges to the design of that circuitry, including sensitivity to electrical noise and interference. Our electronic circuitry determines the magnitude and direction of an applied force, permits very accurate sensing of tiny changes in capacitance, and minimizes electrical interference from other sources.

*Transparent Capacitive Position Sensing Technology*. This technology allows us to build transparent sensors for use with our capacitive position sensing technology, such as in our ClearPad. It has all the advantages of our capacitive position sensing technology and allows for visual feedback when incorporated with a display device, such as an LCD. Our technology supports full multi-touch, does not require calibration, does not produce undesirable internal reflections, and has reduced power requirements, allowing for longer battery life.

*Pattern Recognition Technology*. This technology is a set of software algorithms and techniques for converting real-world data, such as gestures and handwriting, into a digital form that can be recognized and manipulated within a computer. Our technology provides reliable gesture decoding and handwriting recognition, and can be used in other applications such as signature verification for a richer user experience.

*Mixed-Signal Integrated Circuit Technology.* This hybrid analog-digital integrated circuit technology combines the power of digital computation with the ability to interface with non-digital, real-world signals, such as the position of a finger or stylus on a surface. Our patented design techniques permit us to utilize this technology to optimize our core ASIC engine for all our products. Our mixed-signal technology consists of a broad portfolio of circuit expertise in areas such as the following:

- precision capacitance measurement
- power management (switching converters, charge pumps, and Low-dropout regulators ( LDOs ))
- analog-to-digital and digital-to-analog converters
- LCD source and Vcom drivers
- high-speed serial interfaces
- display timing controllers ( TCONs )
- SRAM, DRAM, and non-volatile memories

VLSI digital circuits with multiple clock and power domains

communications and signal processing circuits

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*Display Systems and Circuit Technology*. This technology enables us to develop optimized human interface solutions with improved compatibility with their application environments. This technology consists of mobile and large format display semiconductor expertise, including the following functional blocks:

- TCONs
- TFT gamma references
- Vcom drivers
- source drivers
- high-speed serial interfaces such as MIPI DSI and Qualcomm MDDI
- display power circuits such as inductive switchers, charge pumps, and LDOs

This technology also enables us to develop advanced products that combine the functions of the display and touch sensing systems to enable highly integrated display and touch functionality with improved performance, thinner form factors, and lower system cost.

*Proprietary Microcontroller Technology*. One example of this technology is our proprietary 16-bit microcontroller core that is embedded in the digital portion of our mixed signal ASIC, which allows us to optimize our ASIC for position sensing tasks. Our embedded microcontroller provides great flexibility in customizing our products via firmware, which eliminates the need to design new circuitry for each new application.

*Competing Technology*

Many human interface solutions currently utilize resistive sensing technology. Resistive sensing technology consists of a flexible membrane above a flat, rigid, electrically conductive surface. When finger or stylus pressure is applied to the membrane, it deforms until it makes contact with the rigid layer below, at which point attached electronics can determine the position of the finger or stylus. Since the flexible membrane is a moving part, it is susceptible to mechanical wear and will eventually suffer degraded performance. Due to the way that such resistive position sensors work, it is not possible for them to detect more than a single finger or stylus at any given time. The positional accuracy of a resistive sensor is limited by the uniformity of the resistive coating as well as by the mechanics of the flexible membrane. Finally, using resistive technology over displays, like LCDs, results in reduced display brightness, requiring the use of higher power backlighting and thereby reducing the battery life of the device.

**Research and Development**

We conduct ongoing research and development programs that focus on advancing our technologies, developing new products, improving design and manufacturing processes, and enhancing the quality and performance of our product solutions. Our goal is to provide our customers with innovative solutions that address their needs and improve their competitive positions. Our research and development focuses on advancing our existing interface technologies, improving our current product solutions, and expanding our technologies to serve new markets. Our long-term vision is to offer human interface solutions, such as touch, handwriting, vision, voice capabilities, and other biometrics that can be readily incorporated into varied electronic devices.

Our research and development programs focus on the development of accurate, easy to use, reliable, and intuitive human interfaces for electronic devices. We believe our innovative interface technologies can be applied to many diverse products. We believe the interface is a key factor in the differentiation of these products. We believe that our interface technologies enable us to provide customers with product solutions that have significant advantages over alternative technologies in terms of functionality, size, power consumption, durability, and reliability. We also intend to pursue strategic relationships and acquisitions to enhance our research and development capabilities, leverage our technology, and shorten our time to market with new technological applications.

Our research, design, and engineering teams frequently work directly with our customers to design custom solutions for specific applications. We focus on enabling our customers to overcome technical barriers and enhance the performance of their products. We believe our engineering know-how and electronic systems expertise provide significant benefits to our customers by enabling them to concentrate on their core competencies of production and marketing.

As of the end of fiscal 2013, we employed 573 people in our technology, engineering, and product design functions in the United States, Taiwan, Hong Kong, Korea, Japan, and China. Our research and development expenses were approximately $144.7 million, $118.0 million, and $105.0 million in fiscal 2013, 2012, and 2011, respectively.

**Intellectual Property Rights**

Our success and ability to compete depend in part on our ability to maintain the proprietary aspects of our technologies and products. We rely on a combination of patents, copyrights, trade secrets, trademarks, confidentiality agreements, and other contractual provisions to protect our intellectual property, but these measures may provide only limited protection. Our research, design, and engineering teams frequently work directly with our OEM customers to design custom solutions for specific applications.

We hold 260 U.S. patents in force and have 157 U.S. patents pending, as well as many non-U.S. counterparts to the U.S. patents and U.S. patents pending. Collectively, these patents and patents pending cover various aspects of our key technologies, including touch sensing, pen sensing, handwriting recognition, customizable tap zones, edge motion, and virtual scrolling technologies. Our proprietary software is protected by copyright laws and the source code for our proprietary software is protected under applicable trade secret laws.

Our extensive array of technologies includes ASICs, firmware, software, and pattern recognition and position sensing technologies. Our products rely on a combination of these technologies, making it difficult to use any single technology as the basis for replicating our products. Furthermore, the length and customization of the customer design cycle serve to protect our intellectual property rights.

Patent applications that we have filed or may file in the future may not result in a patent being issued. Our issued patents may be challenged, invalidated, or circumvented, and claims of our patents may not be of sufficient scope or strength, or issued in the proper geographic regions, to provide meaningful protection or any commercial advantage. We have not applied for, and do not have, any copyright registration on our technologies or products. We have applied to register certain of our trademarks in the United States and other countries. There can be no assurance that we will obtain registrations of trademarks in key markets. Failure to obtain registrations could compromise our ability to protect fully our trademarks and brands and could increase the risk of challenge from third parties to our use of our trademarks and brands. In addition, our failure to enforce and protect our intellectual property rights or obtain from third parties the right to use necessary technology could have a material adverse effect on our business, financial condition, and operating results.

We do not consistently rely on written agreements with our customers, suppliers, manufacturers, and other recipients of our technologies and products, and therefore some trade secret protection may be lost and our ability to enforce our intellectual property rights may be limited. Furthermore, our customers, suppliers, manufacturers, and other recipients of our technologies and products may seek to use our technologies and products without appropriate limitations. In the past, we did not consistently require our employees and consultants to enter into confidentiality, employment, or proprietary information and invention agreements. Therefore, our former employees and consultants may try to claim some ownership interest in our technologies and products and may use our technologies and products competitively and without appropriate limitations.

Other companies, including our competitors, may develop technologies that are similar or superior to our technologies, duplicate our technologies, or design around our patents and may have or obtain patents or other proprietary rights that would prevent, limit, or interfere with our ability to make, use, or sell our products. Effective intellectual property protection may be unavailable or limited in some foreign countries in which we operate, such as China and Taiwan. Unauthorized parties may attempt to copy or otherwise use aspects of our technologies and products that we regard as proprietary. There can be no assurance that our means of protecting our proprietary rights in the United States or abroad will be adequate or that competitors will not independently develop similar technologies. If our intellectual property protection is insufficient to protect our intellectual property rights, we could face increased competition in the market for our technologies and products.

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We may receive notices from third parties that claim our products infringe their rights. From time to time, we receive notice from third parties of the intellectual property rights such parties have obtained. We cannot be certain that our technologies and products do not and will not infringe issued patents or other proprietary rights of third parties. Any infringement claims, with or without merit, could result in significant litigation costs and diversion of resources, including the payment of damages, which could have a material adverse effect on our business, financial condition, and operating results.

**Customers**

Our customers include many of the world s largest mobile smartphone, feature phone, tablet, and PC OEMs, based on unit shipments, as well as a variety of consumer electronics manufacturers. Our demonstrated track record of technological leadership, design innovation, product performance, cost effectiveness, and on-time deliveries have resulted in our leadership position in providing human interface solutions. We believe our strong relationship with our OEM customers, many of which are also currently developing tablets, ultrabooks, and mobile application products, will continue to position us as a source of supply for their product offerings.

Our industry-leading OEM customers in fiscal 2013 included the following:

| | |
|---|---|
| BlackBerry | Nokia |
| Hewlett-Packard | Samsung |
| HTC | Sharp |
| Huawei | Sony Mobile |
| Lenovo | Toshiba |
| LG Electronics | ZTE |

We generally supply custom-designed products to our OEM customers through their contract manufacturers or supply chain. We sell our custom-designed products directly to these contract manufacturers, some of which include Compal, Inventec, Kuroda, Techmosa, Tomen, TPK, and Wistron. Sales to Samsung accounted for approximately 14% of our net revenue for fiscal 2013. Sales to TPK accounted for approximately 12% of our net revenue for fiscal 2012. No customer accounted for more than 10% of our net revenue for fiscal 2011.

We consider both the OEMs and their contract manufacturers or supply chain partners to be our customers. Both the OEMs and their partners may determine the design and pricing requirements and make the overall decision regarding the use of our human interface solutions in their products. The contract manufacturers place orders with us for the purchase of our products, take title to the products purchased upon shipment by us, and pay us directly for those purchases. These customers have no return privileges except for warranty provisions.

**Strategic Relationships**

We have used strategic relationships to enhance our ability to offer value-added customer solutions in the past. We intend to enter into additional strategic relationships with companies that may help us serve our target markets.

**Sales and Marketing**

We sell our product solutions for incorporation into the products of our OEM customers. We generate sales through direct sales employees as well as outside sales representatives and distributors. Our sales personnel receive substantial technical assistance and support from our internal engineering resources because of the highly technical nature of our product solutions. Sales frequently result from multi-level sales efforts that involve senior management, design engineers, and our sales personnel interacting with our customers decision makers throughout the product development and order process.

As of the end of fiscal 2013, we employed 174 sales and marketing professionals. We maintain nine customer support offices domestically and internationally, which are located in the United States, Taiwan, China, Korea, Japan, and Switzerland. In addition, we utilize sales representatives/sales distributors in China, Japan, and Taiwan.

International sales constituted over 95% of our revenue for each of fiscal 2013, 2012, and 2011. Approximately 70% of our sales were made to companies located in China and Taiwan that provide design and manufacturing services for major notebook computer and mobile product applications OEMs. All of our sales were denominated in U.S. dollars. This information should be read in conjunction with Note 13 to the financial statements contained elsewhere in this report.

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**Manufacturing**

We employ a virtual manufacturing platform through third-party relationships. We currently utilize three semiconductor wafer manufacturers to supply us with silicon wafers integrating our proprietary design specifications. The completed silicon wafers are forwarded to third-party package and test processors for further processing into die and packaged ASICs, as applicable, which are then utilized in our custom interface products or processed as our ASIC-based solution.

After processing and testing, the die and ASICs are consigned to various contract manufacturers for assembly or are shipped directly to our customers. During the assembly process, our die or ASIC is either combined with other components to complete the module for our custom human interface solution or the ASIC is kept as a standalone ASIC finished good. The finished assembled product is subsequently shipped directly to our customers or by our contract manufacturers directly to our customers for integration into their products.

We believe our virtual manufacturing strategy provides a scalable business model; enables us to concentrate on our core competencies of research and development, technological advances, and product design and engineering; and reduces our capital expenditures. In addition, this strategy significantly reduces our working capital requirements for inventory because we do not incur most of our manufacturing costs until we have actually shipped our interface products to our customers and billed those customers for those products.

Our third-party contract manufacturers and semiconductor fabricators are Asian-based organizations. We provide our contract manufacturers with six-month rolling forecasts of our production requirements. We do not, however, have long-term agreements with any of our contract manufacturers that guarantee production capacity, prices, lead times, or delivery schedules. Our reliance on those parties exposes us to vulnerability owing to our dependence on few sources of supply. We believe, however, that other sources of supply are available. In addition, we may establish relationships with other contract manufacturers in order to reduce our dependence on any one source of supply.

Periodically, we purchase inventory from our contract manufacturers when a customer delays its delivery schedule or cancels its order. In those circumstances in which our customer has cancelled its order and we purchase inventory from our contract manufacturers, we consider a write-down to reduce the carrying value of the inventory purchased to its net realizable value. We charge write-downs to reduce the carrying value of obsolete, slow moving, and non-usable inventory to net realizable value to cost of revenue. We also record a liability and charge to cost of revenue for estimated losses on inventory we are obligated to purchase from our contract manufacturers when such losses become probable from customer delays or order cancellations.

**Backlog**

As of the end of fiscal 2013, we had a backlog of orders of $96.0 million, an increase of $46.5 million compared with a backlog of orders as of the end of fiscal 2012 of $49.5 million. The mix of products ordered by customers at the end of fiscal 2013 had a slightly lower average selling price than those ordered at the end of fiscal 2012, however, the quantity on backlog was significantly higher due to improved demand for both mobile product applications and PC product applications as of the end of fiscal 2013 compared with the end of fiscal 2012, resulting in the increase in backlog. Our backlog consists of product orders for which purchase orders have been received and which are scheduled for shipment in the subsequent quarter. Most orders are subject to rescheduling or cancellation with limited penalties. Because of the possibility of customer changes in product shipments, our backlog as of a particular date may not be indicative of net sales for any succeeding period.

**Competition**

Our touch-based semiconductor products are sold into markets for mobile applications products, PC product applications and other electronic devices. The markets for touchscreen products are characterized by rapidly changing technology and intense competition. Our principal competition in the sale of touchscreen products includes Atmel, Cypress, Elan Micro, Focaltech, Goodix, Maxim, Melfas, MStar Semiconductor, STMicroelectronics, and various other companies involved in human interface solutions. Our principal competitors in the sale of notebook touch pads are Alps Electric and Elan Microelectronics. In certain cases, large OEMs may develop alternative human interface solutions for their own products or provide key components for use in designing human interface solutions.

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We believe our solutions-based systems engineering experience coupled with our technologies offer benefits in terms of size, power consumption, durability, ease of use, cost effectiveness, and reliability when compared to our competitors and other technologies. While our markets continue to evolve, we believe we are well positioned to compete aggressively for this business based on our proven track record, our technological expertise, our design innovation, our technology roadmap, our marquee global customer base, and our reputation for design innovation. Our competitive position could be adversely affected if one or more of our current OEMs reduce their orders or if we are unable to develop new customers for our human interface solutions.

**Employees**

As of the end of fiscal 2013, we employed a total of 852 persons, including 105 in operations, finance, and administration; 174 in sales and marketing; and 573 in research and development. Of these employees, 487 were located in North America, 360 in Asia/Pacific, and five in Europe. We consider our relationship with our employees to be good, and none of our employees are represented by a union in collective bargaining with us.

Competition for qualified personnel in our industry is extremely intense, particularly for engineering and other technical personnel. Our success depends on our continued ability to attract, hire, and retain qualified personnel.

**Executive Officers of the Registrant**

The following table sets forth certain information regarding our executive officers as of August 14, 2013:

| Name | Age | Position |
|---|---|---|
| Richard A. Bergman | 49 | President and Chief Executive Officer, and Director |
| Kathleen A. Bayless | 57 | Senior Vice President, Chief Financial Officer, Secretary, and Treasurer |
| Kevin D. Barber | 53 | Senior Vice President and General Manager, Smart Display Division |
| Scott Deutsch | 48 | Senior Vice President, World Wide Sales |
| Bret C. Sewell | 52 | Senior Vice President of Corporate Development |
| Stanley A. Swearingen | 53 | Senior Vice President of Strategic Technology |
| Alex Wong | 58 | Senior Vice President of World Wide Operations |

*Richard A. Bergman* has been President and Chief Executive Officer of our company since September 2011. Prior to joining our company, Mr. Bergman was Senior Vice President and General Manager of Advanced Micro Device s ( AMD ) Product Group from May 2009 to September 2011. From October 2006 to May 2009, Mr. Bergman served as Senior Vice President and General Manager of AMD s Graphics Product Group. Mr. Bergman s career at AMD began in October 2006 when AMD acquired ATI Technologies ( ATI ), where he served as Senior Vice President and General Manager of PC Group. Prior to ATI, Mr. Bergman served as Chief Operating Officer at S3 Graphics, a division of SonicBlue Inc. Mr. Bergman has held senior level management positions in the technology field since his early roles at Texas Instruments, Inc. and IBM. Mr. Bergman holds a Bachelor of Science degree in electrical engineering from the University of Michigan and a Master s Degree in Business Administration from the University of Colorado.

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*Kathleen A. Bayless* has been Senior Vice President, Chief Financial Officer, Secretary, and Treasurer of our company since September 2009. Ms. Bayless served as the Senior Vice President Finance of our company from March 2009 to September 2009. Ms. Bayless spent 13 years at Komag, a leading supplier of thin-film disks to the disk drive industry, where she served most recently as Executive Vice President, Secretary, and Chief Financial Officer beginning in September 2002. Prior to joining Komag, Ms. Bayless held the position of Senior Audit Manager at the public accounting firm of Ernst & Young. Ms. Bayless holds a Bachelor of Science degree from California State University Fresno and is a certified public accountant.

*Kevin D. Barber* has been Senior Vice President and General Manager of Smart Display Division of our company since January 2011. Prior to joining our company, Mr. Barber was Chief Executive Officer of ACCO Semiconductor since 2008. From 2007 to 2008, Mr. Barber served as a principal consultant at PRTM focused on the electronics industry. Mr. Barber was Senior Vice President, General Manager of the Mobile Solutions business at Skyworks Solutions from 2003 to 2006 where he was responsible for delivering innovative RF products to the mobile industry. Mr. Barber was Senior Vice President of Operations at Skyworks Solutions from 2002 to 2003 and Conexant Systems from 2001 to 2002. Previously, Mr. Barber held various senior operations positions at Conexant Systems and Rockwell Semiconductor. Mr. Barber holds a Bachelor of Science in Electrical Engineering from San Diego State University and Masters of Business Administration from Pepperdine University.

*Scott Deutsch* has been Senior Vice President of World Wide Sales of our company since January 2013. Prior to joining our company, Mr. Deutsch served as Vice President of Worldwide Sales for AuthenTec from 2010 to 2012. Mr. Deutsch held positions of Vice President of World Wide Sales at Alereon from 2008 to 2009 and Vice President of Sales and Marketing for SanDisk s OEM Consumer Products Division from 2004 to 2008. Earlier in his career, Mr. Deutsch was the Director of Sales for the Western U.S. with MMC Networks. Before joining MMC Networks, Mr. Deutsch spent eight years at Cypress Semiconductor in various sales and management roles. Mr. Deutsch holds a Bachelor of Science degree in electrical engineering from Fresno State University.

*Bret C. Sewell* has been Senior Vice President of Corporate Development of our company since May 2012. Prior to joining our company, Mr. Sewell served as Executive Vice President at Coulomb Technologies from 2010 to 2011, and served as Chief Executive Officer of Venturi Wireless from 2005 to 2007 and Kiwi Networks from 2003 to 2004. After SnapTrack s acquisition by Qualcomm, he served as president of Qualcomm s SnapTrack subsidiary and Senior Vice President in Qualcomm s semiconductor division. Earlier in his career, Mr. Sewell served as general manager for the Asia Pacific divisions of Octel Communications and Aspect Telecommunications. Mr. Sewell holds a Master of Business Administration from the Wharton School of the University of Pennsylvania, a Master of Arts in International Studies from the University of Pennsylvania, and a Bachelor of Arts in Biological Anthropology from Harvard University.

*Stanley A. Swearingen* has been Senior Vice President of Strategic Technology of our company since July 2010. Mr. Swearingen was also responsible for corporate development from July 2010 through May 2012. Prior to joining our company, Mr. Swearingen served as a member of the Office of the President at MiniCircuits from March 2009 to October 2009 where he was responsible for strategy and corporate development. From August 2004 to November 2008, Mr. Swearingen was the Vice President and General Manager of the Linear Product business unit at Skyworks Solutions, Inc., which designs, manufactures, sells, and supports a diverse portfolio of RF products and licensing of intellectual property. Mr. Swearingen was Vice President and General Manager of Agere Systems Computing Connectivity division, where he was responsible for the design and manufacturing of wired and wireless connectivity solutions from November 2000 to August 2004. From July 1999 to November 2000, Mr. Swearingen served as Chief Executive Officer of Quantex Microsystems, a direct provider of personal computers, servers, and Internet infrastructure products. Mr. Swearingen has also held senior management positions at National Semiconductor, Cyrix, and Digital Equipment Corp.

*Alex Wong* has been Senior Vice President of World Wide Operations of our company since July 2010. Mr. Wong served as Vice President of World Wide Operations of our company from September 2006 to July 2010. From 2003 to 2006, Mr. Wong served our company as Managing Director of Hong Kong and Director of Operations. Prior to joining our company, Mr. Wong held various management positions with National Semiconductor Corporation, including General Manager for National Joint Ventures in China and Hong Kong and Director of Corporate Business Development. Mr. Wong holds a Bachelor of Science degree in Computer Science from California State University at Northridge and a Masters in Business Administration from the University of East Asia, Macau.

There are no arrangements, understandings, or family relationships pursuant to which our executive officers were selected. There are no related party transactions between us and our executive officers. We have entered into indemnification agreements with our officers and directors.

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## ITEM 1A. RISK FACTORS

You should carefully consider the following factors, together with all the other information included in this report, in evaluating our company and our business.

**We currently depend on our human interface solutions for the mobile product applications market, including tablets, and the PC product applications market for substantially all of our revenue, and any downturn in sales of these products would adversely affect our business, revenue, operating results, and financial position.**

We currently depend on our human interface solutions for the mobile product applications market and the PC product applications market for substantially all of our revenue. Any downturn in sales of these products would adversely affect our business, revenue, operating results, and financial position. Weakness in the PC product applications market in fiscal 2013 adversely affected our business although this weakness was overcome by strength in the mobile product applications market. Any weakness in the markets for mobile product applications or PC product applications, particularly in the high end portions of such markets, could adversely affect our business, revenues, operating results, and financial condition. Net revenue for our human interface solutions for our mobile product applications and PC product applications accounted for approximately 64% and 36%, respectively, of our net revenue for fiscal 2013, 49% and 51%, respectively, of our net revenue for fiscal 2012, and 52% and 48%, respectively, of our net revenue for fiscal 2011.

The lack of market acceptance of our product solutions compared with competitive products in the mobile smartphone and feature phone market, the tablet market, or the PC product applications markets, or our inability to be a leading supplier of human interface solutions for mobile smartphone, feature phone, tablet products, and PC products would have a negative effect on our business, operating results, and financial position. Similarly, a softening of demand in the mobile smartphone and feature phone market, the tablet market, or the notebook portion of the PC product applications market, a reduced level of our participation in the notebook portion of the PC product applications market, or a slowdown of growth in the notebook portion of the PC product applications market because of consumer preferences, the emergence of ultrabooks not including our product solutions, or other factors would cause our business, operating results, and financial position to suffer.

**Net revenue from our human interface solutions for mobile product applications has been volatile in the past, and may not increase or be less volatile in the future.**

Net revenue from our human interface solutions for mobile product applications, particularly mobile smartphones and feature phones, has been volatile in the past. Our net revenue from our human interface solutions for mobile product applications may not increase or be less volatile in the future. Net revenue from our human interface solutions for mobile product applications was $424.1 million in fiscal 2013, $270.1 million in fiscal 2012, and $309.1 million in fiscal 2011. Our interface business for mobile product applications faces many uncertainties, including our success in enhancing our market share in evolving markets dominated by a limited number of OEMs and market acceptance of our product solutions over competitive product solutions. Our inability to address these uncertainties successfully and to be a leading supplier of human interfaces for mobile product applications would negatively affect our business.

**We have transitioned a significant portion of our product solutions for the mobile smartphone and feature phone market in fiscal 2012 from full module solutions to chip or tail solutions, which has resulted in lower revenue per unit.**

We have transitioned a significant portion of our product solutions for the mobile smartphone and feature phone market from full module solutions to chip or tail solutions, which has resulted in lower revenue per unit. Historically, we provided a significant portion of our mobile smartphone and feature phone customers with a complete touchscreen module, including our proprietary controller ASIC, associated electronics, firmware, software, and systems engineering and design as well as a third-party capacitive sensor and module assembly. As a result of industry factors, many of our customers are moving to either a chip solution in which we offer our proprietary controller ASIC, firmware, software, and systems engineering and design with the customer utilizing third-parties for the associated electronics, sensor, and module assembly or a tail solution in which we offer our proprietary controller ASIC, associated electronics, firmware, software, and systems engineering and design with the customer utilizing third-parties for the sensor and module assembly. During fiscal 2012, our full module solutions for the mobile smartphone and feature phone market declined from approximately 50% of quarterly mobile product revenue in the prior year to approximately 1% of quarterly mobile product revenue. During fiscal 2013, our full module solutions for the mobile smartphone and feature phone market declined to less than 1% of quarterly mobile product revenue. Our chip solutions for mobile smartphones and feature phones typically generate lower revenue per unit than our full module solutions.

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**Our historical financial performance is based on our human interface solutions for mobile product applications and net revenue generated from our human interface solutions for the notebook computer market, and may not be indicative of our future performance.**

Our historical financial performance is based on our human interface solutions for mobile product applications, particularly mobile smartphones and feature phones, and tablets, as well as net revenue generated from our human interface solutions for the notebook computer market. As recently as fiscal 2008, we derived a large majority of our net revenue from the sale of our TouchPad products for notebook computers. In fiscal 2011, net revenue from our human interface solutions for mobile product applications exceeded net revenue from our PC product solutions for the first time in our history. In fiscal 2012, net revenue from our human interface solutions for mobile product applications decreased and was less than our net revenue from our PC product applications. In fiscal 2013, net revenue from our human interface touchscreen solutions for mobile product applications again exceeded net revenue from our PC product solutions. In the future, we expect a larger concentration of revenue from our human interface solutions for mobile smartphones and feature phones, tablets and large touchscreen applications than from our human interface touchpad solutions for notebook computers. However, we have a more limited operating history in the markets for mobile product applications, including mobile smartphones and feature phones, and limited operating history for other products, such as tablets and ultrabooks. In addition, in fiscal 2012 we transitioned our product solutions for the mobile smartphone and feature phone market from full module solutions to chip or tail solutions; this trend continued in fiscal 2013 and we anticipate that chip solutions will be the primary solution during fiscal 2014.

**We cannot assure you that our human interface business for new markets will be successful or that we will be able to continue to generate significant revenue from these markets.**

Our product solutions may not be successful in new markets despite the fact that these product solutions are capable of enabling people to interact more easily and intuitively with a wide variety of mobile computing, communication, entertainment, and electronic devices in addition to notebook computers and mobile smartphones and feature phones. We are currently targeting the rapidly developing tablet market and the ultrabook portion of the PC product applications market. Our success in these markets will depend primarily on the success in these markets of the products of our OEM customers who utilize our solutions for their products. As a result, we do not know whether our product solutions for the tablet market and the ultrabook portion of the PC product applications market will result in a substantial portion of our revenue on a consistent basis. Our inability to become a leading supplier in the tablet market and the ultrabook portion of the PC product applications market would result in a slower growth rate than we currently anticipate. The failure to succeed in the tablet market and the ultrabook portion of the PC product applications market would result in no return on the substantial investments we have made to date and plan to make in the future to penetrate such markets.

Various target markets for our interface solutions, such as tablets, large touchscreen applications including automotive touchscreens, may develop slower than anticipated or could utilize competing technologies. The markets for certain of these products depend in part upon the continued development and deployment of wireless and other technologies, which may or may not address the needs of users of these products.

Our ability to generate significant revenue from new markets will depend on various factors, including the following:

- the development and growth of these markets;
- the ability of our technologies and product solutions to address the needs of these markets, the price and performance requirements of OEMs, and the preferences of end users; and
- our ability to provide OEMs with human interface solutions that provide advantages in terms of size, power consumption, reliability, durability, performance, and value-added features compared with alternative solutions.

Many manufacturers of these products have well-established relationships with competitive suppliers. Our ongoing success in these markets will require us to offer better performance alternatives to other solutions at competitive costs. The failure of any of these target markets to develop as we expect, or our failure to serve these markets to a significant extent, will impede our sales growth and could result in substantially reduced earnings. We cannot predict the size or growth rate of these markets or the market share we will achieve in these markets in the future.

**Market acceptance of our customers existing or new products that utilize our human interface solution may decline or may not develop and, as a result, our revenue may decline or may not increase.**

We do not sell any products to end users. Instead, we design various human interface solutions that our OEM customers incorporate into their products. As a result, our success depends almost entirely upon the widespread market acceptance of our OEM customers products. We do not control or influence the manufacture, promotion, distribution, or pricing of the products that incorporate our human interface solutions. Instead, we depend on our customers to manufacture and distribute products incorporating our human interface solutions and to generate consumer demand through marketing and promotional activities. Even if our technologies successfully meet our customers price and performance goals, our sales would decline or fail to develop if our customers do not achieve commercial success in selling their products that incorporate our human interface solutions.

Competitive advances by OEMs in the mobile product applications or PC product applications markets that do not utilize our human interface solutions broadly in their product offerings at the expense of our OEM customers could result in lost sales opportunities. Within the mobile product application markets, the mobile smartphone market has become an important factor in our operating results. Any failure to expand our presence in this market, a significant slowdown in the use of our human interface solutions by our customers in this market, the reduced demand for our customers products in this market, or a slowdown of growth in this market would adversely affect our revenue.

**If we fail to maintain and build relationships with our customers and do not continue to satisfy our customers, we may lose future sales and our revenue may stagnate or decline.**

Because our success depends on the widespread market acceptance of our OEM customers products, we must continue to maintain our relationships with the leading notebook computer OEMs and expand our relationships with mobile smartphone and feature phone and tablet OEMs. In addition, we must identify areas of significant growth potential in other markets, establish relationships with OEMs in those markets, and assist those OEMs in developing products that use our interface product solutions. Our failure to identify potential growth opportunities, particularly in the mobile smartphone and feature phone market, the tablet market, and the ultrabook portion of the PC product applications market, or establish and maintain relationships with OEMs in those markets, would prevent our business from growing in those markets.

Our ability to meet the expectations of our customers requires us to provide innovative human interface solutions for customers on a timely and cost-effective basis and to maintain customer satisfaction with our human interface solutions. We must match our design and production capacity with customer demand, maintain satisfactory delivery schedules, and meet performance goals. If we are unable to achieve these goals for any reason, our customers could reduce their purchases from us and our sales would decline or fail to develop.

Our customer relationships also can be affected by factors affecting our customers that are unrelated to our performance. These factors can include a myriad of situations, including business reversals of customers, determinations by customers to change their product mix or abandon business segments, or mergers, consolidations, or acquisitions involving our customers.

**The loss of revenue from one or more large customers could harm our business, financial condition, and operating results.**

In fiscal 2013, one customer, Samsung, accounted for 14% of our net revenue. In fiscal 2012, one customer, TPK, accounted for 12% of our net revenue. In fiscal 2011, no customer accounted for more than 10% of our net revenue. Additionally, receivables from Samsung consisted of 27% of accounts receivable at the end of fiscal 2013 and receivables from Compal and Wistron consisted of 14% and 12% of accounts receivable, respectively, at the end of fiscal 2012. There were no other customers who represented more than 10% of our accounts receivable at the end of fiscal 2013 or 2012.

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Compal, Inventec, Kuroda, Techmosa, Tomen, TPK, and Wistron are some of the contract manufacturers that serve our OEM customers. Any material delay, cancellation, or reduction of orders from any one or more of these contract manufacturers or the OEMs they serve could harm our business, financial condition, and operating results. The adverse effect would be more substantial if our other customers do not increase their orders or if we are unsuccessful in generating orders for human interface solutions from new customers. Many of these contract manufacturers sell to the same OEMs, and therefore our concentration with certain OEMs may be higher than with any individual contract manufacturer. Concentration in our customer base may make fluctuations in revenue and earnings more severe and make business planning more difficult.

**We rely on others for our production and any interruptions of these arrangements could disrupt our ability to fill our customers orders.**

We utilize contract manufacturers for all of our production requirements. The majority of our manufacturing is conducted in China, Taiwan, and Thailand by contract manufacturers that also perform services for numerous other companies. We do not have a guaranteed level of production capacity with any of our contract manufacturers. Qualifying new contract manufacturers, and specifically semiconductor foundries, is time consuming and might result in unforeseen manufacturing and operations problems. The loss of our relationships with our contract manufacturers or assemblers or their inability to conduct their manufacturing and assembly services for us as anticipated in terms of capacity, cost, quality, and timeliness could adversely affect our ability to fill customer orders in accordance with required delivery, quality, and performance requirements. If this were to occur, the resulting decline in revenue would harm our business.

**We depend on third parties to maintain satisfactory manufacturing yields and delivery schedules, and their inability to do so could increase our costs, disrupt our supply chain, and result in our inability to deliver our products, which would adversely affect our operating results.**

We depend on our contract manufacturers and semiconductor fabricators to maintain high levels of productivity and satisfactory delivery schedules at manufacturing and assembly facilities located primarily in China, Taiwan, and Thailand. We provide our contract manufacturers with six-month rolling forecasts of our production requirements. We do not, however, have long-term agreements with any of our contract manufacturers that guarantee production capacity, prices, lead times, or delivery schedules. Our contract manufacturers serve other customers, a number of which have greater production requirements than we do. As a result, our contract manufacturers could determine to prioritize production capacity for other customers or reduce or eliminate deliveries to us on short notice. At times, we have experienced lower than anticipated manufacturing yields and lengthening of delivery schedules. Lower than expected manufacturing yields could increase our costs or disrupt our supplies. We may encounter lower manufacturing yields and longer delivery schedules in commencing volume production of new products that we introduce. Any of these problems could result in our inability to deliver our product solutions in a timely manner and adversely affect our operating results.

**Shortages of components and materials may delay or reduce our sales and increase our costs, thereby harming our operating results.**

The inability to obtain sufficient quantities of components and other materials necessary for the production of our products could result in reduced or delayed sales or lost orders. Any delay in or loss of sales could adversely impact our operating results. Many of the materials used in the production of our products are available only from a limited number of foreign suppliers, particularly suppliers located in Asia. In most cases, neither we nor our contract manufacturers have long-term supply contracts with these suppliers. As a result, we are subject to economic instability in these Asian countries as well as to increased costs, supply interruptions, and difficulties in obtaining materials. Our customers also may encounter difficulties or increased costs in obtaining the materials necessary to produce their products into which our product solutions are incorporated.

From time to time, materials and components used in our product solutions or in other aspects of our customers products have been subject to allocation because of shortages of these materials and components. Future shortages of materials and components, including potential supply constraints of silicon, could cause delayed shipments, customer dissatisfaction, and lower revenue.

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**We are subject to lengthy development periods and product acceptance cycles, which can result in development and engineering costs without any future revenue.**

We provide human interface solutions that are incorporated by OEMs into the products they sell. OEMs make the determination during their product development programs whether to incorporate our human interface solutions or pursue other alternatives. This process requires us to make significant investments of time and resources in the design of human interface solutions well before our customers introduce their products incorporating these interfaces and before we can be sure that we will generate any significant sales to our customers or even recover our investment. During a customer s entire product development process, we face the risk that our interfaces will fail to meet our customer s technical, performance, or cost requirements or that our products will be replaced by competitive products or alternative technological solutions. Even if we complete our design process in a manner satisfactory to our customer, the customer may delay or terminate its product development efforts. The occurrence of any of these events could cause sales to not materialize, to be deferred, or to be cancelled, which would adversely affect our operating results.

**We do not have long-term purchase commitments from our customers, and their ability to cancel, reduce, or delay orders could reduce our revenue and increase our costs.**

Our customers do not provide us with firm, long-term volume purchase commitments, but instead issue purchase orders. As a result, customers can cancel purchase orders or reduce or delay orders at any time. The cancellation, delay, or reduction of customer purchase orders could result in reduced revenue, excess inventory, and unabsorbed overhead. We have an established presence in the notebook computer market and have only recently established a presence in the mobile product applications markets. Our success in the mobile product application markets, including those for mobile smartphones and feature phones, the tablet market, the PC product application market, particularly the ultrabook portion of the PC product applications market, require us to establish the value added by our products to OEMs, including those that have traditionally used other solutions. All of the markets we serve are subject to severe competitive pressures, rapid technological change, and product obsolescence, which increase our inventory and overhead risks, resulting in increased costs.

**We face intense competition that could result in our losing or failing to gain market share and suffering reduced revenue.**

We serve intensely competitive markets that are characterized by price erosion, rapid technological change, and competition from major domestic and international companies. This intense competition could result in pricing pressures, lower sales, reduced margins, and lower market share. Depressed economic conditions, a slowdown in the PC product applications market, the emergence of new products, such as tablet or slate devices and ultrabooks not including our product solutions, rapid changes in the mobile smartphone and feature phone market, and competitive pressures may result in lower demand for our product solutions, pricing pressures, and reduced unit margins.

Any movement away from high-quality, custom designed, feature-rich human interface solutions to lower priced alternatives would adversely affect our business. Some of our competitors, particularly in the markets for mobile product applications and other electronic devices, have greater market recognition, larger customer bases, and substantially greater financial, technical, marketing, distribution, and other resources than we possess and that afford them competitive advantages. As a result, they may be able to devote greater resources to the promotion and sale of products, to negotiate lower prices for raw materials and components, to deliver competitive products at lower prices, and to introduce new product solutions and respond to customer requirements more quickly than we can. Our competitive position could suffer if one or more of our customers determine not to utilize our custom engineered, total solutions approach and instead decide to design and manufacture their own interfaces, to contract with our competitors, or to use alternative technologies.

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Our ability to compete successfully depends on a number of factors, both within and outside our control. These factors include the following:

- our success in designing and introducing new human interface solutions, including those implementing new technologies;
- our ability to predict the evolving needs of our customers and to assist them in incorporating our technologies into their new products;
- our ability to meet our customers requirements for low power consumption, ease of use, reliability, durability, and small form factor;
- our ability to meet our customers price and performance requirements;
- the quality of our customer service and support;
- the rate at which customers incorporate our human interface solutions into their own products;
- product or technology introductions by our competitors; and
- foreign currency fluctuations, which may cause a foreign competitor s products to be priced significantly lower than our product solutions.

**If we do not keep pace with technological innovations, our products may not be competitive and our revenue and operating results may suffer.**

We operate in rapidly changing highly competitive markets. Technological advances, the introduction of new products, and new design techniques could adversely affect our business unless we are able to adapt to the changing conditions. Technological advances could render our solutions less competitive or obsolete, and we may not be able to respond effectively to the technological requirements of evolving markets. As a result, we will be required to expend substantial funds for and commit significant resources to:

- continue research and development activities on existing and potential human interface solutions,
- hire additional engineering and other technical personnel, and
- purchase advanced design tools and test equipment.

Our business could be harmed if we are unable to develop and utilize new technologies that address the needs of our customers, or our competitors or customers do so more effectively than we do.

**Our efforts to develop new technologies may not result in commercial success, which could cause a decline in our revenue and could harm our business.**

Our research and development efforts with respect to new technologies may not result in customer or market acceptance. Some or all of those technologies may not successfully make the transition from the research and development stage to cost-effective production as a result of technology problems, competitive cost issues, yield problems, and other factors. Even when we successfully complete a research and development effort with respect to a particular technology, our customers may decide not to introduce or may terminate products utilizing the technology for a variety of reasons, including the following:

- difficulties with other suppliers of components for the products,
- superior technologies developed by our competitors and unfavorable comparisons of our solutions with these technologies,
- price considerations, and
- lack of anticipated or actual market demand for the products.

The nature of our business requires us to make continuing investments for new technologies. Significant expenses relating to one or more new technologies that ultimately prove to be unsuccessful for any reason could have a material adverse effect on us. In addition, any investments or acquisitions made to enhance our technologies may prove to be unsuccessful. If our efforts are unsuccessful, our business could be harmed.

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**We may not be able to enhance our existing product solutions and develop new product solutions in a timely manner.**

Our future operating results will depend to a significant extent on our ability to continue to provide new human interface solutions that compare favorably with alternative solutions on the basis of time to introduction, cost, performance, and end user preferences. Our success in maintaining existing and attracting new customers and developing new business depends on various factors, including the following:

- innovative development of new solutions for customer products,
- utilization of advances in technology,
- maintenance of quality standards,
- performance advantages,
- efficient and cost-effective solutions, and
- timely completion of the design and introduction of new human interface solutions.

Our inability to enhance our existing product solutions and develop new product solutions on a timely basis could harm our operating results and impede our growth.

**A technologically new human interface solution that achieves significant market share could harm our business.**

Our human interface solutions are designed to integrate touch, handwriting, and vision capabilities. New computing and communications devices could be developed that call for a different interface solution. Existing devices also could be modified to allow for a different interface solution. Our business could be harmed if our products become noncompetitive as a result of a technological breakthrough that allows a new interface solution to displace our solutions and achieve significant market acceptance.

**International sales and manufacturing risks could adversely affect our operating results.**

Our manufacturing and assembly operations are primarily conducted in China, Taiwan, and Thailand by contract manufacturers and semiconductor fabricators. We have sales and logistics operations in Hong Kong, and sales and engineering design support operations in China, Japan, Korea, Switzerland, and Taiwan. These international operations expose us to various economic, political, and other risks that could adversely affect our operations and operating results, including the following:

- difficulties and costs of staffing and managing a multi-national organization,
- unexpected changes in regulatory requirements,
- differing labor regulations,

potentially adverse tax consequences,

tariffs and duties and other trade barrier restrictions,

possible employee turnover or labor unrest,

greater difficulty in collecting accounts receivable,

the burdens and costs of compliance with a variety of foreign laws,

the volatility of currency exchange rates,

potentially reduced protection for intellectual property rights, and

political or economic instability in certain parts of the world.

The risks associated with international operations could negatively affect our operating results.

**Our business may suffer if international trade is hindered, disrupted, or economically disadvantaged.**

Political and economic conditions abroad may adversely affect the foreign production and sale of our products. Protectionist trade legislation in either the United States or foreign countries, such as a change in the current tariff structures, export or import compliance laws, or other trade policies, could adversely affect our ability to sell human interface solutions in foreign markets and to obtain materials or equipment from foreign suppliers.

Changes in policies by the U.S. or foreign governments resulting in, among other things, higher taxation, currency conversion limitations, restrictions on the transfer of funds, or the expropriation of private enterprises also could have a material adverse effect on us. Any actions by countries in which we conduct business to reverse policies that encourage foreign investment or foreign trade also could adversely affect our operating results. In addition, U.S. trade policies, such as most favored nation status and trade preferences for certain Asian nations, could affect the attractiveness of our services to our U.S. customers and adversely impact our operating results.

**Our operating results could be adversely affected by fluctuations in the value of the U.S. dollar against foreign currencies.**

We transact business predominantly in U.S. dollars and bill and collect our sales in U.S. dollars. A weakening of the dollar could cause our overseas vendors to require renegotiation of either the prices or currency we pay for their goods and services. In the future, customers may negotiate pricing and make payments in non-U.S. currencies. For fiscal 2013, approximately 8% of our costs were denominated in non-U.S. currencies, including Canadian dollars, Hong Kong dollars, British pounds, Taiwan dollars, Japanese yen, Korean won, Chinese yuan, and Swiss francs.

If our overseas vendors or customers require us to transact business in non-U.S. currencies, fluctuations in foreign currency exchange rates could affect our cost of goods, operating expenses, and operating margins and could result in exchange losses. In addition, currency devaluation can result in a loss to us if we hold deposits of that currency. Hedging foreign currencies can be difficult, especially if the currency is not freely traded. We cannot predict the impact of future exchange rate fluctuations on our operating results. We currently do not hedge any foreign currencies.

**A majority of our semiconductor fabricators and contract manufacturers are located in China, Taiwan, and Thailand, and most of our customers are located in Asia, increasing the risk that a natural disaster, labor strike, war, or political unrest in those countries or that region would disrupt our operations.**

A majority of our semiconductor fabricators and contract manufacturers and are located in China, Taiwan, and Thailand, and most of our customers are located in Asia. Events outside of our control, such as earthquakes, fires, floods, or other natural disasters, or political unrest, war, labor strikes, or work stoppages in these countries, would disrupt our operations, which would impact our business. The risk of earthquakes and tsunamis in the Pacific Rim, including Japan (such as the March 2011 earthquake and tsunamis) and Taiwan is significant because of the proximity to major earthquake fault lines. An earthquake or tsunami could cause significant delays in shipments of our product solutions until we are able to shift our outsourced operations. Further, a variety of political factors, such as political unrest in Thailand or political tension between North Korea and South Korea, could disrupt our operations and our ability to meet our customers production schedules. If any of these events occur, we may not be able to obtain alternative capacity. Failure to secure alternative capacity could cause a delay in the shipment of our product solutions, which would cause our revenue to fluctuate or decline.

**Variability of customer requirements resulting in cancellations, reductions, or delays may adversely affect our operating results.**

We must provide increasingly rapid product turnaround and respond to ever-shorter lead times. A variety of conditions, both specific to individual customers and generally affecting the demand for OEMs products, may cause customers to cancel, reduce, or delay orders. Cancellations, reductions, or delays by a significant customer or by a group of customers may adversely affect our revenue and could require us to repurchase inventory from our contract manufacturers, which could adversely affect our costs. On occasion, customers require rapid increases in production, which can strain our resources and reduce our margins. Although we have been able to obtain increased production capacity from our third-party manufacturers, we may be unable to do so at any given time to meet our customers demands if their demands exceed anticipated levels.

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**Our operating results may experience significant fluctuations that could result in a decline in the price of our stock.**

In addition to the variability resulting from the short-term nature of our customers commitments, other factors contribute to significant periodic and seasonal quarterly fluctuations in our operating results. These factors include the following:

- the cyclicality of the markets we serve;
- the timing and size of orders;
- order push-outs or cancellations;
- the volume of orders relative to our ability to deliver;
- product introductions and market acceptance of new products or new generations of products;
- the timing of product transitions;
- evolution in the life cycles of our customers products;
- timing of expenses in anticipation of future orders;
- changes in product mix;
- availability of manufacturing and assembly services;
- availability of necessary components and materials;
- changes in cost and availability of labor and components;
- the expanded use of high-cost, third-party components in the products we sell;
- timely delivery of product solutions to customers;
- pricing, performance, and availability of competitive products;

- introduction of new technologies into the markets we serve;
- emergence of new competitors;
- pressures on selling prices;
- the absolute and relative levels of corporate enterprise and consumer notebook purchases;
- our success in serving new markets; and
- changes in economic conditions.

Accordingly, period-to-period comparisons are not an indicator of our future performance. Negative or unanticipated fluctuations in our operating results may result in a decline in the price of our stock.

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**If we fail to manage our growth effectively, our infrastructure, management, and resources could be strained, our ability to effectively manage our business could be diminished, and our operating results could suffer.**

The failure to manage our planned growth effectively could strain our resources, which would impede our ability to increase revenue. We have increased the number of our human interface solutions and plan to expand further the number and diversity of our solutions and their use in the future. Our ability to manage our planned diversification and growth effectively will require us to:

- successfully hire, train, retain, and motivate additional employees, including employees outside the United States;
- efficiently plan and expand our facilities to meet increased headcount requirements;
- enhance our global operational, financial, and management infrastructure; and
- expand our development and production capacity.

In connection with the expansion and diversification of our product and customer base, we are increasing our personnel and making other expenditures to meet demand for our expanding product offerings, including offerings in the mobile product applications market and the notebook computer market. Increases in the demand for our products will require further expansion of our traditional notebook computer business as well as an increasing presence in the mobile product applications markets, including mobile smartphones and feature phones, the tablet market, and the ultrabook portion of the PC product applications market. To date, our sales of human interface solutions for mobile smartphones and feature phones have varied significantly from quarter to quarter. Risks are further increased because customers do not commit to firm production schedules for more than a short time in advance. Any increase in expenses or investments in infrastructure and facilities in anticipation of future orders that do not materialize would adversely affect our profitability. Our customers also may require rapid increases in design and production services that place an excessive short-term burden on our resources and the resources of our third-party manufacturers. If we cannot manage our growth effectively, our business and operating results could suffer.

**We depend on key personnel who would be difficult to replace, and our business will likely be harmed if we lose their services or cannot hire additional qualified personnel.**

Our success depends substantially on the efforts and abilities of our senior management and other key personnel. The competition for qualified management and key personnel, especially engineers, is intense. Although we maintain noncompetition and nondisclosure covenants with most of our key personnel and our key executives have change of control severance agreements, we do not have employment agreements with any of them. The loss of services of one or more of our key employees or the inability to hire, train, and retain key personnel, especially engineers and technical support personnel, and capable sales and customer-support employees outside the United States, could delay the development and sale of our products, disrupt our business, and interfere with our ability to execute our business plan.

**In the future, if we are unable to obtain stockholder approval of additional shares for our share-based compensation award programs we could be at a competitive disadvantage in the marketplace for qualified personnel or may be required to increase the cash element of our compensation program.**

Our compensation program, which includes cash and share-based compensation award components, has been instrumental in attracting, hiring, motivating, and retaining qualified personnel. As a Northern California-based high-growth technology company, competition for qualified personnel in our industry is extremely intense, particularly for engineering and other technical personnel. Our success depends on our continued ability to attract, hire, motivate, and retain qualified personnel and our share-based compensation award programs provide us with a competitive compensatory tool for this purpose. The continued use of our share-based compensation program is necessary for us to compete for engineering and other technical personnel and professional talent without significantly increasing cash compensation costs. In the future, if we are unable to obtain stockholder approval of additional shares for our share-based compensation award programs we could be at a competitive disadvantage in the marketplace for qualified personnel or may be required to increase the cash elements of our compensation program.

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**Our inability to protect our intellectual property could impair our competitive advantage, reduce our revenue, and increase our costs.**

Our success and ability to compete depend in part on our ability to maintain the proprietary aspects of our technologies and products. We rely on a combination of patents, copyrights, trade secrets, trademarks, confidentiality agreements, and other contractual provisions to protect our intellectual property, but these measures may provide only limited protection. We license from third parties certain technology used in and for our products. These third-party licenses are granted with restrictions, and there can be no assurances that such third-party technology will remain available to us on terms beneficial to us. Failure to enforce and protect our intellectual property rights or obtain from third parties the right to use necessary technology could have a material adverse effect on our business, financial condition, and operating results. In addition, the laws of some foreign countries do not protect proprietary rights as fully as do the laws of the United States.

Patents may not issue from the patent applications that we have filed or may file in the future. Our issued patents may be challenged, invalidated, or circumvented, and claims of our patents may not be of sufficient scope or strength, or issued in the proper geographic regions, to provide meaningful protection or any commercial advantage. In addition, certain of our patents will expire within several years.

We have not applied for, and do not have, any copyright registration on our technologies or products. We have applied to register certain of our trademarks in the United States and other countries. There can be no assurance that we will obtain registrations of principle or other trademarks in key markets. Failure to obtain registrations could compromise our ability to protect fully our trademarks and brands and could increase the risk of challenge from third parties to our use of our trademarks and brands.

We do not consistently rely on written agreements with our customers, suppliers, manufacturers, and other recipients of our technologies and products, and therefore some trade secret protection may be lost and our ability to enforce our intellectual property rights may be limited. Additionally, our customers, suppliers, manufacturers, and other recipients of our technologies and products may seek to use our technologies and products without appropriate limitations. In the past, we did not consistently require our employees and consultants to enter into confidentiality, employment, or proprietary information and invention assignment agreements. Therefore, our former employees and consultants may try to claim some ownership interest in our technologies and products and may use our technologies and products competitively and without appropriate limitations.

**We may be required to incur substantial expenses and divert management attention and resources in defending intellectual property litigation against us.**

We may receive notices from third parties that claim our products infringe their rights. From time to time, we receive notice from third parties of the intellectual property rights such parties have obtained. We cannot be certain that our technologies and products do not and will not infringe issued patents or other proprietary rights of others. Any future claims, with or without merit, could result in significant litigation costs and diversion of resources, including the attention of management, and could require us to enter into royalty and licensing agreements, any of which could have a material adverse effect on our business. There can be no assurance that such licenses could be obtained on commercially reasonable terms, if at all, or that the terms of any offered licenses would be acceptable to us. If forced to cease using such technology, there can be no assurance that we would be able to develop or obtain alternate technology. Accordingly, an adverse determination in a judicial or administrative proceeding or failure to obtain necessary licenses could prevent us from manufacturing, using, or selling certain of our products, which could have a material adverse effect on our business, financial condition, and operating results.

Furthermore, parties making such claims could secure a judgment awarding substantial damages, as well as injunctive or other equitable relief that could effectively block our ability to make, use, or sell our products in the United States or abroad. Such a judgment could have a material adverse effect on our business, financial condition, and operating results. In addition, we are obligated under certain agreements to indemnify the other party in connection with infringement by us of the proprietary rights of third parties. In the event we are required to indemnify parties under these agreements, it could have a material adverse effect on our business, financial condition, and operating results.

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**We may incur substantial expenses and divert management resources in prosecuting others for their unauthorized use of our intellectual property rights.**

The markets in which we compete are characterized by frequent litigation regarding patents and other intellectual property rights. Other companies, including our competitors, may develop technologies that are similar or superior to our technologies, duplicate our technologies, or design around our patents and may have or obtain patents or other proprietary rights that would prevent, limit, or interfere with our ability to make, use, or sell our products. Effective intellectual property protection may be unavailable or limited in some foreign countries in which we operate, such as China and Taiwan. Unauthorized parties may attempt to copy or otherwise use aspects of our technologies and products that we regard as proprietary. There can be no assurance that our means of protecting our proprietary rights in the United States or abroad will be adequate or that competitors will not independently develop similar technologies. If our intellectual property protection is insufficient to protect our intellectual property rights, we could face increased competition in the markets for our technologies and products.

Should any of our competitors file patent applications or obtain patents that claim inventions also claimed by us, we may choose to participate in an interference proceeding to determine the right to a patent for these inventions because our business would be harmed if we fail to enforce and protect our intellectual property rights. Even if the outcome is favorable, this proceeding could result in substantial cost to us and disrupt our business.

In the future, we also may need to file lawsuits to enforce our intellectual property rights, to protect our trade secrets, or to determine the validity and scope of the proprietary rights of others. This litigation, whether successful or unsuccessful, could result in substantial costs and diversion of resources, which could have a material adverse effect on our business, financial condition, and operating results.

**If we become subject to product returns and product liability claims resulting from defects in our products, we may fail to achieve market acceptance of our products and our business could be harmed.**

We develop complex products in an evolving marketplace and generally warrant our products for a period of 12 months from the date of sale. Despite testing by us and our customers, defects may be found in existing or new products. Manufacturing errors or product defects could result in a delay in recognition or loss of revenue, loss of market share, or failure to achieve market acceptance. Additionally, defects could result in financial or other damages to our customers; cause us to incur significant warranty, support, and repair costs; and divert the attention of our engineering personnel from key product development efforts. In such circumstances, our customers could also seek and obtain damages from us for their losses. A product liability claim brought against us, even if unsuccessful, would likely be time-consuming and costly to defend. The occurrence of such problems would likely harm our business.

**Potential strategic alliances may not achieve their objectives, and the failure to do so could impede our growth.**

We anticipate that we will enter into strategic alliances. Among other matters, we continually explore strategic alliances designed to enhance or complement our technology or to work in conjunction with our technology; to provide necessary know-how, components, or supplies; and to develop, introduce, and distribute products utilizing our technology. Any strategic alliances may not achieve their intended objectives, and parties to our strategic alliances may not perform as contemplated. The failure of these alliances may impede our ability to introduce new products and enter new markets.

**Any acquisitions that we undertake could be difficult to integrate, disrupt our business, dilute stockholder value, and harm our operating results.**

We expect to pursue opportunities to acquire other businesses and technologies in order to complement our current human interface solutions, expand the breadth of our markets, enhance our technical capabilities, or otherwise offer growth opportunities. We cannot accurately predict the timing, size, and success of any future acquisitions. We may be unable to identify suitable acquisition candidates or to complete the acquisitions of candidates that we identify. Increased competition for acquisition candidates or increased asking prices by acquisition candidates may increase purchase prices for acquisitions to levels beyond our financial capability or to levels that would not result in the returns required by our acquisition criteria. Acquisitions also may become more difficult in the future as we or others acquire the most attractive candidates. Unforeseen expenses, difficulties, and delays frequently encountered in connection with rapid expansion through acquisitions could inhibit our growth and negatively impact our operating results. If we make any future acquisitions, we could issue stock that would dilute existing stockholders percentage ownership, incur substantial debt, assume contingent liabilities, or experience higher operating expenses.

As a part of any potential acquisition, we may engage in discussions with various companies. In connection with these discussions, we and each potential acquisition candidate exchange confidential operational and financial information, conduct due diligence inquiries, and consider the structure, terms, and conditions of the potential acquisition. In certain cases, the prospective acquisition candidate agrees not to discuss a potential acquisition with any other party for a specific period of time and agrees to take other actions designed to enhance the possibility of the acquisition, such as preparing audited financial information. Potential acquisition discussions frequently take place over a long period of time and involve difficult business integration and other issues. As a result of these and other factors, a number of potential acquisitions that from time to time appear likely to occur do not result in binding legal agreements and are not consummated, but may result in increased legal and consulting costs.

We cannot assure you that we would be successful in overcoming problems encountered in connection with any acquisitions, and our inability to do so could disrupt our operations, result in goodwill or intangible asset impairment charges, and adversely affect our business. Our experience in acquiring other businesses and technologies is limited.

**Any acquisitions that we undertake in the future could be difficult to integrate, disrupt our business, and harm our operations.**

In order to pursue a successful acquisition strategy, we may need to integrate the operations of acquired businesses into our operations, including centralizing certain functions to achieve cost savings and pursuing programs and processes that leverage our revenue and growth opportunities. The integration of the management, operations, and facilities of acquired businesses with our own could involve difficulties, which could adversely affect our growth rate and operating results.

We may be unable to complete effectively an integration of the management, operations, facilities, and accounting and information systems of acquired businesses with our own; to manage efficiently the combined operations of the acquired businesses with our operations; to achieve our operating, growth, and performance goals for acquired businesses; to achieve additional revenue as a result of our expanded operations; or to achieve operating efficiencies or otherwise realize cost savings as a result of anticipated acquisition synergies. The integration of acquired businesses involves numerous risks, including the following:

- the potential disruption of our core business;
- the potential strain on our financial and managerial controls and reporting systems and procedures;
- potential unknown liabilities associated with the acquired business;
- unanticipated costs associated with the acquisition;
- diversion of management s attention from our core business;
- problems assimilating the purchased operations, technologies, or products;
- risks associated with entering markets and businesses in which we have little or no prior experience;
- failure of acquired businesses to achieve expected results;
- adverse effects on existing business relationships with suppliers and customers;

failure to retain key customers, suppliers, or personnel of acquired businesses;

the risk of impairment charges related to potential write-downs of acquired assets; and

creating uniform standards, controls, procedures, policies, and information systems.

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**Repatriation of our foreign earnings to the United States or changes in tax laws may adversely affect our future reported tax rates and financial results or the way we conduct our business.**

Changes in tax laws may adversely affect our future reported tax rates and financial results or the way we conduct our business. We consider the undistributed operating earnings of certain foreign subsidiaries of approximately $384.6 million as of the end of fiscal 2013, to be indefinitely invested outside the United States and have not provided for U.S. federal and state income taxes that may result from future remittances of those undistributed operating earnings. Proposals to reform U.S. tax laws, including proposals that could reduce or eliminate the deferral of U.S. income tax on our foreign subsidiaries undistributed earnings, could require those earnings to be taxed at the U.S. federal income tax rate. If we do need to access our foreign subsidiaries undistributed earnings for our domestic operations, we would be required to accrue and pay U.S. taxes to repatriate these funds, which would adversely impact our financial position and results of operations.

**Currently our investments in auction rate securities, or ARS investments, are not liquid, and we may lose some or all of our principal invested or may be required to further reduce the carrying value if the issuers are not able to meet their payment obligations or if we sell our ARS investments before they recover.**

We ended fiscal 2013 with $24.0 million invested in ARS investments for which the auctions have failed and our investments are not liquid. The carrying value of these investments was $17.0 million, reflecting $13.8 million of other-than-temporary impairment, partially offset by $6.8 million of unrealized recovery. If the issuers are not able to meet their payment obligations or if we sell our ARS investments before they recover, we may lose some or all of the principal invested or may be required to further reduce the carrying value. This would adversely affect our financial position, operating results, and cash flows.

**Legislation affecting the markets in which we participate could adversely affect our ability to implement our growth strategies.**

Our ability to expand our business may be adversely impacted by future laws or regulations. Our customers products may be subject to laws relating to environmental regulations, communications, encryption technology, electronic commerce, e-signatures, governmental control over content, and privacy. Any of these laws could be expensive to comply with, and the marketability of our products could be adversely affected.

**We face risks associated with security breaches or cyber attacks.**

We face risks associated with security breaches or cyber attacks of our computer systems or those of our third-party representatives, vendors, and service providers. Although we have implemented security procedures and controls to address these threats, our systems may still be vulnerable to data theft, computer viruses, programming errors, attacks by third parties, or similar disruptive problems. If we were to experience a security breach or cyber attack, we could be required to incur substantial costs and liabilities, including the following: expenses to rectify the consequences of the security breach or cyber attack, liability for stolen assets or information, costs of repairing damage to our systems, lost revenue and income resulting from any system downtime caused by such breach or attack, increased costs of cyber security protection, costs of incentives we may be required to offer to our customers or business partners to retain their business, and damage to our reputation. In addition, any compromise of security or a cyber attack could deter customers or business partners from entering into transactions that involve providing confidential information to us. Furthermore, if confidential customer information or information belonging to our business partners is misappropriated from our systems, we could be sued by those who assert we did not take adequate precautions to safeguard our systems and confidential data belonging to our customers or business partners, which could subject us to liability and result in significant legal expenses of defending these claims. As a result, any compromise of security of our systems or cyber attack could have a material adverse effect on our business, reputation, financial condition, and operating results.

**We must finance the growth of our business and the development of new products, which could have an adverse effect on our operating results.**

To remain competitive, we must continue to make significant investments in research and development, marketing, and business development. Our failure to increase sufficiently our net revenue to offset these increased costs would adversely affect our operating results.

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From time to time, we may seek additional equity or debt financing to provide for funds required to expand our business, including through acquisitions. We cannot predict the timing or amount of any such requirements at this time. If such financing is not available on satisfactory terms, we may be unable to expand our business or to develop new business at the rate desired and our operating results may suffer. Debt financing increases expenses and must be repaid regardless of operating results. Equity financing could result in additional dilution to existing stockholders.

We consider the undistributed operating earnings of certain foreign subsidiaries to be indefinitely invested outside the United States. If we were to distribute a portion of those earnings to our U.S. parent company to finance our future growth, we would be required to pay U.S. federal and state taxes on the distribution and further may be required to accrue U.S. and state taxes on the remaining undistributed operating earnings, which would adversely affect our tax rate and financial results.

**Our target markets are cyclical and may result in fluctuations in our operating results.**

The PC and electronics industries have experienced significant economic downturns at various times. These downturns are characterized by diminished product demand, accelerated erosion of average selling prices, and production overcapacity. In addition, the PC and electronics industries are cyclical in nature. We seek to reduce our exposure to industry downturns and cyclicality by providing design and production services for leading companies in rapidly expanding industry segments. We may, however, experience substantial period-to-period fluctuations in future operating results because of general industry conditions or events occurring in the general economy.

**Continuing uncertainty of the U.S. and global economy may have serious implications for the growth and stability of our business and may negatively affect our stock price.**

The revenue growth and profitability of our business depends significantly on the overall demand in the markets for mobile product applications and other electronic devices, including mobile smartphones and feature phones, and tablets as well as in the notebook computer market, including ultrabooks. Softening demand in these markets caused by ongoing economic uncertainty may result in decreased revenue or earnings levels or growth rates. The U.S. and global economy has been historically cyclical, and market conditions continue to be challenging, which has resulted in individuals and companies delaying or reducing expenditures. Further delays or reductions in spending could have a material adverse effect on demand for our products, and consequently on our business, financial condition, operating results, prospects, and stock price.

**We expect to incur additional expenses in complying with corporate governance and public disclosure requirements.**

Changing laws, regulations, and standards relating to corporate governance and public disclosure, including SEC regulations and Nasdaq Global Select Market rules, create uncertainty and increased expenses for companies such as ours. New or changed laws, regulations, and standards are subject to varying interpretations in many cases due to their lack of specificity and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, our efforts to comply with evolving laws, regulations, and standards have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. We expect these efforts to require the continued commitment of significant resources. In addition, it may become more difficult and more expensive for us to obtain director and officer liability insurance. As a result, we may have difficulty attracting and retaining qualified board members, which could harm our business. If our efforts to comply with new or changed laws, regulations, and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, our reputation may be harmed.

The Dodd-Frank Wall Street Reform and Consumer Protection Act required the SEC to establish new disclosure and reporting requirements for those companies who use conflict minerals mined from the Democratic Republic of Congo and adjoining countries in their products, whether or not these products are manufactured by third parties. When these new requirements are implemented, they could adversely affect the sourcing and availability of minerals used in the manufacture of our products. There will also be costs associated with complying with the disclosure requirements, including for due diligence in regard to the sources of any conflict minerals used in our products, in addition to the cost of remediation and other changes to products, processes, or sources of supply as a consequence of such verification activities.

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**The accounting requirements for income taxes on certain of our share-based awards will subject our future quarterly and annual effective tax rates to greater volatility and, consequently, our ability to estimate reasonably our future quarterly and annual effective tax rates is greatly diminished.**

We recognize tax benefit upon expensing nonqualified stock options and deferred stock units, or DSUs, issued under our share-based compensation plans. However, under current accounting standards, we cannot recognize tax benefit concurrent with expensing incentive stock options and employee stock purchase plan shares (qualified stock options) issued under our share-based compensation plans. For qualified stock options that vested after our adoption of the applicable accounting standards, we recognize the tax benefit only in the period when disqualifying dispositions of the underlying stock occur and, for qualified stock options that vested prior to our adoption of the applicable accounting standards, the tax benefit is recorded directly to additional paid-in capital. Accordingly, because we cannot recognize the tax benefit for share-based compensation expense associated with qualified stock options until the occurrence of future disqualifying dispositions of the underlying stock and such disqualified dispositions may happen in periods when our stock price substantially increases, and because a portion of that tax benefit may be directly recorded to additional paid-in capital, our future quarterly and annual effective tax rates will be subject to greater volatility and, consequently, our ability to estimate reasonably our future quarterly and annual effective tax rates is greatly diminished.

**Future changes in financial accounting standards or practices may cause adverse unexpected fluctuations and affect our reported operating results.**

A change in accounting standards or practices could have a significant effect on our reported operating results. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred in the past and may occur in the future. Changes to existing rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business.

Further, the U.S.-based Financial Accounting Standards Board, or FASB, is currently working together with the International Accounting Standards Board, or IASB, on several projects to further align accounting principles and facilitate more comparable financial reporting between companies who are required to follow U.S. Generally Accepted Accounting Principles, or GAAP, under SEC regulations and those who are required to follow International Financial Reporting Standards, or IFRS, outside of the United States. These efforts by the FASB and IASB may result in different accounting principles under GAAP that may result in materially different financial results for us in areas including, but not limited to, principles for recognizing revenue and lease accounting.

It is not clear if or when these potential changes in accounting principles may become effective, whether we have the proper systems and controls in place to accommodate such changes, and the impact that any such changes may have on our consolidated financial position, operating results, and cash flows. In addition, as we evolve and change our business and sales models, we are currently unable to take into account how these potential changes may impact our new models, particularly in the area of revenue recognition.

**Our charter documents and Delaware law could make it more difficult for a third party to acquire us, and discourage a takeover.**

Our certificate of incorporation and the Delaware General Corporation Law contain provisions that may have the effect of making more difficult or delaying attempts by others to obtain control of our company, even when these attempts may be in the best interests of our stockholders. Our certificate of incorporation also authorizes our Board of Directors, without stockholder approval, to issue one or more series of preferred stock, which could have voting and conversion rights that adversely affect or dilute the voting power of the holders of common stock. Delaware law also imposes conditions on certain business combination transactions with interested stockholders. Our certificate of incorporation divides our Board of Directors into three classes, with one class to stand for election each year for a three-year term after the election. The classification of directors tends to discourage a third party from initiating a proxy solicitation or otherwise attempting to obtain control of our company and may maintain the incumbency of our Board of Directors, as this structure generally increases the difficulty of, or may delay, replacing a majority of directors. Our certificate of incorporation authorizes our Board of Directors to fill vacancies or newly created directorships. A majority of the directors then in office may elect a successor to fill any vacancies or newly created directorships.

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**Sales of large numbers of shares could adversely affect the price of our common stock.**

As of the date of this Annual Report on Form 10-K, all of the outstanding shares of our common stock were eligible for resale in the public markets. Of these shares, approximately one-third were held by affiliates and were eligible for resale in the public markets subject to compliance with the volume and manner of sale rules of Rules 144 or 701 under the Securities Act of 1933, as amended, or the Securities Act, and the balance of the shares were eligible for resale in the public markets as unrestricted shares. In general, under Rule 144 as currently in effect, any person (or persons whose shares are aggregated for purposes of Rule 144) who is deemed an affiliate of our company and beneficially owns restricted securities with respect to which at least six months has elapsed since the later of the date the shares were acquired from us, or from an affiliate of ours, is entitled to sell within any three-month period a number of shares that does not exceed the greater of 1% of the then outstanding shares of our common stock or the average weekly trading volume in common stock during the four calendar weeks preceding such sale. Sales by affiliates under Rule 144 also are subject to certain manner-of-sale provisions and notice requirements and to the availability of current public information about us.

Rule 701, as currently in effect, permits our employees, officers, directors, and consultants who purchase shares pursuant to a written compensatory plan or contract to resell these shares in reliance upon Rule 144, but without compliance with specific restrictions. Rule 701 provides that affiliates may sell their Rule 701 shares under Rule 144 without complying with the holding period requirement and non-affiliates may sell their shares in reliance on Rule 144 without complying with the holding period, public information, volume limitation, or notice provisions of Rule 144. A person who is not an affiliate, who has not been an affiliate within three months prior to sale, and who beneficially owns restricted securities with respect to which at least one year has elapsed since the later of the date the shares were acquired from us, or from an affiliate of ours, is entitled to sell such shares under Rule 144 without regard to any of the volume limitations or other requirements described above. Sales of substantial amounts of common stock in the public market could adversely affect prevailing market prices.

We have registered an aggregate of $100.0 million of common stock and preferred stock for issuance in connection with acquisitions, which shares generally will be freely tradeable after their issuance under Rule 145 of the Securities Act, unless held by an affiliate of the acquired company, in which case such shares will be subject to the volume and manner of sale restrictions of Rule 144 discussed above. The issuance or subsequent sale of these shares in the public market could adversely affect prevailing market prices.

We have registered for offer and sale the shares of common stock that are reserved for issuance pursuant to our outstanding share-based compensation plans. Shares issued in connection with our share-based compensation plans generally will be eligible for sale in the public market, except that affiliates will continue to be subject to volume limitations and other requirements of Rule 144. The issuance or subsequent sale of such shares could depress the market price of our common stock.

**The market price of our common stock has been and may continue to be volatile.**

The trading price of our common stock has been and may continue to be subject to wide fluctuations in response to various factors, including the following:

- variations in our quarterly results;
- the financial guidance we may provide to the public, any changes in such guidance, or our failure to meet such guidance;
- changes in financial estimates by industry or securities analysts or our failure to meet such estimates;
- various market factors or perceived market factors, including rumors, whether or not correct, involving us, our customers, our suppliers, or our competitors;
- announcements of technological innovations by us or by our competitors;

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- introductions of new products or new pricing policies by us or by our competitors;
- acquisitions or strategic alliances by us or by our competitors;
- recruitment or departure of key personnel;
- the gain or loss of significant orders;
- the gain or loss of significant customers;
- market conditions in our industry, the industries of our customers, and the economy as a whole;
- short positions held by investors; and
- general financial market conditions or occurrences.

In addition, stocks of technology companies have experienced extreme price and volume fluctuations that often have been unrelated or disproportionate to these companies operating performance. Public announcements by technology companies concerning, among other things, their performance, accounting practices, or legal problems could cause the market price of our common stock to decline regardless of our actual operating performance.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 2. PROPERTIES**

Our principal executive offices as well as our principal research, development, sales, marketing, and administrative functions are currently located in our 161,000 square foot facilities in San Jose. We lease approximately 34,000 square feet in New York used for research and development; approximately 7,000 square feet in Texas for sales and research and development; and approximately 4,000 square feet in each of Georgia and Idaho for research and development. Our Asia/Pacific headquarters are located in Hong Kong where we lease approximately 15,000 square feet of space. We also maintain approximately 43,000 square feet of office space in Taiwan, approximately 19,000 square feet of office space in China, approximately 6,000 square feet of office space in Japan, approximately 10,000 square feet of office space in Korea, and approximately 1,100 square feet of office space in Switzerland. We have satellite sales support offices in Finland.

**ITEM 3. LEGAL PROCEEDINGS**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

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## PART II

## ITEM 5. MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

**Market Information on Common Stock**

Our common stock has been listed on the Nasdaq Global Select Market (formerly on the Nasdaq National Market) under the symbol SYNA since January 29, 2002. Prior to that time, there was no public market for our common stock. The following table sets forth for the periods indicated the high and low sales prices of our common stock as quoted on the Nasdaq Global Select Market.

| | High | Low |
|---|---|---|
| **Fiscal 2013:** | | |
| First quarter | $ 31.56 | $ 23.67 |
| Second quarter | $ 30.36 | $ 22.58 |
| Third quarter | $ 41.49 | $ 29.28 |
| Fourth quarter | $ 45.40 | $ 34.74 |
| **Fiscal 2012:** | | |
| First quarter | $ 26.21 | $ 21.97 |
| Second quarter | $ 34.94 | $ 22.65 |
| Third quarter | $ 39.89 | $ 30.00 |
| Fourth quarter | $ 36.73 | $ 24.78 |

**Stockholders**

As of August 5, 2013, there were approximately 140 holders of record of our common stock. The closing price of our common stock as quoted on the Nasdaq Global Select Market as of August 5, 2013 was $39.80.

**Dividends**

We have never declared or paid cash dividends on our common stock. We currently plan to retain any earnings to finance the growth of our business, or purchase shares under our common stock repurchase program rather than to pay cash dividends. Payments of any cash dividends in the future will depend on our financial condition, operating results, and capital requirements as well as other factors deemed relevant by our board of directors.

Our revolving line of credit also places restrictions on the payment of any dividends.

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**Issuer Purchases of Equity Securities**

From April 2005 through June 2013, our Board of Directors has cumulatively authorized $520.0 million for our common stock repurchase program, which expires in October 2013. The remaining amount authorized for the repurchase of our common stock is $59.8 million. Repurchases under the stock repurchase program during the three-month period ended June 29, 2013 were as follows:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Maximum Dollar Value of Shares that May Yet Be Purchased Under the Program |
|---|---|---|---|---|
| March 31, 2013 - April 27, 2013 | | $ | | $ 74,835,000 |
| April 28, 2013 - May 25, 2013 | 359,400 | 41.72 | 359,400 | 59,840,000 |
| May 26, 2013 - June 29, 2013 | | | | 59,840,000 |
| Total | 359,400 | 41.72 | | |

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**Performance Graph**

The following line graph compares cumulative total stockholder returns for the five years ended June 30, 2013 for (i) our common stock, (ii) the Nasdaq Composite Index, (iii) Philadelphia Semiconductor Index, and (iv) the Nasdaq Computer Index. The graph assumes an investment of $100 on June 30, 2008. The calculations of cumulative stockholder return on the Nasdaq Composite Index, the Philadelphia Semiconductor Index, and the Nasdaq Computer Index include reinvestment of dividends. The calculation of cumulative stockholder return on our common stock does not include reinvestment of dividends because we did not pay any dividends during the measurement period. The historical performance shown is not necessarily indicative of future performance.

The performance graph above shall not be deemed filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section. The performance graph above will not be deemed incorporated by reference into any filing of our company under the Exchange Act or the Securities Act.

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**ITEM 6. SELECTED FINANCIAL DATA**

The following presents selected financial data for each fiscal year in the five-year period ended June 30, 2013. Our fiscal year is the 52- or 53-week period ending on the last Saturday in June. Fiscal 2012 was a 53-week period and the other fiscal years presented were 52-week periods. Our past results of operations are not necessarily indicative of our future results of operations. You should read the selected financial data below in conjunction with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes contained elsewhere in this report.

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| | | (in thousands, except per share amounts) | | | |
| **Consolidated Statements of Income Data:** | | | | | |
| Net revenue | $ 663,588 | $ 548,228 | $ 598,538 | $ 514,890 | $ 473,302 |
| Cost of revenue | 337,784 | 292,661 | 352,468 | 306,188 | 281,793 |
| Gross margin | 325,804 | 255,567 | 246,070 | 208,702 | 191,509 |
| Operating expenses: | | | | | |
| Research and development | 144,699 | 117,954 | 105,003 | 86,552 | 68,026 |
| Selling, general, and administrative | 79,620 | 70,045 | 68,549 | 60,027 | 54,014 |
| Acquired intangibles amortization | 1,025 | | | | |
| Change in contingent consideration | 1,347 | | | | |
| Gain on sale of property and equipment | (1,578) | | | | |
| Total operating expenses | 225,113 | 187,999 | 173,552 | 146,579 | 122,040 |
| Operating income | 100,691 | 67,568 | 72,518 | 62,123 | 69,469 |
| Interest income/(expense), net | 848 | 905 | 894 | (1,423) | (3,831) |
| Non-cash interest income | 194 | | | | |
| Other charges or expenses | | 77 | 59 | (443) | (10,296) |
| Income before provision for income taxes | 101,733 | 68,550 | 73,471 | 60,257 | 55,342 |
| Provision for income taxes | 2,800 | 14,406 | 9,675 | 7,292 | 7,263 |
| Net income | $ 98,933 | $ 54,144 | $ 63,796 | $ 52,965 | $ 48,079 |
| Net income per share: | | | | | |
| Basic(1) | $ 3.03 | $ 1.64 | $ 1.87 | $ 1.57 | $ 1.41 |
| Diluted(1) | $ 2.89 | $ 1.57 | $ 1.80 | $ 1.50 | $ 1.35 |
| Shares used in computing net income per share: | | | | | |
| Basic(1) | 32,658 | 33,030 | 34,042 | 33,836 | 33,981 |
| Diluted(1) | 34,239 | 34,435 | 35,454 | 35,423 | 35,577 |
| **Consolidated Balance Sheets Data:** | | | | | |
| Cash, cash equivalents, and short-term investments | $ 355,303 | $ 305,005 | $ 247,153 | $ 209,858 | $ 191,970 |
| Working capital | 410,794 | 340,579 | 281,423 | 228,534 | 159,693 |
| Total assets | 691,266 | 541,505 | 456,201 | 414,679 | 376,150 |
| Current debt | | | | | 63,234 |
| Long-term debt | 2,305 | 2,305 | 2,305 | 2,305 | |
| Treasury shares, at cost | 460,160 | 413,885 | 352,142 | 281,932 | 237,387 |
| Total stockholders equity | 521,855 | 396,790 | 339,993 | 286,511 | 222,606 |

(1) All share and per share amounts reflect the 3-for-2 stock split effected as a stock dividend and paid on August 29, 2008.
Our basic net income per share amounts for each period presented have been computed using the weighted average number of shares of common stock outstanding. Our diluted net income per share amounts for each period presented include the weighted average effect of potentially dilutive shares. We used the treasury stock method to determine the dilutive effect of our stock options, DSUs, Market Stock Units, or MSUs, and convertible notes.

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## ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Forward-Looking Statements and Factors That May Affect Results

You should read the following discussion and analysis in conjunction with our financial statements and related notes contained elsewhere in this report. This discussion contains forward-looking statements that involve risks, uncertainties, and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of a variety of factors, including those set forth under Item 1A. Risk Factors.

### Overview

We are a leading worldwide developer and supplier of custom-designed human interface solutions that enable people to interact more easily and intuitively with a wide variety of mobile computing, communications, entertainment, and other electronic devices. We believe our results to date reflect the combination of our customer focus, the strength of our intellectual property, and our engineering know-how, which allow us to develop or engineer products that meet the demanding design specifications of OEMs.

We recognize revenue from product sales when there is persuasive evidence that an arrangement exists, delivery has occurred and title has transferred, the price is fixed or determinable, and collection is reasonably assured. Our net revenue increased from $361.1 million for fiscal 2008 to $663.6 million for fiscal 2013, representing a compound annual growth rate of approximately 13%. For fiscal 2008, we derived 76% of our net revenue from the personal computer market and 24% of our net revenue from the mobile product applications market. For fiscal 2013, revenue from the personal computer market accounted for 36% of our net revenue and revenue from the mobile product applications market accounted for 64% of our net revenue.

Many of our customers have manufacturing operations in China, and many of our OEM customers have established design centers in Asia. With our expanded global presence, including offices in China, Finland, Hong Kong, Japan, Korea, Switzerland, Taiwan, and the United States, we are well positioned to provide local sales, operational, and engineering support services to our existing customers, as well as potential new customers, on a global basis.

Our manufacturing operations are based on a variable cost model in which we outsource all of our production requirements and generally drop ship our products directly to our customers from our contract manufacturers facilities, eliminating the need for significant capital expenditures and allowing us to minimize our investment in inventories. This approach requires us to work closely with our contract manufacturers and semiconductor fabricators to ensure adequate production capacity to meet our forecasted volume requirements. We provide our contract manufacturers with six-month rolling forecasts and issue purchase orders based on our anticipated requirements for the next 90 days. However, we do not have any long-term supply contracts with any of our contract manufacturers. We use three third-party wafer manufacturers to supply wafers and one third-party packaging manufacturer to package our proprietary ASICs. In certain cases, we rely on a single source or a limited number of suppliers to provide other key components of our products. Our cost of revenue includes all costs associated with the production of our products, including materials, logistics, manufacturing, assembly, and test costs paid to third-party manufacturers and related overhead costs associated with our indirect manufacturing operations personnel. Additionally, we charge all warranty costs, yield losses, and any inventory provisions or write-downs to cost of revenue.

Our gross margin generally reflects the combination of the added value we bring to our OEM customers products in meeting their custom design requirements and the impact of our ongoing cost-improvement programs. These cost-improvement programs include reducing materials and component costs and implementing design and process improvements. Our newly introduced products may have lower margins than our more mature products, which have realized greater benefits associated with our ongoing cost-improvement programs. As a result, new product introductions may initially negatively impact our gross margin.

Our research and development expenses include costs for supplies and materials related to product development, as well as the engineering costs incurred to design human interface solutions for OEM customers prior to and after their commitment to incorporate those solutions into their products. These expenses have generally increased, reflecting our continuing commitment to the technological and design innovation required to maintain our position in our existing markets and to adapt our existing technologies or develop new technologies for new markets.

Selling, general, and administrative expenses include expenses related to sales, marketing, and administrative personnel; internal sales and outside sales representatives commissions; market and usability research; outside legal, accounting, and consulting costs; and other marketing and sales activities. These expenses have generally increased, primarily reflecting incremental staffing and related support costs associated with our increased business levels, growth in our existing markets, and penetration into new markets.

**Critical Accounting Policies and Estimates**

The preparation of consolidated financial statements in conformity with GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, allowance for doubtful accounts, cost of revenue, inventories, product warranty, share-based compensation costs, provision for income taxes, deferred income tax asset valuation allowances, uncertain tax positions, tax contingencies, goodwill, intangible assets, investments, and contingencies. We base our estimates on historical experience, applicable laws and regulations, and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The methods, estimates, interpretations, and judgments we use in applying our most critical accounting policies can have a significant impact on the results that we report in our consolidated financial statements. The SEC considers an entity s most critical accounting policies to be those policies that are both most important to the portrayal of the entity s financial condition and results of operations and those that require the entity s most difficult, subjective, or complex judgments, often as a result of the need to make assumptions and estimates about matters that are inherently uncertain. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

*Revenue Recognition*

We recognize revenue from product sales when there is persuasive evidence that an arrangement exists, delivery has occurred and title has transferred, the price is fixed or determinable, and collection is reasonably assured, which is generally upon shipment of the product. We accrue for estimated sales returns, incentives and other allowances at the time we recognize revenue. Our products contain embedded firmware and software that allows for further differentiation and customer integration, which together with, or consisting of, our ASIC chip delivers the essential functionality of our products and, as such, software revenue recognition guidance is not applicable.

*Investments*

Accounting standards require us to record available-for-sale securities at fair value, with unrealized gains and losses being reported as a component of other comprehensive income. We follow the accounting standards to assess whether our investments with loss positions are other-than-temporarily impaired. We follow the hierarchal approach established under the accounting standards to determine fair value of our investments.

The accounting standards define fair value 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. Our fair value estimates consider, among other factors, the collateral underlying the security investments, creditworthiness of the counterparty, timing of expected future cash flows, and, in the case of ARS investments, the probability of a successful auction in a future period. We follow the guidance provided to estimate fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability, and to determine circumstances that may indicate that a transaction is not orderly.

Further, we use judgment in evaluating whether a decline in fair value is temporary or other-than-temporary and consider the following indicators: changes in credit ratings or asset quality; changes in the economic environment; length of time and extent to which fair value has been below cost basis; changes in market conditions; and changes in expected cash flows. We do not intend to sell the investments, and it is more likely than not that we will not be required to sell the investments before recovery of their amortized cost basis. Temporary declines in fair value are recorded as charges to accumulated other comprehensive income in the equity section of our balance sheet, while other-than-temporary declines in fair value are bifurcated between credit losses, which are charged to earnings, and noncredit losses, which depending on facts and circumstances may be charged to other comprehensive income or earnings.

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*Inventory*

We state our inventories at the lower of cost or market. We base our assessment of the ultimate realization of inventories on our projections of future demand and market conditions. Sudden declines in demand, rapid product improvements, or technological changes, or any combination of these factors can cause us to have excess or obsolete inventories. On an ongoing basis, we review for estimated obsolete or unmarketable inventories and write down our inventories to their net realizable value based upon our forecasts of future demand and market conditions. If actual market conditions are less favorable than our forecasts, additional inventory write-downs may be required. The following factors influence our estimates: changes to or cancellations of customer orders, unexpected decline in demand, rapid product improvements and technological advances, and termination or changes by our OEM customers of any product offerings incorporating our product solutions.

Periodically, we purchase inventory from our contract manufacturers when a customer delays its delivery schedule or cancels its order. In those circumstances in which our customer has cancelled its order and we purchase inventory from our contract manufacturers, we record a write-down, if necessary, to reduce the carrying value of the inventory purchased to its net realizable value. The effect of these write-downs is to establish a new cost basis in the related inventory, which we do not subsequently write up. We also record a liability and charge to cost of revenue for estimated losses on inventory we are obligated to purchase from our contract manufacturers when such losses become probable from customer delays or order cancellations.

*Goodwill*

Goodwill represents the excess of the purchase price over the fair value of net tangible and identifiable intangible assets acquired.

Goodwill is measured and tested for impairment annually during the last quarter of our fiscal year, or more frequently if we believe indicators of impairment exist. Events that could trigger a more frequent impairment review may include adverse industry or economic trends, restructuring actions, lower projections of profitability, or a sustained decline in our market capitalization. The impairment test involves a two-step process where the first step requires comparing the fair value of our one reporting unit to its net book value, including goodwill. We have allocated our goodwill to a single company-wide reporting unit. Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and forecasted operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions and determination of appropriate market comparables. We base our fair value estimates on assumptions we believe to be reasonable. Actual future results may differ from those estimates. Future competitive, market and economic conditions could negatively impact key assumptions including our market capitalization or the carrying value of our net assets which could require us to realize an impairment of our goodwill and intangible assets.

A potential impairment exists if the fair value of the reporting unit is less than its net book value. The second step of the process is only performed if a potential impairment exists, and it involves determining the difference between the fair value of the reporting unit s net assets other than goodwill to the fair value of the reporting unit and if the difference is less than the net book value of goodwill, an impairment exists and is recorded. No goodwill impairment was recognized in fiscal 2013, 2012 and 2011.

*Purchased Intangibles*

We review purchased intangible assets with finite lives for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. Recoverability of these intangible assets is assessed based on the estimated undiscounted future cash flows expected to result from the use of the asset. If the undiscounted future cash flows are less than the carrying amount, the purchased intangible assets with finite lives are considered to be impaired. The amount of the impairment is measured as the difference between the carrying amount of these assets and the fair value.

Our business combinations have included the purchase of in-process research and development assets that are not amortizable until the underlying project is complete. We assess that our in-process research and development project is complete when all material research and development costs have been incurred and no significant risks remain. We review the carrying value of indefinite-lived intangible assets for impairment at least annually during the last quarter of our fiscal year, or more frequently if we believe indicators of impairment exist.

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*Business Combinations*

We have applied significant estimates and judgments in order to determine the fair value of the identified assets acquired, liabilities assumed, goodwill recognized, and contingent consideration recorded in connection with our business combinations to ensure the value of the assets and liabilities acquired are recognized at fair value as of the acquisition date. In measuring the fair value, we utilize valuation techniques consistent with the market approach, income approach, or cost approach.

The valuation of the identifiable assets and liabilities includes assumptions made in performing the valuation, such as projected revenue, weighted average cost of capital, discount rates, estimated useful lives, estimated probabilities of achieving contingent payment milestones, and other relevant assessments. These assessments can be significantly affected by our estimates, judgments, and assumptions.

We do not believe that there is a reasonable likelihood that there will be material changes to our estimates, judgments, or assumptions. However, if actual results are not consistent with our estimates, judgments, or assumptions, or if additional or new information arises in the future that affects our fair value estimates, then adjustments to our initial fair value estimates may have a material impact to our purchase accounting or our results of operations.

*Share-Based Compensation Costs*

We account for employee share-based compensation costs in accordance with relevant accounting standards. We utilize the Black-Scholes option pricing model to estimate the grant date fair value of certain employee share-based compensatory awards, which requires the input of highly subjective assumptions, including expected volatility and expected life. Historical and implied volatilities were used in estimating the fair value of our share-based awards. The expected life for our options was previously estimated based on historical trends since our initial public offering. In fiscal 2011, we began to grant options with a contractual life of seven years rather than ten years, and we began using the simplified method of establishing the expected life as we did not have any history of options with seven-year lives. In fiscal 2013, we began to grant options that vest over a three-year period rather than a four-year period, and we continue to use the simplified method of establishing the expected life as we do not have any history of options that vest over a three-year period. Changes in these inputs and assumptions can materially affect the measure of estimated fair value of our share-based compensation. Estimated forfeitures for share-based awards that are not expected to vest are estimated based on historical trends since our initial public offering. We charge the estimated fair value less estimated forfeitures to earnings on a straight-line basis over the vesting period of the underlying awards, which is now generally three years for our stock options and DSUs and up to two years for our employee stock purchase plan.

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. As our stock option and our employee stock purchase plan awards have characteristics that differ significantly from traded options, and as changes in the subjective assumptions can materially affect the estimated value, our estimate of fair value may not accurately represent the value assigned by a third party in an arms-length transaction. There currently is no market-based mechanism to verify the reliability and accuracy of the estimates derived from the Black-Scholes option pricing model or other allowable valuation models, nor is there a means to compare and adjust the estimates to actual values. While our estimate of fair value and the associated charge to earnings materially affects our results of operations, it has no impact on our cash position.

We estimate the fair value of market-based MSUs at the date of grant using a Monte Carlo simulation model and amortize those fair values over the requisite service period, generally three years, adjusted for estimated forfeitures for each separately vesting tranche of the award. The Monte Carlo simulation model that we use to estimate the fair value of market-based MSUs at the date of grant incorporates into the valuation the possibility that the market condition may not be satisfied. Provided that the requisite service is rendered, the total fair value of the market-based MSUs at the date of grant must be recognized as compensation expense even if the market condition is not achieved. However, the number of shares that ultimately vest can vary significantly with the performance of the specified market criteria.

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There are significant variations among allowable valuation models, and there is a possibility that we may adopt a different valuation model or refine the inputs and assumptions under our current valuation models in the future, resulting in a lack of consistency in future periods. Our current or future valuation model and the inputs and assumptions we make may also lack comparability to other companies that use different models, inputs, or assumptions, and the resulting differences in comparability could be material.

*Income Taxes*

We recognize federal, foreign, and state current tax liabilities or assets based on our estimate of taxes payable or refundable in the then current fiscal year for each tax jurisdiction. We also recognize federal, foreign, and state deferred tax liabilities or assets for our estimate of future tax effects attributable to temporary differences and carryforwards and record a valuation allowance to reduce any deferred tax assets by the amount of any tax benefits that, based on available evidence and our judgment, are not expected to be realized. If our assumptions, and consequently our estimates, change in the future, the valuation allowance we have established for our deferred tax assets may be changed, which could impact income tax expense.

We use a two-step approach to recognizing and measuring uncertain tax positions. The first step is to determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement with a taxing authority. The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of highly complex tax laws. Resolution of these uncertainties in a manner inconsistent with our expectations could have a material impact on our consolidated financial position, result of operations, or cash flows. We believe we have adequately provided for reasonably foreseeable outcomes in connection with the resolution of income tax uncertainties. However, our results have in the past, and could in the future, include favorable and unfavorable adjustments to our estimated tax liabilities in the period a determination of such estimated tax liability is made or resolved, upon the filing of an amended return, upon a change in facts, circumstances, or interpretation, or upon the expiration of a statute of limitation. Accordingly, our effective tax rate could fluctuate materially from period to period.

We consider the operating earnings of our foreign subsidiaries to be indefinitely invested outside the United States. Accordingly, no provision has been made for the U.S. federal, state, or foreign taxes that may result from future remittances of undistributed earnings of our foreign subsidiaries.

We recognize tax benefit upon expensing certain share-based awards associated with our share-based compensation plans, including nonqualified stock options DSUs, and MSUs, but we cannot recognize tax benefit concurrent with the recognition of share-based compensation expenses associated with qualified stock options (incentive stock options and employee stock purchase plan shares). For qualified stock options, we recognize tax benefit only in the period when disqualifying dispositions of the underlying stock occur, which historically has been up to several years after vesting and in a period when our stock price substantially increases. As a result, our future quarterly and annual effective tax rates will be subject to greater volatility and, consequently, our ability to estimate reasonably our future quarterly and annual effective tax rates is greatly diminished.

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**Results of Operations**

The following sets forth certain of our consolidated statements of income data for fiscal 2013, 2012, and 2011, along with comparative information regarding the absolute and percentage changes in these amounts (in thousands, except percentages):

| | 2013 | 2012 | $ Change | % Change | 2012 | 2011 | $ Change | % Change |
|---|---|---|---|---|---|---|---|---|
| Mobile product applications | $ 424,076 | $ 270,106 | $ 153,970 | 57.0% | $ 270,106 | $ 309,166 | $ (39,060) | (12.6%) |
| PC product applications | 239,512 | 278,122 | (38,610) | (13.9%) | 278,122 | 289,372 | (11,250) | (3.9%) |
| Net revenue | 663,588 | 548,228 | 115,360 | 21.0% | 548,228 | 598,538 | (50,310) | (8.4%) |
| Gross margin | 325,804 | 255,567 | 70,237 | 27.5% | 255,567 | 246,070 | 9,497 | 3.9% |
| Operating expenses: | | | | | | | | |
| Research and development | 144,699 | 117,954 | 26,745 | 22.7% | 117,954 | 105,003 | 12,951 | 12.3% |
| Selling, general, and administrative | 79,620 | 70,045 | 9,575 | 13.7% | 70,045 | 68,549 | 1,496 | 2.2% |
| Acquired intangibles amortization | 1,025 | | 1,025 | n/m(1) | | | | n/m(1) |
| Change in contingent consideration | 1,347 | | 1,347 | n/m(1) | | | | n/m(1) |
| Gain on sale of property and equipment | (1,578) | | (1,578) | n/m(1) | | | | n/m(1) |
| Operating income | 100,691 | 67,568 | 33,123 | 49.0% | 67,568 | 72,518 | (4,950) | (6.8%) |
| Interest income | 865 | 922 | (57) | (6.2%) | 922 | 911 | 11 | 1.2% |
| Interest expense | (17) | (17) | | 0.0% | (17) | (17) | | 0.0% |
| Non-cash interest income | 194 | | 194 | n/m(1) | | | | n/m(1) |
| Impairment recovery on investments, net | | 77 | (77) | (100.0%) | 77 | 59 | 18 | 30.5% |
| Income before provision for income taxes | 101,733 | 68,550 | 33,183 | 48.4% | 68,550 | 73,471 | (4,921) | (6.7%) |
| Provision for income taxes | 2,800 | 14,406 | (11,606) | (80.6%) | 14,406 | 9,675 | 4,731 | 48.9% |
| Net income | $ 98,933 | $ 54,144 | $ 44,789 | 82.7% | $ 54,144 | $ 63,796 | $ (9,652) | (15.1%) |

(1) not meaningful

The following sets forth certain of our consolidated statements of income data as a percentage of net revenues for fiscal 2013, 2012, and 2011:

| | 2013 | 2012 | Percentage Point Increase (Decrease) | 2012 | 2011 | Percentage Point Increase (Decrease) |
|---|---|---|---|---|---|---|
| Mobile product applications | 63.9% | 49.3% | 14.6% | 49.3% | 51.7% | (2.4%) |
| PC product applications | 36.1% | 50.7% | (14.6%) | 50.7% | 48.3% | 2.4% |
| Net revenue | 100.0% | 100.0% | | 100.0% | 100.0% | |
| Gross margin | 49.1% | 46.6% | 2.5% | 46.6% | 41.1% | 5.5% |
| Operating expenses: | | | | | | |
| Research and development | 21.8% | 21.5% | 0.3% | 21.5% | 17.5% | 4.0% |
| Selling, general, and administrative | 12.0% | 12.8% | (0.8%) | 12.8% | 11.5% | 1.3% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Operating income | 15.2% | 12.3% | 2.9% | 12.3% | 12.1% | 0.2% |
| Income before provision for income taxes | 15.3% | 12.5% | 2.8% | 12.5% | 12.3% | 0.2% |
| Provision for income taxes | 0.4% | 2.6% | (2.2%) | 2.6% | 1.6% | 1.0% |
| Net income | 14.9% | 9.9% | 5.0% | 9.9% | 10.7% | (0.8%) |

***Fiscal 2013 Compared with Fiscal 2012***

*Net Revenue.*

Net revenue was $663.6 million for fiscal 2013 compared with $548.2 million for fiscal 2012, an increase of $115.4 million, or 21.0%. Of our fiscal 2013 net revenue, $424.1 million, or 63.9%, of net revenue was from the mobile product applications market and $239.5 million, or 36.1%, of net revenue was from the personal computing product applications market. The overall increase in net revenue for fiscal 2013 was attributable to a $154.0 million, or 57.0%, increase in net revenue from mobile product applications, partially offset by a decrease of $38.6 million, or 13.9%, in net revenue from PC product applications. Specific reasons for the increase in net revenue were primarily attributable to an increase in the units sold in the mobile product applications market, reflecting both the growing market and an increase in our market share. Within the mobile product applications market, one customer accounted for 14% of fiscal 2013 net revenue. The decrease in PC product applications was primarily a result of lower unit sales reflecting the continued weakness in the worldwide PC product applications market.

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Based on industry estimates of unit shipments from calendar 2012 to 2013, the mobile smartphone market is anticipated to increase approximately 22%, the notebook market is anticipated to increase approximately 1%, and the tablet market is anticipated to increase 59%.

*Gross Margin.*

Gross margin as a percentage of net revenue was 49.1%, or $325.8 million, for fiscal 2013 compared with 46.6%, or $255.6 million, for fiscal 2012. The 250 basis point improvement in gross margin was primarily attributable to a favorable mix of higher margin mobile product applications revenue driven largely by the continued shift in our overall revenue mix to mobile product applications revenue consisting predominately of higher margin chip solutions.

We continuously introduce new product solutions, many of which have life cycles of less than a year. Further, as we sell our capacitive sensing technology in designs that are generally unique or specific to an OEM customer s application, gross margin varies on a product-by-product basis, making our cumulative gross margin a blend of our product specific designs and independent of the vertical markets that our products serve. As a virtual manufacturer, our gross margin percentage is generally not impacted materially by our shipment volume. We charge losses on inventory purchase obligations and write-downs to reduce the carrying value of obsolete, slow moving, and non-usable inventory to net realizable value (including warranty costs) to cost of revenue.

*Operating Expenses.*

*Research and Development Expenses*. Research and development expenses increased $26.7 million, to $144.7 million, in fiscal 2013 compared with fiscal 2012. The increase in research and development expenses primarily reflected a $16.0 million increase in employee compensation and employment-related costs, resulting from a 13.9% increase in research and development staffing and annual compensation adjustments, and a $5.8 million increase in infrastructure costs to support the additional staff.

*Selling, General, and Administrative Expenses*. Selling, general, and administrative expenses increased $9.6 million, to $79.6 million, in fiscal 2013 compared with fiscal 2012. The increase in selling, general, and administrative expenses primarily reflected a $7.6 million increase in employee compensation and employment-related costs resulting from a 11.8% increase in selling, general, and administrative staffing and annual compensation adjustments.

*Acquired Intangibles Amortization.* Acquired intangibles amortization reflects the amortization of intangibles acquired through recent acquisitions. See note 6 to the financial statements contained elsewhere in this report.

*Change in Contingent Consideration*. Change in contingent consideration reflects the change in fair value of the contingent consideration liability related to our acquisition of Pacinian. See note 5 to the financial statements contained elsewhere in this report.

*Gain on property and equipment*. The gain on sale of property and equipment resulted from the sale of our former headquarters building.

*Operating Income.*

We generated operating income of $100.7 million for fiscal 2013, an increase of $33.1 million compared with fiscal 2012. As discussed in the preceding paragraphs, the increase in operating income was primarily the result of increased operating leverage from the 21% increase in net revenue, the decline in operating expenses as a percentage of net revenue, and the higher gross margin percentage.

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*Non-Operating Income.*

*Interest Income*. Interest income was $865,000 for fiscal 2013 compared with $922,000 for fiscal 2012.

*Interest Expense.* Interest expense was $17,000 for fiscal 2013 and 2012.

*Non-cash interest income.* Non-cash interest income related to accretion of interest on our ARS investments.

*Impairment of Investments*. For fiscal 2013, there was no recognized gain or loss on the redemption of $3.4 million of our ARS investments. For fiscal 2012, we recognized a gain of $77,000 on the redemption of $10.1 million of our ARS investments.

*Provision for Income Taxes.*

The provision for income taxes was $2.8 million and $14.4 million for fiscal 2013 and 2012, respectively. The income tax provision represented estimated U.S. federal, foreign, and state taxes for fiscal 2013 and 2012. The effective tax rate for fiscal 2013 was approximately 2.8% and diverged from the combined federal and state statutory rate, primarily as a result of overseas profits taxed in lower tax rate jurisdictions, the resolution of an income tax audit, and the benefit of research tax credits; partially offset by foreign withholding taxes and net unrecognized tax benefits associated with qualified stock options. The effective tax rate for fiscal 2012 was approximately 21.0% and diverged from the combined federal and state statutory rate, primarily as a result of overseas profits taxed in lower tax rate jurisdictions, the recognition of previously unrecognized tax benefits, and the benefit of research tax credits, partially offset by foreign withholding taxes and net unrecognized tax benefits associated with qualified stock options.

In fiscal 2011, we were notified by the Internal Revenue Service (Service) that our fiscal 2003 through 2006 and fiscal 2008 through 2010 would be subject to an audit. The early periods were audited in connection with a mandatory review of tax refunds in excess of $2.0 million when we carried back our fiscal 2008 net operating loss. In March 2013, we received the Revenue Agent s report resolving our examination with the Service and paid an assessment that had no material impact to our condensed consolidated financial statements, which triggered the reevaluation of the measurement of prior year uncertain tax positions and resulted in the recognition of $15.8 million of previously unrecognized tax benefits in fiscal 2013. Our case is currently under review by the Joint Committee of Taxation, which we anticipate will conclude in fiscal 2014. Any prospective adjustments to our unrecognized tax benefits will be recorded as an increase or decrease to income tax expense and cause a corresponding change to our effective tax rate. Accordingly, our effective tax rate could fluctuate materially from period to period.

***Fiscal 2012 Compared with Fiscal 2011***

*Net Revenue.*

Net revenue was $548.2 million for fiscal 2012 compared with $598.5 million for fiscal 2011, a decrease of $50.3 million, or 8.4%. Of our fiscal 2012 net revenue, $278.1 million, or 50.7%, of net revenue was from the personal computing market and $270.1 million, or 49.3%, of net revenue was from the mobile product applications market. The overall decrease in net revenue for fiscal 2012 was attributable to a $39.1 million, or 12.6%, decrease in net revenue from mobile product applications and a decrease of $11.3 million, or 3.9%, in net revenue from PC product applications. Specific reasons for the decrease in net revenue were primarily attributable to a lower priced product mix in the mobile product applications market and lower revenue from PC peripherals. Net revenue from mobile product applications, was down due to a shift in revenue from higher priced full sensor module solutions to lower priced chip or tail solutions, partially offset by an increase in mobile product unit shipments.

*Gross Margin.*

Gross margin as a percentage of net revenue was 46.6%, or $255.6 million, for fiscal 2012 compared with 41.1%, or $246.1 million, for fiscal 2011. The 550 basis point improvement in gross margin was primarily attributable to a shift in mobile product revenue from lower margin full sensor module solutions to higher margin chip or tail solutions.

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*Operating Expenses.*

*Research and Development Expenses*. Research and development activities increased $13.0 million to $118.0 million in fiscal 2012 compared with fiscal 2011. The increase in research and development expenses primarily reflected a $12.0 million increase in employee compensation and employment-related costs, resulting from a 9.6% increase in research and development staffing and annual compensation adjustments.

*Selling, General, and Administrative Expenses*. Selling, general, and administrative activities increased $1.5 million to $70.0 million in fiscal 2012 compared with fiscal 2011. The increase in selling, general, and administrative expenses primarily reflected a $4.8 million increase in employee compensation and employment-related costs resulting from a 5.2% increase in selling, general, and administrative staffing and annual compensation adjustments, partially offset by a $2.7 million reduction in non-recurring executive officer resignation costs.

*Operating Income.*

We generated operating income of $67.6 million for fiscal 2012, a decrease of $4.9 million compared with fiscal 2011. As discussed in the preceding paragraphs, the decrease in operating income was primarily attributable to a decrease in net revenue and a $14.4 million increase in our operating expenses, partially offset by an increase in gross profit resulting from improved gross margins.

*Non-Operating Income.*

*Interest Income*. Interest income was $922,000 for fiscal 2012 compared with $911,000 for fiscal 2011.

*Interest Expense.* Interest expense was $17,000 for fiscal 2012 and 2011.

*Impairment of Investments*. For fiscal 2012, we recognized a gain of $77,000 on the redemption of $10.1 million of our ARS investments. For fiscal 2011, we recognized a gain of $59,000 on the redemption of $3.2 million of our ARS investments.

*Provision for Income Taxes.*

The provision for income taxes was $14.4 million and $9.7 million for fiscal 2012 and 2011, respectively. The income tax provision represented estimated U.S. federal, foreign, and state taxes for fiscal 2012 and 2011. The effective tax rate for fiscal 2012 was approximately 21.0% and diverged from the combined federal and state statutory rate, primarily as a result of overseas profits taxed in lower tax rate jurisdictions and the benefit of research tax credits, partially offset by foreign withholding taxes and net unrecognized tax benefits associated with qualified stock options. The effective tax rate for fiscal 2011 was approximately 13.2% and diverged from the combined federal and state statutory rate, primarily as a result of overseas profits taxed in lower tax rate jurisdictions, the recognition of previously unrecognized tax benefits, and the benefit of research tax credits, partially offset by foreign withholding taxes and net unrecognized tax benefits associated with qualified stock options.

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**Quarterly Results of Operations**

The following table sets forth our unaudited quarterly results of operations for the eight quarters in the two-year period ended June 30, 2013. The following table should be read in conjunction with the financial statements and related notes contained elsewhere in this report. We have prepared this unaudited information on the same basis as our audited financial statements. This table includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of our financial position and results of operations for the quarters presented. Past results of operations are not necessarily indicative of future operating performance; accordingly, you should not draw any conclusions about our future results from the results of operations for any quarter presented.

| (in thousands, except per share amounts) | Three Months Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (unaudited) | June 2013 | March 2013 | December 2012 | September 2012 | June 2012 | March 2012 | December 2011 | September 2011 |
| Net revenue | $ 230,183 | $ 163,324 | $ 143,040 | $ 127,041 | $ 137,607 | $ 131,705 | $ 145,470 | $ 133,446 |
| Cost of revenue | 115,062 | 82,241 | 74,010 | 66,471 | 74,203 | 69,525 | 76,747 | 72,186 |
| Gross margin | 115,121 | 81,083 | 69,030 | 60,570 | 63,404 | 62,180 | 68,723 | 61,260 |
| Operating expenses: | | | | | | | | |
| Research and development | 40,900 | 36,740 | 34,257 | 32,802 | 30,476 | 29,415 | 29,837 | 28,226 |
| Selling, general, and administrative | 21,521 | 20,183 | 19,008 | 18,908 | 17,584 | 18,031 | 17,721 | 16,709 |
| Acquired intangibles amortization | 262 | 262 | 261 | 240 | | | | |
| Change in contingent consideration | 247 | 237 | 576 | 287 | | | | |
| Gain on sale of property and equipment | (1,578) | | | | | | | |
| Total operating expenses | 61,352 | 57,422 | 54,102 | 52,237 | 48,060 | 47,446 | 47,558 | 44,935 |
| Operating income | 53,769 | 23,661 | 14,928 | 8,333 | 15,344 | 14,734 | 21,165 | 16,325 |
| Interest income | 225 | 197 | 225 | 218 | 240 | 231 | 251 | 200 |
| Interest expense | (4) | (4) | (5) | (4) | (4) | (4) | (5) | (4) |
| Non-cash interest income | 194 | | | | | | | |
| Impairment (loss)/recovery of investments | | | | | 18 | 46 | (7) | 20 |
| Income before income taxes | 54,184 | 23,854 | 15,148 | 8,547 | 15,598 | 15,007 | 21,404 | 16,541 |
| Provision/(benefit) for income taxes | 8,864 | (12,592) | 4,034 | 2,494 | 3,298 | 3,561 | 4,021 | 3,526 |
| Net income | $ 45,320 | $ 36,446 | $ 11,114 | $ 6,053 | $ 12,300 | $ 11,446 | $ 17,383 | $ 13,015 |
| Net income per share: | | | | | | | | |
| Basic | $ 1.37 | $ 1.13 | $ 0.34 | $ 0.18 | $ 0.37 | $ 0.34 | $ 0.53 | $ 0.40 |
| Diluted | $ 1.29 | $ 1.07 | $ 0.33 | $ 0.18 | $ 0.36 | $ 0.33 | $ 0.51 | $ 0.39 |
| Shares used in computing net income per share: | | | | | | | | |
| Basic | 32,979 | 32,234 | 32,478 | 32,941 | 33,321 | 33,389 | 32,569 | 32,875 |
| Diluted | 35,150 | 34,135 | 33,313 | 34,014 | 34,505 | 35,179 | 34,005 | 33,777 |

**Liquidity and Capital Resources**

Our cash and cash equivalents, which exclude ARS investments, were $355.3 million as of the end of fiscal 2013 compared with $305.0 million as of the end of fiscal 2012, an increase of $50.3 million. This increase primarily reflected $102.2 million provided from operating cash flows, $37.4 million from the issuance of shares under our employee equity compensation programs, $12.6 million in proceeds from the sale of our former headquarters building, $3.4 million in proceeds from redemptions of ARS investments, partially offset by $48.5 million used for the purchase of property and equipment, which includes the purchase and renovation of our new headquarters campus, $46.3 million used to repurchase shares of our common stock, $5.0 million used for a business acquisition, $4.7 million used for payroll taxes for deferred stock units, and $4.6 used for the payment of contingent consideration. We consider earnings of our foreign subsidiaries indefinitely invested overseas and have made no provision for income or withholding taxes that may result from a future repatriation of those earnings. As of June 30, 2013, $304.6 million of cash and cash equivalents was held by our foreign subsidiaries. If these funds are needed for our operations in the United States, we would be required to accrue and pay U.S. taxes to repatriate these funds.

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*Cash Flows from Operating Activities.* For fiscal 2013, net cash provided by operating activities of $102.2 million was primarily attributable to net income of $98.9 million plus adjustments for non-cash charges, including share-based compensation costs of $32.2 million, depreciation and amortization of $10.8 million, other non-cash adjustments of $2.2 million and a net change in operating assets and liabilities of $37.7 million. The net change in operating assets and liabilities related primarily to the $44.3 million increase in accounts receivable resulting from the substantial increase in net revenue in the June quarter of fiscal 2013 compared with fiscal 2012. Our days sales outstanding improved from 68 to 58 days from fiscal 2012 to fiscal 2013. Our inventory turns remained stable at 9 for the same period. For fiscal 2012, net cash provided by operating activities of $101.4 million was primarily attributable to net income of $54.1 million plus adjustments for non-cash charges, including share-based compensation costs of $34.2 million, depreciation and deferred taxes aggregating $9.5 million, and a net change in operating assets and liabilities of $4.6 million. Our days sales outstanding increased from 59 to 68 days from fiscal 2011 to fiscal 2012 as our net revenue was more backend loaded in fiscal 2012 than it was in fiscal 2011. Our inventory turns decreased from 11 to 9 for the same period. For fiscal 2011, net cash provided by operating activities of $89.7 million was primarily attributable to net income of $63.8 million plus adjustments for non-cash charges, including share-based compensation costs of $33.9 million, depreciation and deferred taxes aggregating $7.5 million, and a net decrease in operating assets and liabilities of $14.3 million. The net decrease in operating assets and liabilities related primarily to a decrease in accounts payable of $20.7 million. Our days sales outstanding decreased slightly from 63 to 59 days from fiscal 2010 to fiscal 2011 and our inventory turns decreased from 19 to 11 for the same period.

*Cash Flows from Investing Activities.* Our investing activities for fiscal 2013 included purchases of capital assets, a business acquisition, the sale of a building and land, and redemptions on non-current investments. Net cash used in investing activities for fiscal 2013, 2012, and 2011 was $37.5 million, $14.9 million, and $8.4 million, respectively. Net cash used in investing activities for fiscal 2013 consisted of $48.5 million used for the purchase of capital assets, $5.0 million used for a business acquisition, partially offset by proceeds of $12.6 million for the sale of a building and land as well as proceeds of $3.4 million from redemptions of ARS investments. Net cash used in investing activities for fiscal 2012 consisted of $14.6 million used for a business acquisition, $10.4 million used for the purchase of capital assets, partially offset by proceeds of $10.1 million from redemptions of ARS investments. Net cash used in investing activities for fiscal 2011 consisted of $11.6 million used for the purchase of capital assets, partially offset by proceeds of $3.2 million for redemptions of ARS investments.

*Cash Flows from Financing Activities.* Net cash used in financing activities for fiscal 2013, 2012, and 2011 was $14.3 million, $28.7 million, and $44.0 million, respectively. Our net cash used in financing activities for fiscal 2013 was primarily attributable to $46.3 million used to repurchase shares of our common stock in the open market, $4.7 million used for the payment of payroll taxes for DSUs, $4.6 million used for the payment of contingent consideration, partially offset by $37.4 million of proceeds from common stock issued under our share-based compensation plans. Our net cash used in financing activities for fiscal 2012 was primarily attributable to $61.7 million used to repurchase shares of our common stock in the open market and $3.9 million used for the payment of payroll taxes for DSUs, partially offset by $34.9 million of proceeds from common stock issued under our share-based compensation plans. Our net cash used in financing activities for fiscal 2011 was primarily attributable to $70.2 million used to repurchase shares of our common stock in the open market and $3.1 million used for the payment of payroll taxes for DSUs, partially offset by $26.4 million of proceeds from common stock issued under share-based compensation plans and $2.9 million excess tax benefit from share-based compensation.

*Common Stock Purchase Program.* In July 2013, our board of directors authorized an additional $100.0 million for our common stock repurchase program bringing the cumulative authorization to $620.0 million, expiring in October 2015. The program authorizes us to purchase our common stock in the open market or in privately negotiated transactions, depending upon market conditions and other factors. The number of shares purchased and the timing of purchases is based on the level of our cash balances, general business and market conditions, and other factors, including alternative investment opportunities. Common stock purchased under this program is held as treasury stock. From April 2005 through the end of fiscal 2013, we repurchased 17,383,932 shares of our common stock in the open market for an aggregate cost of $460.2 million. Treasury shares purchased prior to August 28, 2008 were not subject to the stock split on that date, if adjusted for the stock split the average cost would be $20.99. As of July 2013, we had $159.8 million remaining under our common stock purchase program.

*Bank Credit Facility.* We currently maintain a $50.0 million working capital line of credit with Wells Fargo Bank. The Wells Fargo Bank revolving line of credit, which expires on September 1, 2013, provides for an interest rate equal to the prime lending rate or 250 basis points above LIBOR, depending on whether we choose a variable or fixed rate, respectively. We did not borrow any amounts under the line of credit during and subsequent to fiscal 2013. We are currently negotiating the renewal of this line of credit for another year.

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*$100 Million Shelf Registration.* We have registered an aggregate of $100.0 million of common stock and preferred stock for issuance in connection with acquisitions, which shares generally will be freely tradeable after their issuance under Rule 145 of the Securities Act unless held by an affiliate of the acquired company, in which case such shares will be subject to the volume and manner of sale restrictions of Rule 144.

*Liquidity and Capital Resources.* We believe our existing cash and cash equivalents and anticipated cash flows from operating activities will be sufficient to meet our working capital and other cash requirements over the course of at least the next 12 months. Our future capital requirements will depend on many factors, including our revenue, the timing and extent of spending to support product development efforts, costs related to protecting our intellectual property, the expansion of sales and marketing activities, the timing of introductions of new products and enhancements to existing products, the costs to ensure access to adequate manufacturing capacity, the timing and costs of procuring, improving, and renovating office space to meet our anticipated employee headcount requirements, our common stock purchase program, and the amount and timing of our investments in, or acquisitions of, other technologies or companies. Further equity or debt financing may not be available to us on acceptable terms or at all. If sufficient funds are not available or are not available on acceptable terms, our ability to take advantage of unexpected business opportunities or to respond to competitive pressures could be limited or severely constrained.

Our non-current investments consist of ARS investments, which have failed to settle in auctions. These investments are not liquid, and in the event we need to access these funds, we will not be able to do so without a loss of principal, unless a future auction on these investments is successful.

Based on our ability to access our cash and cash equivalents, our expected operating cash flows, and our other sources of cash, we do not anticipate the lack of liquidity on these investments will affect our ability to operate our business as usual. Further, while we do not anticipate the need to remit undistributed earnings of our foreign subsidiaries to meet our working capital and other cash requirements, if we did remit such earnings we would be required to accrue and pay U.S. taxes to repatriate these funds, which would adversely impact our financial position and results of operations.

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**Contractual Obligations and Commercial Commitments**

The following table sets forth a summary of our material contractual obligations and commercial commitments as of the end of fiscal 2013 (in millions):

| | | Payments due by period | | | |
|---|---|---|---|---|---|
| Contractual Obligations | Total | Less than 1 year | 1-3 Years | 3-5 Years | More than 5 Years |
| Convertible senior subordinated notes (1) | $ 3 | $ | $ | $ | $ 3 |
| Leases | 9 | 3 | 2 | 2 | 2 |
| Purchase obligations and other commitments (2) | 17 | 6 | 11 | | |
| Total | $ 29 | $ 9 | $ 13 | $ 2 | $ 5 |

(1) Represents both principal and interest payable through the maturity date of the underlying contractual obligation.

(2) Purchase obligations and other commitments include payments due under a building construction agreement, contingent consideration, long-term services agreement and inventory purchase obligations with contract manufacturers.

In connection with the acquisition of Pacinian in June 2012, we entered into a contingent consideration arrangement. As of the end fiscal 2013, we owe up to $10.0 million of additional consideration to the former Pacinian stockholders based on sales of products utilizing ThinTouch technology through June 2016, which is included in the above table. The estimated fair value of the contingent consideration liability as of June 30, 2013 was $8.2 million.

The amounts in the table above exclude unrecognized tax benefits of $8.2 million. As of the end of fiscal 2013, we were unable to make a reasonably reliable estimate of when cash settlement with a taxing authority may occur in connection with our gross unrecognized tax benefits.

**Off-Balance Sheet Arrangements**

We do not have any transactions, arrangements, or other relationships with unconsolidated entities that are reasonably likely to materially affect our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, or capital resources. We have no special purpose or limited purpose entities that provide off-balance sheet financing, liquidity, or market or credit risk support; engage in leasing, hedging, or research and development services; or have other relationships that expose us to liability that is not reflected in our financial statements.

**Recently Issued Accounting Pronouncements Not Yet Effective**

In July 2013, the FASB issued an accounting standards update on presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss carryforward, or a tax credit carryforward exists. The new standard requires that an unrecognized tax benefit should be presented as a reduction of deferred tax assets for a net operating loss carryforward, a similar tax loss carryforward, or a tax credit carryforward, if such carryforwards are required or expected to settle additional income taxes in the event the uncertain tax position is disallowed. The new standard also requires in situations carryforwards cannot be used or the deferred tax assets are not intended to be used for such purpose, that the unrecognized tax benefit should be recorded as a liability and should not be presented as a reduction of deferred tax assets. We are required to adopt this standard for our interim and annual periods in fiscal 2015. We are currently evaluating the impact of adopting this guidance, but do not expect it to have a material impact on our consolidated financial statements.

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## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

**Interest rate risk**

Our exposure to market risk for changes in interest rates relates primarily to our cash and cash equivalents and ARS investments. We do not use our investment portfolio for trading or other speculative purposes.

The table below presents principal amounts and related weighted average interest rates by year of maturity for our cash equivalents and investments as of the end of fiscal 2013 (in thousands, except average interest rates):

| Fiscal Year Ended June | 2014 | 2015 | 2016 | 2017 | 2018 | Thereafter | Total | Fair Value |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash equivalents variable rate | | | | | | | | |
| Money market | $ 350,521 | $ | $ | $ | $ | $ | $ 350,521 | $ 350,521 |
| Average interest rate | 0.14% | | | | | | 0.14% | |
| Total cash equivalents | $ 350,521 | $ | $ | $ | $ | $ | $ 350,521 | $ 350,521 |
| Average interest rate | 0.14% | | | | | | 0.14% | |
| Non-current investments | $ | $ | $ 2,000 | $ | $ 13,500 | $ 8,500 | $ 24,000 | $ 16,969 |
| Average interest rate | | | 0.69% | | 2.46% | 1.49% | 2.07% | |

Our Convertible Senior Subordinated Notes bear a fixed coupon interest rate of 0.75% and mature in December 2024. The noteholders could require us to repurchase their notes on December 1, 2014, December 1, 2019, or in the event of a fundamental change as described in the indenture governing the notes. In addition, if certain stock price conditions are met a conversion right could trigger providing noteholders with the right to convert all or a portion of their notes. The early repayment of the notes is not reflected in the preceding schedule.

Our non-current investments, which consist of ARS investments, have a par value of $24.0 million and have failed to settle in auctions beginning in 2007. These investments are not liquid, and in the event we need to access these funds, we will not be able to do so without a loss of principal, unless redeemed by the issuers or a future auction on these investments is successful. During fiscal 2013, $3.4 million of our ARS investments were redeemed at par and we had no recognized gain or loss on the redemption of these investments.

As there are currently no active markets for our various failed ARS investments, we have estimated the fair value of these investments as of the end of fiscal 2013 using a trinomial discounted cash flow analysis. The analysis considered, among other factors, the following:

- the collateral underlying the security investments;
- the creditworthiness of the counterparty;
- the timing of expected future cash flows;
- the probability of a successful auction in a future period;
- the underlying structure of each investment;
- the present value of future principal and interest payments discounted at rates considered to reflect current market conditions;

- a consideration of the probabilities of default, passing a future auction, or redemption at par for each period; and
- estimates of the recovery rates in the event of default for each investment.

When possible, our failed ARS investments were compared to other observable market data or securities with similar characteristics. Our estimate of the fair value of our ARS investments could fluctuate materially from period to period depending on future market conditions.

Contractual maturities for our ARS investments are generally greater than five years, with fair value of $11.8 million maturing from fiscal 2016 to fiscal 2018 and $3.2 million maturing from fiscal 2044 to fiscal 2046, and $2.0 million with no maturity. Of our ARS investments $5.5 million par value are investment grade; and the remaining $18.5 million par value are below investment grade.

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Based on our ability to access our cash and cash equivalents, our expected operating cash flows, and our other sources of cash, we do not anticipate the lack of liquidity on these investments will affect our ability to operate our business as usual.

There have been no significant changes in the maturity dates and average interest rates for our cash equivalents and debt obligations subsequent to fiscal 2013.

**Foreign currency exchange risk**

All of our revenue and approximately 92% of our consolidated costs are denominated in U.S. dollars. As a result, we have relatively little exposure to foreign currency exchange risks and foreign exchange losses have been immaterial to date. We do not currently enter into forward-exchange contracts to hedge exposure denominated in foreign currencies or any other derivative financial instruments for trading or speculative purposes. In the future, if our operations change and we determine that our foreign exchange exposure has increased, we may consider entering into hedging transactions to mitigate such risk.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to the financial statements, the report of our independent registered public accounting firm, and the notes thereto commencing at page F-1 of this report, which financial statements, report, and notes are incorporated herein by reference. Reference is also made to the quarterly results of operations on page 46 of this report, which quarterly results of operations are incorporated herein by reference.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

## ITEM 9A. CONTROLS AND PROCEDURES

**Conclusions Regarding Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer, as of June 29, 2013, concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**Management s Report on Internal Control Over Financial Reporting**

We are responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission which was issued in 1992. Based on our evaluation under the framework in *Internal Control Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of June 29, 2013. The effectiveness of our internal control over financial reporting as of June 29, 2013 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in its report included herein on page F-2.

**Changes in Internal Control Over Financial Reporting**

There was no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**Inherent Limitations on Effectiveness of Controls**

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, misstatements, errors, and instances of fraud, if any, within our company have been or will be prevented or detected. Further, internal controls may become inadequate as a result of changes in conditions, or through the deterioration of the degree of compliance with policies or procedures.

**ITEM 9B. OTHER INFORMATION**

There were no items requiring reporting on Form 8-K that were not reported on Form 8-K during the fourth quarter of the year covered by this Form 10-K.

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## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item relating to directors of our company and corporate governance is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2013 Annual Meeting of Stockholders. The information required by this Item relating to our executive officers is included in Item 1. Business Executive Officers of the Registrant.

We have adopted a code of ethics that applies to our principal executive officer, principal financial officer, and other senior accounting personnel. The Code of Ethics for the CEO and Senior Financial Officers is located on our website at www.synaptics.com in the Investor Relations section under Corporate Governance.

We intend to satisfy the disclosure requirement under Item 5.05(c) of Form 8-K regarding any amendment to, or waiver from, a provision of this code of ethics by posting such information on our website, at the address and location specified above.

### ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement (particularly under the caption Executive Compensation ) to be filed pursuant to Regulation 14A of the Exchange Act for our 2013 Annual Meeting of Stockholders.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement (particularly under the caption Security Ownership of Principal Stockholders, Directors, and Officers ) to be filed pursuant to Regulation 14A of the Exchange Act for our 2013 Annual Meeting of Stockholders.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement (particularly under the caption Certain Relationships and Related Transactions ) to be filed pursuant to Regulation 14A of the Exchange Act for our 2013 Annual Meeting of Stockholders.

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement (particularly under the caption Ratification of Appointment of Independent Auditor ) to be filed pursuant to Regulation 14A of the Exchange Act for our 2013 Annual Meeting of Stockholders.

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## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

**(a) Financial Statements and Financial Statement Schedules**

(1) Financial Statements are listed in the Index to Financial Statements on page F-1 of this report.

**(b) Exhibits**

| Exhibit Number | Exhibit |
|---|---|
| 3.1 | Certificate of Incorporation (1) |
| 3.1(b) | Certificate of Designation of Series A Junior Participating Preferred Stock (2) |
| 3.2 | Third Amended and Restated Bylaws (amended and restated as of July 27, 2010) (3) |
| 3.3 | Certificate of Amendment of Certificate of Incorporation of the registrant (4) |
| 3.4 | Certificate of Amendment of Certificate of Incorporation of the registrant (5) |
| 4 | Form of Common Stock Certificate (6) |
| 4(b) | Rights Agreement, dated as of August 15, 2002, between the registrant and American Stock Transfer & Trust Company, as Rights Agent (2) |
| 4(c) | Amendment No. 1 to Rights Agreement (7) |
| 4.6 | Form of Indenture (8) |
| 10.6(a)* | Amended and Restated 2001 Incentive Compensation Plan (as amended through January 23, 2007) (9) |
| 10.6(b)* | Form of grant agreements for Amended and Restated 2001 Incentive Compensation Plan (10) |
| 10.6(c)* | Form of deferred stock award agreement for Amended and Restated 2001 Incentive Compensation Plan (11) |
| 10.8* | 401(k) Profit Sharing Plan (12) |
| 10.17* | Form of Indemnification Agreement entered into with the following directors and executive officers as of January 28, 2002 with Francis F. Lee, Russell J. Knittel, Keith B. Geeslin, and Richard L. Sanquini; as of June 26, 2004 with Jeffrey D. Buchanan; as of March 28, 2006 with Hing Chung (Alex) Wong; as of February 20, 2007 with Nelson C. Chan; as of April 2, 2007 with Mark N. Vena; as of October 23, 2007 with James L. Whims; as of January 7, 2008 with David B. Long; as of March 2, 2009 with Kathleen A. Bayless; as of June 23, 2010 with Stanley A. Swearingen; as of January 10, 2011 with Kevin D. Barber; as of September 28, 2011 with Richard A. Bergman; as of May 22, 2012 with Bret Sewell, and as of January 28, 2013 with Scott Deutsch (1) |
| 10.24(a)* | 2010 Incentive Compensation Plan (13) |
| 10.24(b)* | Form of Non-Qualified Stock Option Agreement for 2010 Incentive Compensation Plan (14) |
| 10.24(c)* | Form of Incentive Stock Option Agreement for 2010 Incentive Compensation Plan (14) |
| 10.24(d)* | Form of Deferred Stock Award Agreement for 2010 Incentive Compensation Plan (14) |
| 10.24(e)* | Amended and Restated 2010 Incentive Compensation Plan (15) |

| | |
|---|---|
| 10.24(f)* | Form of Deferred Stock Award Agreement for Market Stock Units for Amended and Restated 2010 Incentive Compensation Plan (21) |
| 10.25* | 2010 Employee Stock Purchase Plan (14) |
| 10.26* | Separation Agreement and Release dated October 13, 2010 by and among the registrant and Thomas J. Tiernan (16) |
| 10.27* | Employment Offer Letter dated September 28, 2011 between the registrant and Richard Bergman (17) |
| 10.28* | Change of Control Severance Agreement entered into by Richard A. Bergman as of October 4, 2011 (18) |
| 10.28(a)* | Amended and Restated Change of Control Severance Agreement entered into by Richard Bergman as of November 15, 2012 (21) |
| 10.29* | Severance Policy for Principal Executive Officers (18) |
| 10.30 | Agreement of Purchase and Sale and Escrow Instructions dated as of June 25, 2012 between McKay Henry, LLC and the registrant (19) |
| 10.30(a) | First Amendment to Agreement of Purchase and Sale and Escrow Instructions dated as of July 2, 2012 between McKay Henry, LLC and the registrant (19) |
| 10.31 | Release and Separation Agreement dated September 4, 2012, by and among the registrant and David B. Long. (20) |

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| | |
|---|---|
| 10.32* | Form of Change of Control Severance Agreement entered into with the following executive officers as of November 15, 2012: Kathy Bayless, Kevin Barber, Bret Sewell, Stan Swearingen, and Alex Wong, and as of January 28, 2013 with Scott Deutsch (21) |
| 10.33 | Agreement of Purchase and Sale and Escrow Instructions dated as of October 19, 2012 between Orchard Partners, LLC and the registrant (21) |
| 10.33(a) | First Amendment to Agreement of Purchase and Sale and Escrow Instructions dated as of November 19, 2012 between Orchard Partners, LLC and the registrant (21) |
| 10.33(b) | Second Amendment to Agreement of Purchase and Sale and Escrow Instructions dated as of January 4, 2013 between Orchard Partners, LLC and the registrant (22) |
| 21 | List of Subsidiaries |
| 23.1 | Consent of Independent Registered Public Accounting Firm |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) |
| 32.1 | Section 1350 Certification of Chief Executive Officer |
| 32.2 | Section 1350 Certification of Chief Financial Officer |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

(1) Incorporated by reference to the registrant s Form 10-Q as filed with the SEC on February 21, 2002.
(2) Incorporated by reference to the registrant s Form 8-A as filed with the SEC on August 16, 2002.
(3) Incorporated by reference to the registrant s Current Report on Form 8-K as filed with the SEC on August 2, 2010.
(4) Incorporated by reference to the registrant s Current Report on Form 8-K as filed with the SEC on December 7, 2004.
(5) Incorporation by reference to the registrant s Current Report on Form 8-K as filed with the SEC on October 22, 2010.
(6) Incorporated by reference to the registrant s Form 10-K as filed with the SEC on September 12, 2002.
(7) Incorporated by reference to the registrant s Current Report on Form 8-K as filed with the SEC on April 24, 2008.
(8) Incorporated by reference to the registrant s registration statement on Form S-3 (Registration No. 333-155582) as filed with the SEC on November 21, 2008 and declared effective May 7, 2009.
(9) Incorporated by reference to the registrant s Form 10-Q as filed with the SEC on November 8, 2007.
(10) Incorporated by reference to the registrant s Form 10-Q as filed with the SEC on February 6, 2003.
(11) Incorporated by reference to the registrant s Form 10-K as filed with the SEC on September 7, 2006.
(12) Incorporated by reference to the registrant s registration statement on Form S-1 (Registration No. 333-56026) as filed with the SEC on August 17, 2001 and declared effective January 28, 2002.
(13) Incorporated by reference to the registrant s Form 10-Q as filed with the SEC on November 2, 2010.
(14) Incorporated by reference to the registrant s Current Report on Form 8-K as filed with the SEC on October 22, 2010.
(15) Incorporated by reference to the registrant s Form 10-Q as filed with the SEC on May 4, 2012.
(16) Incorporated by reference to the registrant s Current Report on Form 8-K as filed with the SEC on October 13, 2010.
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(19) Incorporated by reference to the registrant s Form 10-K as filed with the SEC on August 27, 2012.
(20) Incorporated by reference to the registrant s Form 10-Q as filed with the SEC on November 2, 2012.
(21) Incorporated by reference to the registrant s Form 10-Q as filed with the SEC on February 1, 2013.
(22) Incorporated by reference to the registrant s Form 10-Q as filed with the SEC on May 3, 2013.
* Indicates a contract with management or compensatory plan or arrangement.

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

SYNAPTICS INCORPORATED

Date August 19, 2013

By: /s/ Richard A. Bergman
Richard A. Bergman
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ Richard A. Bergman<br>Richard A. Bergman | President and Chief Executive Officer,<br>and Director | August 19, 2013 |
| /s/ Kathleen A. Bayless<br>Kathleen A. Bayless | Senior Vice President, Chief Financial Officer,<br>Secretary and Treasurer (Principal<br>Financial and Accounting Officer) | August 19, 2013 |
| /s/ Francis F. Lee<br>Francis F. Lee | Chairman of the Board | August 19, 2013 |
| /s/ Jeffrey D. Buchanan<br>Jeffrey D. Buchanan | Director | August 19, 2013 |
| /s/ Nelson C. Chan<br>Nelson C. Chan | Director | August 19, 2013 |
| /s/ Keith B. Geeslin<br>Keith B. Geeslin | Director | August 19, 2013 |
| /s/ Russell J. Knittel<br>Russell J. Knittel | Director | August 19, 2013 |
| /s/ Richard L. Sanquini<br>Richard L. Sanquini | Director | August 19, 2013 |
| /s/ James L. Whims<br>James L. Whims | Director | August 19, 2013 |

## INDEX TO EXHIBITS

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(8) Incorporated by reference to the registrant s registration statement on Form S-3 (Registration No. 333-155582) as filed with the SEC on November 21, 2008 and declared effective May 7, 2009.
(9) Incorporated by reference to the registrant s Form 10-Q as filed with the SEC on November 8, 2007.
(10) Incorporated by reference to the registrant s Form 10-Q as filed with the SEC on February 6, 2003.
(11) Incorporated by reference to the registrant s Form 10-K as filed with the SEC on September 7, 2006.
(12) Incorporated by reference to the registrant s registration statement on Form S-1 (Registration No. 333-56026) as filed with the SEC on August 17, 2001 and declared effective January 28, 2002.
(13) Incorporated by reference to the registrant s Form 10-Q as filed with the SEC on November 2, 2010.
(14) Incorporated by reference to the registrant s Current Report on Form 8-K as filed with the SEC on October 22, 2010.
(15) Incorporated by reference to the registrant s Form 10-Q as filed with the SEC on May 4, 2012.
(16) Incorporated by reference to the registrant s Current Report on Form 8-K as filed with the SEC on October 13, 2010.
(17) Incorporated by reference to the registrant s Current Report on Form 8-K as filed with the SEC on October 4, 2011.
(18) Incorporated by reference to the registrant s Current Report on Form 8-K as filed with the SEC on October 6, 2011.
(19) Incorporated by reference to the registrant s Form 10-K as filed with the SEC on August 27, 2012.
(20) Incorporated by reference to the registrant s Form 10-Q as filed with the SEC on November 2, 2012.
(21) Incorporated by reference to the registrant s Form 10-Q as filed with the SEC on February 1, 2013.
(22) Incorporated by reference to the registrant s Form 10-Q as filed with the SEC on May 3, 2013.
* Indicates a contract with management or compensatory plan or arrangement.

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## INDEX TO FINANCIAL STATEMENTS

## SYNAPTICS INCORPORATED AND SUBSIDIARIES

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

Synaptics Incorporated:

We have audited the accompanying consolidated balance sheets of Synaptics Incorporated and subsidiaries (the Company) as of June 29, 2013 and June 30, 2012, and the related consolidated statements of income, comprehensive income, stockholders equity, and cash flows for each of the years in the three-year period ended June 29, 2013. We also have audited the Company s internal control over financial reporting as of June 29, 2013, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) issued in 1992. The Company s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Synaptics Incorporated and subsidiaries as of June 29, 2013 and June 30, 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended June 29, 2013, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 29, 2013, based on criteria established in *Internal Control Integrated Framework* issued by the COSO.

/s/ KPMG LLP

Santa Clara, California

August 19, 2013

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**SYNAPTICS INCORPORATED AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

(in thousands, except par value and share amounts)

| | June 2013 | June 2012 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 355,303 | $ 305,005 |
| Accounts receivable, net of allowances of $883 and $567, respectively at June 2013 and 2012 | 148,454 | 104,140 |
| Inventories | 49,948 | 31,667 |
| Prepaid expenses and other current assets | 6,715 | 5,365 |
| Total current assets | 560,420 | 446,177 |
| Property and equipment, net | 58,035 | 24,903 |
| Goodwill | 20,695 | 18,995 |
| Purchased intangibles | 13,110 | 12,800 |
| Non-current investments | 16,969 | 15,321 |
| Other assets | 22,037 | 23,309 |
| | $ 691,266 | $ 541,505 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current Liabilities: | | |
| Accounts payable | $ 83,710 | $ 55,220 |
| Accrued compensation | 23,728 | 12,642 |
| Income taxes payable | 10,751 | 11,221 |
| Other accrued liabilities | 31,437 | 26,515 |
| Total current liabilities | 149,626 | 105,598 |
| Notes payable | 2,305 | 2,305 |
| Other liabilities | 17,480 | 36,812 |
| Commitments and contingencies | | |
| Stockholders Equity: | | |
| Preferred stock: | | |
| $0.001 par value; 10,000,000 shares authorized; no shares issued and outstanding | | |
| Common stock: | | |
| $0.001 par value; 120,000,000 shares authorized, 50,673,758 and 48,680,348 shares issued, and 33,289,826 and 32,896,256 shares outstanding, at June 2013 and 2012, respectively | 51 | 49 |
| Additional paid-in capital | 539,170 | 471,569 |
| Treasury stock: 17,383,932 and 15,784,092 common shares at June 2013 and 2012, respectively, at cost | (460,160) | (413,885) |
| Accumulated other comprehensive income | 6,802 | 1,998 |
| Retained earnings | 435,992 | 337,059 |
| Total stockholders equity | 521,855 | 396,790 |
| | $ 691,266 | $ 541,505 |

*See accompanying notes to consolidated financial statements.*

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**SYNAPTICS INCORPORATED AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except per share amounts)

| | Fiscal 2013 | Fiscal 2012 | Fiscal 2011 |
|---|---|---|---|
| Net revenue | $ 663,588 | $ 548,228 | $ 598,538 |
| Cost of revenue | 337,784 | 292,661 | 352,468 |
| Gross margin | 325,804 | 255,567 | 246,070 |
| Operating expenses: | | | |
| Research and development | 144,699 | 117,954 | 105,003 |
| Selling, general, and administrative | 79,620 | 70,045 | 68,549 |
| Acquired intangibles amortization | 1,025 | | |
| Change in contingent consideration | 1,347 | | |
| Gain on sale of property and equipment | (1,578) | | |
| Total operating expenses | 225,113 | 187,999 | 173,552 |
| Operating income | 100,691 | 67,568 | 72,518 |
| Interest income | 865 | 922 | 911 |
| Non-cash interest income | 194 | | |
| Interest expense | (17) | (17) | (17) |
| Impairment recovery on investments, net | | 77 | 59 |
| Income before provision for income taxes | 101,733 | 68,550 | 73,471 |
| Provision for income taxes | 2,800 | 14,406 | 9,675 |
| Net income | $ 98,933 | $ 54,144 | $ 63,796 |
| Net income per share: | | | |
| Basic | $ 3.03 | $ 1.64 | $ 1.87 |
| Diluted | $ 2.89 | $ 1.57 | $ 1.80 |
| Shares used in computing net income per share: | | | |
| Basic | 32,658 | 33,030 | 34,042 |
| Diluted | 34,239 | 34,435 | 35,454 |

*See accompanying notes to consolidated financial statements.*

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**SYNAPTICS INCORPORATED AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands)

| | | Fiscal | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| Net income | $ 98,933 | $ 54,144 | $ 63,796 |
| Other comprehensive income: | | | |
| Change in unrealized net gain/(loss) on investments | 4,804 | (522) | 1,005 |
| Comprehensive income | $ 103,737 | $ 53,622 | $ 64,801 |

*See accompanying notes to consolidated financial statements.*

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**SYNAPTICS INCORPORATED AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

(in thousands, except share amounts)

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Treasury Stock | Accumulated Other Comprehensive Income/(Loss) | Retained Earnings | Total Stockholders Equity |
|---|---|---|---|---|---|---|---|
| Balance at June 2010 | 44,891,834 | $ 45 | $ 347,764 | $ (281,932) | $ 1,515 | $ 219,119 | $ 286,511 |
| Net income | | | | | | 63,796 | 63,796 |
| Net unrealized gain on available-for-sale investments | | | | | 1,005 | | 1,005 |
| Issuance of common stock for share-based award compensation plans | 1,940,374 | 2 | 26,421 | | | | 26,423 |
| Payroll taxes for deferred stock units | | | (3,147) | | | | (3,147) |
| Purchases of treasury stock | | | | (70,210) | | | (70,210) |
| Tax benefit associated with share-based awards | | | 1,690 | | | | 1,690 |
| Share-based compensation | | | 33,925 | | | | 33,925 |
| Balance at June 2011 | 46,832,208 | 47 | 406,653 | (352,142) | 2,520 | 282,915 | 339,993 |
| Net income | | | | | | 54,144 | 54,144 |
| Net unrealized loss on available-for-sale investments | | | | | (522) | | (522) |
| Issuance of common stock for share-based award compensation plans | 1,848,140 | 2 | 34,874 | | | | 34,876 |
| Payroll taxes for deferred stock units | | | (3,946) | | | | (3,946) |
| Purchases of treasury stock | | | | (61,743) | | | (61,743) |
| Tax shortfall associated with share-based awards | | | (173) | | | | (173) |
| Share-based compensation | | | 34,161 | | | | 34,161 |
| Balance at June 2012 | 48,680,348 | 49 | 471,569 | (413,885) | 1,998 | 337,059 | 396,790 |
| Net income | | | | | | 98,933 | 98,933 |
| Net unrealized gain on available-for-sale investments | | | | | 4,804 | | 4,804 |
| Issuance of common stock for share-based award compensation plans | 1,993,410 | 2 | 37,432 | | | | 37,434 |
| Payroll taxes for deferred stock units | | | (4,692) | | | | (4,692) |
| Purchases of treasury stock | | | | (46,275) | | | (46,275) |
| Tax benefit associated with share-based awards | | | 2,651 | | | | 2,651 |
| Share-based compensation | | | 32,210 | | | | 32,210 |
| Balance at June 2013 | 50,673,758 | $ 51 | $ 539,170 | $ (460,160) | $ 6,802 | $ 435,992 | $ 521,855 |

*See accompanying notes to consolidated financial statements.*

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**SYNAPTICS INCORPORATED AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

| | Fiscal 2013 | Fiscal 2012 | Fiscal 2011 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net income | $ 98,933 | $ 54,144 | $ 63,796 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Share-based compensation costs | 32,210 | 34,161 | 33,925 |
| Depreciation and amortization | 10,846 | 10,409 | 11,169 |
| Gain on sale of property and equipment | (1,578) | | |
| Net excess tax benefit (shortfall) realized from share-based compensation | 2,651 | (173) | 1,690 |
| Excess tax benefit from share-based compensation | (3,817) | (2,153) | (2,886) |
| Accretion and remeasurement of contingent consideration liability | 1,347 | | |
| Deferred taxes | (890) | (741) | (3,666) |
| Impairment of property and equipment | 300 | 1,269 | |
| Non-cash interest income | (194) | | |
| Impairment recovery on investments, net | | (77) | (59) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable, net | (44,314) | (10,329) | 7,701 |
| Inventories | (16,872) | (2,817) | (10,183) |
| Prepaid expenses and other current assets | (109) | (530) | (146) |
| Other assets | 921 | 1,894 | 332 |
| Accounts payable | 23,264 | 10,235 | (20,688) |
| Accrued compensation | 11,086 | (634) | 1,880 |
| Income taxes | (15,940) | 3,000 | 2,975 |
| Other accrued liabilities | 4,313 | 3,735 | 3,873 |
| Net cash provided by operating activities | 102,157 | 101,393 | 89,713 |
| **Cash flows from investing activities** | | | |
| Proceeds from sales of non-current investments | 3,350 | 10,110 | 3,200 |
| Proceeds from sale of property and equipment | 12,626 | | |
| Acquisition of business, net of cash acquired | (5,000) | (14,632) | |
| Purchases of property and equipment | (48,519) | (10,359) | (11,570) |
| Net cash used in investing activities | (37,543) | (14,881) | (8,370) |
| **Cash flows from financing activities** | | | |
| Payment of contingent consideration liability | (4,600) | | |
| Purchases of treasury stock | (46,275) | (61,743) | (70,210) |
| Proceeds from issuance of shares | 37,434 | 34,876 | 26,423 |
| Excess tax benefit from share-based compensation | 3,817 | 2,153 | 2,886 |
| Payroll taxes for deferred stock units | (4,692) | (3,946) | (3,147) |
| Net cash used in financing activities | (14,316) | (28,660) | (44,048) |
| Net increase in cash and cash equivalents | 50,298 | 57,852 | 37,295 |
| Cash and cash equivalents at beginning of period | 305,005 | 247,153 | 209,858 |
| Cash and cash equivalents at end of period | $ 355,303 | $ 305,005 | $ 247,153 |

| | | | |
|---|---|---|---|
| **Supplemental disclosures of cash flow information** | | | |
| Cash paid for taxes | $ 18,716 | $ 12,305 | $ 9,574 |
| Property and equipment unpaid | $ 5,226 | $ | $ |

*See accompanying notes to consolidated financial statements.*

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**SYNAPTICS INCORPORATED AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization and Summary of Significant Accounting Policies**

*Organization and Basis of Presentation*

We are a leading worldwide developer and supplier of custom-designed user interface solutions that enable people to interact more easily and intuitively with a wide variety of mobile computing, communications, entertainment, and other electronic devices. We currently target the markets for mobile product applications, including mobile smartphones and feature phones; tablets; the personal computer, or PC, product applications market, primarily notebook and ultrabook computers; and other select electronic device markets, with our customized human interface solutions. Every solution we deliver either contains or consists of our touch-based semiconductor solution, which includes our capacitive sensing ASIC, customer-specific firmware, and software. Our original equipment manufacturer, or OEM, customers include many of the world s largest OEMs for mobile smartphones and feature phones and most of the tier one PC OEMs.

The consolidated financial statements are presented in accordance with U.S. generally accepted accounting principles, or U.S. GAAP, and include our financial statements and those of our wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated upon consolidation.

Our fiscal year is the 52- or 53-week period ending on the last Saturday in June. The fiscal years presented in this report were a 52-week period ended June 29, 2013, a 53-week period ended June 30, 2012 and a 52-week period ended June 25, 2011.

*Use of Estimates*

The preparation of consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, allowance for doubtful accounts, cost of revenue, inventories, loss on purchase commitments, product warranty, share-based compensation costs, provision for income taxes, deferred income tax asset valuation allowances, uncertain tax positions, tax contingencies, goodwill, intangible assets, investments, contingent consideration liability and loss contingencies. We base our estimates on historical experience, applicable laws and regulations, and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

*Cash Equivalents and Investments*

Cash equivalents consist of highly liquid investments with original maturities of three months or less. Our non-current investments are reported at fair value, with unrealized gains and losses excluded from earnings and shown separately as a component of accumulated other comprehensive income within stockholders equity. We charge other-than-temporary declines in the fair value of a debt security to earnings if the decline is due to a credit loss or if we intend to or need to sell at a loss, resulting in the establishment of a new cost basis in the debt security. We charge other-than-temporary declines in the fair value of a debt security to other comprehensive income if the decline is due to a noncredit loss. We include interest earned on securities in interest income. We determine realized gains and losses on the sale of securities using the specific identification method.

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Our cash equivalents and investments classified as available-for-sale securities as of the end of fiscal 2013 and 2012 were as follows (in thousands):

| | 2013 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Reported as cash equivalents: | | | | |
| Money market funds | $ 350,521 | $ | $ | $ 350,521 |
| Reported as non-current investments: | | | | |
| Auction rate securities | 10,167 | 6,980 | 178 | 16,969 |
| Total available-for-sale securities | $ 360,688 | $ 6,980 | $ 178 | $ 367,490 |

| | 2012 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Reported as cash equivalents: | | | | |
| Money market funds | $ 301,451 | $ | $ | $ 301,451 |
| Reported as non-current investments: | | | | |
| Auction rate securities | 13,323 | 2,276 | 278 | 15,321 |
| Total available-for-sale securities | $ 314,774 | $ 2,276 | $ 278 | $ 316,772 |

*Fair Value*

We measure certain financial assets and liabilities at fair value. When we measure fair value on either a recurring or nonrecurring basis, inputs used in valuation techniques are assigned a hierarchical level as follows:

Level 1 inputs are observable inputs that reflect quoted prices for identical assets or liabilities in active markets.

Level 2 inputs reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the assets or liabilities; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 inputs are unobservable inputs reflecting our assumptions, which are incorporated into valuation techniques and models used to determine fair value. The assumptions are consistent with market participant assumptions that are reasonably available.

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Financial assets and liabilities measured at fair value on a recurring basis, by level within the fair value hierarchy, as of the end of fiscal 2013 and 2012 were as follows (in thousands):

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Level 1 | Level 3 | Level 1 | Level 3 |
| Assets | | | | |
| Money market | $ 350,521 | $ | $ 301,451 | $ |
| Auction rate securities | | 16,969 | | 15,321 |
| Total | $ 350,521 | $ 16,969 | $ 301,451 | $ 15,321 |
| Liabilities | | | | |
| Contingent consideration liability recorded for business acquisition | $ | $ 8,247 | $ | $ 11,900 |

In connection with the acquisition of Pacinian in June 2012, we entered into a contingent consideration arrangement, and subsequently paid $5.0 million of additional consideration to the former Pacinian stockholders upon customer acceptance of a ThinTouch product. As of June 30, 2013, we owe up to $10.0 million of additional consideration to the former Pacinian stockholders based on sales of products utilizing ThinTouch technology through June 2016.

We have classified the contingent consideration liability recorded for a business acquisition as a Level 3 liability, of which $8.1 million and $11.9 million is included in the non-current portion of other liabilities as of the end of fiscal 2013 and 2012, respectively, and $196,000 has been included in other current liabilities as of the end of fiscal 2013. The contingent consideration liability is estimated applying a probability-weighted discounted cash flow model with an assumed discount rate of approximately 13% as of the end of fiscal 2013. There were no Level 2 financial assets or liabilities as of the end of fiscal 2013 or 2012.

Changes in fair value of our Level 3 financial assets for fiscal 2013 and 2012 were as follows (in thousands):

| | 2013 | 2012 |
|---|---|---|
| Beginning balance | $ 15,321 | $ 25,876 |
| Net unrealized gain/(loss) | 4,998 | (522) |
| Impairment recovery of redeemed investments | | 77 |
| Redemptions | (3,350) | (10,110) |
| Ending balance | $ 16,969 | $ 15,321 |

Changes in fair value of contingent consideration measured using significant unobservable inputs (Level 3) for fiscal 2013 and 2012 were as follows (in thousands):

| | 2013 | 2012 |
|---|---|---|
| Beginning balance | $ 11,900 | $ |
| Contingent consideration liability incurred | | 11,900 |
| Settlement of contingent consideration liability | (5,000) | |
| Accretion and remeasurement | 1,347 | |
| Ending balance | $ 8,247 | $ 11,900 |

There were no transfers in or out of our Level 1, 2, or 3 assets or liabilities during fiscal 2013 or 2012.

The fair values of our accounts receivable and accounts payable approximate their carrying values because of the short-term nature of those instruments. The fair value of our notes payable approximates carrying value in all material respects. Intangible assets, property and equipment, and goodwill are measured at fair value on a non-recurring basis if impairment is indicated.

*Concentration of Credit Risk*

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash equivalents, investments, and accounts receivable. Our investment policy, which is predicated on capital preservation and liquidity, limits investments to U.S. government treasuries and agency issues, taxable securities, and municipal issued securities with a minimum rating of A1 (Moody s) or P1 (Standard and Poor s) or equivalent. Included within our investment portfolio are investments in ARS investments, which met our investment guidelines at the time of our investment. Our ARS investments are currently not liquid as a result of continued auction failures.

We sell our products to contract manufacturers that provide manufacturing services for OEMs and to some OEMs directly. We extend credit based on an evaluation of a customer s financial condition, and we generally do not require collateral.

The following customers accounted for more than 10% of our accounts receivable balance as of the end of fiscal 2013 and 2012:

| | 2013 | 2012 |
|---|---|---|
| Customer A | 27% | * |
| Customer B | * | 14% |
| Customer C | * | 12% |

* Less than 10%

*Other Concentrations*

Our products include certain components that are currently single sourced. We believe other vendors would be able to provide similar components; however, the qualification of such vendors may require start-up time. In order to mitigate any adverse impacts from a disruption of supply, we strive to maintain an adequate supply of critical single-sourced components.

*Revenue Recognition*

We recognize revenue from product sales when there is persuasive evidence that an arrangement exists, delivery has occurred and title has transferred, the price is fixed or determinable, and collection is reasonably assured, which is generally upon shipment of the product. We accrue for estimated sales returns, incentives and other allowances at the time we recognize revenue. Our products contain embedded firmware and software that allows for further differentiation and customer integration, which together with, or consisting of, our ASIC chip delivers the essential functionality of our products and, as such, software revenue recognition guidance is not applicable.

*Advertising Costs*

Advertising costs, if any, are expensed when incurred.

*Allowance for Doubtful Accounts*

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of customers to meet their financial obligations. On an ongoing basis, we evaluate the collectability of accounts receivable based on a combination of factors. In circumstances in which we are aware of a specific customer s potential inability to meet its financial obligation, we record a specific reserve of the bad debt against amounts due. In addition, we make judgments and estimates on the collectability of accounts receivable based on our historical bad debt experience, customers creditworthiness, current economic trends, recent changes in customers payment trends, and deterioration in customers operating results or financial position. If circumstances change adversely, additional bad debt allowances may be required. For all periods presented, credit losses on our accounts receivable have been insignificant, and we believe that an adequate allowance for doubtful accounts has been provided.

*Cost of Revenue*

Our cost of revenue includes the cost of products shipped to our customers, which primarily includes the cost of products built to our specifications by our contract manufacturers, the cost of silicon wafers supplied by independent semiconductor wafer manufacturers, and the related assembly, package, and test costs of our die and packaged ASICs. Also included in our cost of revenue are personnel and related costs, including share-based compensation, for quality assurance and manufacturing support; logistics costs; depreciation of equipment supporting manufacturing; license amortization; inventory write-downs and losses on purchase obligations; and warranty costs.

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*Inventories*

Inventories are stated at the lower of cost (first-in, first-out method) or market (estimated net realizable value) as of the end of fiscal 2013 and 2012 and consisted of the following (in thousands):

| | 2013 | 2012 |
|---|---|---|
| Raw materials | $ 38,181 | $ 26,957 |
| Finished goods | 11,767 | 4,710 |
| | $ 49,948 | $ 31,667 |

Periodically, we purchase inventory from our contract manufacturers when a customer delays its delivery schedule or cancels its order. In those circumstances in which our customer has cancelled its order and we purchase inventory from our contract manufacturers, we record a write-down, if necessary, to reduce the carrying value of the inventory purchased to its net realizable value. The effect of these write-downs is to establish a new cost basis in the related inventory, which we do not subsequently write up. We also record a liability and charge to cost of revenue for estimated losses on inventory we are obligated to purchase from our contract manufacturers when such losses become probable from customer delays or order cancellations.

*Property and Equipment*

We state property and equipment at cost less accumulated depreciation and amortization. We compute depreciation using the straight-line method over the estimated useful lives of the assets. We amortize leasehold improvements over the shorter of the lease term or the useful life of the asset.

*Foreign Currency*

The U.S. dollar is our functional and reporting currency. We remeasure our monetary assets and liabilities not denominated in the functional currency into U.S. dollar equivalents at the rate of exchange in effect on the balance sheet date. We measure and record non-monetary balance sheet accounts at the historical rate in effect at the date of transaction. All of our revenue and approximately 92% of our consolidated costs are denominated in U.S. dollars. We remeasure foreign currency expenses at the weighted average exchange rate in the month that the transaction occurred. Remeasurement of monetary assets and liabilities that are not denominated in the functional currency are included currently in operating results. Foreign currency losses included in operating results for fiscal 2013, 2012, and 2011 were not material. To date, we have not undertaken hedging transactions related to foreign currency exposure.

*Goodwill*

We review the carrying value of goodwill at least annually for impairment during the last quarter of our fiscal year. The frequency of our review is dictated by events or changes in circumstances indicating that the carrying value may be impaired.

*Impairment of Long-Lived Assets*

We evaluate long-lived assets, such as property and equipment and intangible assets subject to amortization, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. We review the carrying value of indefinite-lived intangible assets for impairment at least annually during the last quarter of our fiscal year, or more frequently if we believe indicators of impairment exist. We measure recoverability of assets to be held and used by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated undiscounted future cash flows, we recognize an impairment charge in an amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and would no longer be depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheets. There were no events during the fiscal year that triggered an impairment of our long-lived assets.

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*Other Accrued Liabilities*

As of the end of fiscal 2013 and 2012, other accrued liabilities consisted of the following (in thousands):

| | 2013 | 2012 |
|---|---|---|
| Customer obligations | $ 16,291 | $ 13,076 |
| Inventory obligations | 6,333 | 5,680 |
| Warranty | 1,696 | 2,175 |
| Other | 7,117 | 5,584 |
| | $ 31,437 | $ 26,515 |

*Segment Information*

We operate in one segment: the development, marketing, and sale of intuitive human interface solutions for electronic devices and products.

*Share-Based Compensation Costs*

We utilize the Black-Scholes option pricing model to estimate the grant date fair value of stock options granted to employees, which requires the input of highly subjective assumptions, including expected volatility and expected life. Historical and implied volatilities were used in estimating the fair value of our stock option awards. The expected life for our options was previously estimated based on historical trends since our initial public offering. In fiscal 2011, we began to grant options with a contractual life of seven years rather than 10 years and we began using the simplified method of establishing the expected life as we did not have any history of options with seven-year lives. In fiscal 2013, we began to grant options which vest over a three-year period rather than a four-year period and we continued to use the simplified method of establishing the expected life as we do not have any history of options which vest over a three year period. Changes in these inputs and assumptions can materially affect the measure of estimated fair value of our share-based compensation. Further, we estimate forfeitures for share-based awards that are not expected to vest. We charge estimated fair value less estimated forfeitures to earnings on a straight-line basis over the vesting period of the underlying awards, which is generally three to four years for our stock option and deferred stock unit, or DSU, awards, three years for our market stock unit, or MSU, awards, and up to two years for our employee stock purchase plan.

*Product Warranties*

We generally warrant our products for a period of 12 months from the date of sale and estimate probable product warranty costs at the time we recognize revenue. Factors that affect our warranty liability include historical and anticipated rates of warranty claims, materials usage, rework, and delivery costs. However, we assess the adequacy of our warranty obligations periodically and adjust the accrued warranty liability on the basis of our estimates.

Changes in our warranty liability (included in other accrued liabilities) for fiscal 2013 and 2012 were as follows (in thousands):

| | 2013 | 2012 |
|---|---|---|
| Beginning accrued warranty | $ 2,175 | $ 2,984 |
| Provision for product warranties | 875 | 1,759 |
| Cost of warranty claims and settlements | (1,354) | (2,568) |
| Ending accrued warranty | $ 1,696 | $ 2,175 |

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*Income Taxes*

We account for income taxes under the asset and liability method. We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We recognize the effect on deferred tax assets and liabilities of a change in tax rates in income in the period that includes the enactment date. We establish valuation allowances when necessary to reduce deferred tax assets to the amounts that are more likely than not to be realized. We consider the operating earnings of our foreign subsidiaries to be indefinitely invested outside the United States. Accordingly, no provision has been made for the U.S. federal, state, or foreign taxes that may result from future remittances of undistributed earnings of our foreign subsidiaries.

We use a two-step approach to recognizing and measuring uncertain tax positions. The first step is to determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement with a taxing authority. The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of highly complex tax laws. Resolution of these uncertainties in a manner inconsistent with our expectations could have a material impact on our consolidated financial position, results of operations, and cash flows. We believe we have adequately provided for reasonably foreseeable outcomes in connection with the resolution of income tax uncertainties. However, our results have in the past, and could in the future, include favorable and unfavorable adjustments to our estimated tax liabilities in the period a determination of such estimated tax liability is made or resolved, upon the filing of an amended return, upon a change in facts, circumstances, or interpretation, or upon the expiration of a statute of limitation. Accordingly, our effective tax rate could fluctuate materially from period to period.

*Research and Development*

Research and development costs are expensed as incurred.

**2. Net Income Per Share**

The computation of basic and diluted net income per share for fiscal 2013, 2012, and 2011 was as follows (in thousands, except per share amounts):

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Numerator: | | | |
| Net income | $ 98,933 | $ 54,144 | $ 63,796 |
| Denominator: | | | |
| Shares, basic | 32,658 | 33,030 | 34,042 |
| Effect of dilutive share-based awards | 1,581 | 1,405 | 1,412 |
| Shares, diluted | 34,239 | 34,435 | 35,454 |
| Net income per share: | | | |
| Basic | $ 3.03 | $ 1.64 | $ 1.87 |
| Diluted | $ 2.89 | $ 1.57 | $ 1.80 |

Diluted net income per share does not include the effect of potential common shares related to certain share-based awards for fiscal 2013, 2012, and 2011 as follows (in thousands):

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Share-based awards | 1,742 | 3,841 | 3,584 |

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These share-based awards were not included in the computation of diluted net income per share because the proceeds received, if any, from such share-based awards combined with the average unamortized compensation costs adjusted for the hypothetical tax benefit or deficiency creditable or chargeable, respectively, to additional paid-in capital, were greater than the average market price of our common stock, and therefore, their effect would have been antidilutive.

Our basic net income per share amounts for each period presented have been computed using the weighted average number of shares of common stock outstanding. Our diluted net income per share amounts for each period presented include the weighted average effect of potentially dilutive shares. We used the treasury stock method to determine the dilutive effect of our stock options, DSUs, MSUs, and convertible notes. Under the treasury stock method, shares associated with our convertible notes are included in the calculation of diluted net income per share only if the weighted average price of our common stock exceeds $33.69 during the reporting period.

**3. Auction Rate Securities**

Our ARS investments, which are included in non-current investments, have failed to settle in auctions beginning in 2007. These investments are not liquid, and in the event we need to access these funds, we will not be able to do so without a loss of principal, unless redeemed by the issuers or a future auction on these investments is successful. During fiscal 2013, 2012, and 2011, $3.4 million, $10.1 million, and $3.2 million, respectively, of our ARS investments were redeemed.

As there are currently no active markets for our various failed ARS investments, we have estimated the fair value of these investments as of the end of fiscal 2013 using a trinomial discounted cash flow analysis. The analysis considered, among others, the following factors:

- the collateral underlying the security investments;
- the creditworthiness of the counterparty;
- the timing of expected future cash flows;
- the probability of a successful auction in a future period;
- the underlying structure of each investment;
- the present value of future principal and interest payments discounted at rates considered to reflect current market conditions;
- a consideration of the probabilities of default, passing a future auction, or redemption at par for each period; and
- estimates of the recovery rates in the event of default for each investment.

When possible, our failed ARS investments were compared to other observable market data or securities with similar characteristics. Our estimate of the fair value of our ARS investments could fluctuate materially from period to period depending on future market conditions.

We have ARS investments with a fair value of $11.8 million that mature from fiscal 2016 to 2018, $3.2 million that mature from 2044 to 2046, and $2.0 million that have no maturity. Of our ARS investments, $5.5 million par value are investment grade and the remaining $18.5 million par value are below investment grade.

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The various types of ARS investments we held as of the end of fiscal 2013, including the original cost basis, other-than-temporary impairment included in retained earnings, new cost basis, unrealized gain/(loss), and fair value consisted of the following (in thousands):

| | Original Cost Basis | Other-than-temporary Impairment in Retained Earnings | New Cost Basis | Unrealized Gain/(Loss) | Fair Value |
|---|---|---|---|---|---|
| Student loans | $ 3,500 | $ (179) | $ 3,321 | $ (168) | $ 3,153 |
| Credit linked notes | 13,500 | (8,571) | 4,929 | 4,980 | 9,909 |
| Preferred stock | 5,000 | (5,000) | | 2,000 | 2,000 |
| Municipals | 2,000 | (83) | 1,917 | (10) | 1,907 |
| Total ARS | $ 24,000 | $ (13,833) | $ 10,167 | $ 6,802 | $ 16,969 |

All of the ARS investments in the above table with unrealized losses have been in a continuous unrealized loss position for more than 12 months.

The various types of ARS investments we held as of the end of fiscal 2012, including the original cost basis, other-than-temporary impairment included in retained earnings, new cost basis, unrealized gain/(loss), and fair value consisted of the following (in thousands):

| | Original Cost Basis | Other-than-temporary Impairment in Retained Earnings | New Cost Basis | Unrealized Gain/(Loss) | Fair Value |
|---|---|---|---|---|---|
| Student loans | $ 6,850 | $ (179) | $ 6,671 | $ (231) | $ 6,440 |
| Credit linked notes | 13,500 | (8,765) | 4,735 | 2,276 | 7,011 |
| Preferred stock | 5,000 | (5,000) | | | |
| Municipals | 2,000 | (83) | 1,917 | (47) | 1,870 |
| Total ARS | $ 27,350 | $ (14,027) | $ 13,323 | $ 1,998 | $ 15,321 |

All of the ARS investments in the above table with unrealized losses have been in a continuous unrealized loss position for more than 12 months.

We have accounted for all of our ARS investments as non-current as we are not able to reasonably determine when the ARS markets will recover or be restructured. Based on our ability to access our cash and cash equivalents, our expected operating cash flows, and our other sources of cash, we do not intend to sell our ARS investments and it is not more likely than not that we will be required to sell our ARS investments before the recovery of the amortized cost basis. We will continue to monitor our ARS investments and evaluate our accounting for these investments quarterly.

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**4. Property and Equipment**

Property and equipment as of the end of fiscal 2013 and 2012 consisted of the following (in thousands):

| | Life | 2013 | 2012 |
|---|---|---|---|
| Land | | $ 7,900 | $ 2,500 |
| Building and building improvements | 35 years | 27,000 | 11,172 |
| Computer equipment | 3 years | 10,536 | 6,983 |
| Manufacturing equipment | 1 year to 5 years | 22,508 | 18,519 |
| Furniture, fixtures, and leasehold improvements | 3 years to 5 years | 11,157 | 7,096 |
| Capitalized software | 3 years to 7 years | 14,219 | 11,762 |
| | | 93,320 | 58,032 |
| Accumulated depreciation and amortization | | (35,285) | (33,129) |
| Property and equipment, net | | $ 58,035 | $ 24,903 |

For fiscal 2013 and 2012, we retired fully depreciated equipment and furniture with an original cost of $4.3 million and $5.1 million, respectively.

In fiscal year 2013, we acquired a new headquarters campus in San Jose, California, consisting of three office buildings of approximately 151,000 square feet of space and approximately 7.84 acres of land for $11.8 million, exclusive of adjustments and closing costs. Upon completion of renovations and improvements, including adding approximately 10,000 square feet to one of the buildings, in June 2013, we consolidated our Santa Clara workforce into the new location.

In fiscal 2013, we sold our Santa Clara headquarters property for $12.6 million and recorded a net gain on sale of property and equipment of $1.6 million.

**5. Acquisitions**

*Pacinian*

On June 13, 2012, or the acquisition date, we acquired 100% of the outstanding common shares and voting interest of Pacinian. This acquisition has been accounted for as a business combination. The results of Pacinian s operations have been included in the consolidated financial statements since the acquisition date. Pacinian was a development stage company, which developed an innovative thin keyboard design using its ThinTouch technology. ThinTouch is a design technology employing an innovative ramp capability that delivers a full keyboard solution that is 40% thinner than traditional keyboard solutions. By combining our TouchPad technology with the ThinTouch technology, we expect to deliver a complete keyboard solution targeted for the next generation of thin and light notebook PC form factors, such as ultrabooks.

The acquisition date fair value of the consideration transferred totaled $26.9 million, which consisted of the following (in thousands):

| | |
|---|---|
| Cash | $ 15,016 |
| Contingent consideration liability | 11,900 |
| | $ 26,916 |

The contingent consideration arrangement required us to pay $5.0 million of additional consideration to Pacinian s former stockholders, due upon customer acceptance of a ThinTouch product, and up to $10.0 million of additional consideration to Pacinian s former stockholders, at a rate of $0.60 for each unit shipped utilizing ThinTouch technology through June 2016. The estimated fair value of the contingent consideration arrangement as of the acquisition date was $11.9 million. We estimated the fair value of the contingent consideration for both customer acceptance and for unit shipments using a probability-weighted discounted cash flow model. These fair value measurements were based on significant inputs not observable in the market and thus represent a Level 3 measurement. The key assumptions in applying the probability-weighted discounted cash flow model for the $5.0 million additional consideration due upon customer acceptance was a 5.1% discount rate under five equally weighted cash flow scenarios. The key assumptions in applying the probability-weighted discounted cash flow model for the $10.0 million additional consideration based on unit shipments was a 12.4% discount rate under five equally weighted cash flow scenarios. The contingent consideration liability is remeasured at fair value each reporting period with adjustments related to accretion and changes in amount and timing of expected cash flows recorded in operating expenses. The $5.0 million of additional consideration due upon customer acceptance was paid in fiscal 2013. In our consolidated statements of cash flows for the fiscal year ended June 30, 2013, $4.6 million of the payment of contingent consideration was classified as cash flows from financing activities and $400,000 was classified as cash flows from operating activities.

We operate in one segment; therefore, the goodwill was allocated to a company-wide reporting unit. None of the goodwill is deductible for income tax purposes.

*Video Display Operation of Integrated Device Technology*

On August 1, 2012, we acquired inventory, fixed assets, and intangible assets of the Video Display Operation, or VDO, of Integrated Device Technology, Inc., or IDT, including a worldwide non-exclusive, irrevocable, non-transferable, royalty-free paid up license, for $5.0 million. This acquisition was effected to enhance our technology portfolio with a primary focus on the emerging large touchscreen market for notebooks, ultrabooks, and tablets. This acquisition has been accounted for as a business combination. The results of VDO s operations have been included in our consolidated financial statements since the acquisition date.

The following table summarizes the estimated fair values of the assets acquired as of the acquisition date (in thousands):

| | |
|---|---|
| Inventory | $ 1,409 |
| Test equipment | 556 |
| Intangible assets | 1,335 |
| Goodwill | 1,700 |
| Net assets acquired | $ 5,000 |

We operate in one segment; therefore, the goodwill applies to a company-wide reporting unit. All of the goodwill and intangible assets are expected to be deductible for income tax purposes.

We recognized approximately $100,000 of acquisition-related costs that were expensed in fiscal 2013. These costs were included in our consolidated statements of income as selling, general, and administrative expenses.

The amounts of revenue and earnings of VDO included in our consolidated statements of income from the acquisition date to the period ended September 30, 2012, were immaterial. Pro forma consolidated statements of income as if VDO had been included for the three months ended September 30, 2012 and the entire year ended June 30, 2012, are not materially different than those reported.

Prior to the acquisition, we did not have a preexisting relationship with IDT.

**6. Purchased Intangibles**

The following table summarizes the life, the gross carrying value of our purchased intangible assets, and the related accumulated amortization as of the end of fiscal 2013 and 2012 (in thousands):

| | Life | 2013 | 2012 |
|---|---|---|---|
| In-process research and development | To be determined | $ 8,900 | $ 8,900 |
| Customer relationships | 5 years | 3,800 | 3,800 |
| Licensed technology and other | 5 years | 1,335 | |
| Patents | 5 years | 100 | 100 |
| | | 14,135 | 12,800 |
| Accumulated amortization | | (1,025) | |
| Purchased intangibles, net | | $ 13,110 | $ 12,800 |

Amortization expense is calculated using the straight-line method over the estimated useful lives of the purchased intangibles. The total amortization expense for the purchased intangible assets was $1.0 million in fiscal year 2013 and zero in fiscal year 2012. This amortization expense was included in our consolidated statements of income as acquired intangibles amortization.

The following table presents expected annual aggregate amortization expense in future fiscal years (in thousands):

| | |
|---|---|
| 2014 | $ 1,047 |
| 2015 | 1,047 |
| 2016 | 1,047 |
| 2017 | 1,047 |
| 2018 | 22 |
| To be determined | 8,900 |
| Future amortization | $ 13,110 |

The in-process research and development intangible asset was recognized in connection with the acquisition of Pacinian. At the end of fiscal 2013, we determined the underlying project is still under development as a significant amount of future research and development costs are expected to be incurred and additional development is required to overcome the remaining technological risks. We expect to complete this project and begin to amortize the related in-process research and development intangible asset sometime in fiscal 2014.

**7. Commitments and Contingencies**

*Leases*

We maintain office facilities in various locations under operating leases with expiration dates from fiscal 2014 to fiscal 2022, some of which have renewal options of one to five years. Our leased office facilities are located in China, Finland, Hong Kong, Japan, Korea, Switzerland, Taiwan, and the United States. We recognized rent expense on a straight-line basis of $4.6 million, $4.3 million, and $4.0 million for fiscal 2013, 2012, and 2011, respectively.

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The aggregate future minimum rental commitments in future fiscal years for noncancelable operating leases with initial or remaining terms in excess of one year were as follows (in thousands):

| Fiscal Year | Operating Lease Payments |
|---|---|
| 2014 | $ 3,133 |
| 2015 | 1,966 |
| 2016 | 997 |
| 2017 | 620 |
| 2018 | 443 |
| Thereafter | 1,408 |
| Total minimum operating lease payments | $ 8,567 |

*Contingencies*

We have in the past and may in the future receive notices from third parties that claim our products infringe their intellectual property rights. We cannot be certain that our technologies and products do not and will not infringe issued patents or other proprietary rights of third parties.

Any infringement claims, with or without merit, could result in significant litigation costs and diversion of management and financial resources, including the payment of damages, which could have a material adverse effect on our business, financial condition, and results of operations.

*Indemnifications*

In connection with certain third-party agreements we have executed in the past, we are obligated to indemnify the third party in connection with any technology infringement by us. We have also entered into indemnification agreements with our officers and directors. Maximum potential future payments cannot be estimated because these agreements do not have a maximum stated liability. However, historical costs related to these indemnification provisions have not been significant. We have not recorded any liability in our consolidated financial statements for such indemnification obligations.

*Line of Credit*

We have an unsecured $50.0 million working capital line of credit with Wells Fargo Bank. The Wells Fargo Bank revolving line of credit, which expires on September 1, 2013, has an interest rate equal to the prime lending rate or 250 basis points above LIBOR, depending on whether we choose a variable or fixed rate, respectively. We did not borrow any amounts under the line of credit during fiscal 2013. We are currently negotiating the renewal of this line of credit for another year.

**8. Convertible Senior Subordinated Notes**

In December 2004, we issued an aggregate of $125.0 million of convertible notes in a private offering pursuant to Rule 144A under the Securities Act of 1933, as amended, and in fiscal 2009 and 2010, we repurchased and retired $122.7 million of our outstanding notes. As of the end of fiscal 2013, $2.3 million par value of our notes remained outstanding and have been classified as long-term as the next date noteholders can require us to repurchase all or a portion of their notes is in December 2014. However, if certain stock price conditions are met a conversion right could trigger providing noteholders with the right to convert all or a portion of their notes prior to December 2014.

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**9. Stockholders Equity**

*Preferred Stock*

We are authorized, subject to limitations imposed by Delaware law, to issue up to a total of 10,000,000 shares of preferred stock in one or more series without stockholder approval. Our board of directors has the power to establish from time to time the number of shares to be included in each series and to fix the rights, preferences, and privileges of the shares of each wholly unissued series and any of its qualifications, limitations, or restrictions. Our board of directors can also increase or decrease the number of shares of a series, but not below the number of shares of that series then outstanding, without any further vote or action by the stockholders.

Our board of directors may authorize the issuance of preferred stock with voting or conversion rights that could harm the voting power or other rights of the holders of our common stock. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, have the effect of delaying, deferring, or preventing a change in control of our company and might harm the market price of our common stock and the voting power and other rights of the holders of common stock. As of the end of fiscal 2013, there were no shares of preferred stock outstanding and we have no current plans to issue any shares of preferred stock.

*Shares Reserved for Future Issuance*

Shares of common stock reserved for future issuance as of the end of fiscal 2013 were as follows:

| | |
|---|---|
| Stock options outstanding | 6,030,287 |
| Deferred stock units outstanding | 1,005,435 |
| Market stock units outstanding | 67,400 |
| Awards available for grant under all share-based compensation plans | 1,674,601 |
| Reserved for future issuance | 8,777,723 |

*Treasury Stock*

In July 2013, our board of directors authorized an additional $100 million for our common stock purchase program bringing the cumulative authorization to $620.0 million, expiring in October 2015. The program authorizes us to repurchase our common stock in the open market or in privately negotiated transactions depending upon market conditions and other factors. The number of shares repurchased and the timing of repurchases is based on the level of our cash balances, general business and market conditions, and other factors, including alternative investment opportunities. Common stock repurchased under this program is held as treasury stock. As of the date of the additional authorization we had $159.8 million remaining under our common stock repurchase program.

**10. Share-Based Compensation**

The purpose of our various share-based compensation plans is to attract, motivate, retain, and reward high-quality employees, directors, and consultants by enabling such persons to acquire or increase their proprietary interest in our common stock in order to strengthen the mutuality of interests between such persons and our stockholders and to provide such persons with annual and long-term performance incentives to focus their best efforts in the creation of stockholder value. Consequently, we determine share-based compensatory awards issued subsequent to the initial award to our employees and consultants primarily on individual performance. Our share-based compensation plans with outstanding awards consist of our 2001 Incentive Compensation Plan, as amended, or our 2001 Plan, our Amended and Restated 2010 Incentive Compensation Plan, or our 2010 Plan, and our 2010 Employee Stock Purchase Plan, or our 2010 ESPP.

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Share-based compensation awards available for grant or issuance for each plan as of the beginning of the fiscal year, including changes in the balance of awards available for grant for fiscal 2013, were as follows:

| | Awards Available Under All Share-Based Award Plans | 2001 Incentive Compensation Plan | 2010 Incentive Compensation Plan | 2010 Employee Stock Purchase Plan |
|---|---|---|---|---|
| Balance at June 2012 | 2,372,348 | | 2,041,032 | 331,316 |
| Additional shares authorized | 328,962 | | | 328,962 |
| Stock options granted | (513,448) | | (513,448) | |
| Deferred stock units granted | (572,225) | | (572,225) | |
| Market stock units granted | (74,000) | | (74,000) | |
| Purchases under employee stock purchase plan | (327,465) | | | (327,465) |
| Forfeited | 596,488 | 136,059 | 460,429 | |
| Plan shares expired | (136,059) | (136,059) | | |
| Balance at June 2013 | 1,674,601 | | 1,341,788 | 332,813 |

Our 2001 Plan, which expired in March 2011, was replaced by our 2010 Plan. Option awards and DSUs that are currently outstanding under our 2001 Plan will remain outstanding until exercised, delivered, forfeited, or cancelled under the terms of the grant agreements.

Share-based compensation and the related tax benefit recognized in our consolidated statements of income for fiscal 2013, 2012, and 2011 were as follows (in thousands):

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Cost of revenue | $ 911 | $ 1,129 | $ 1,294 |
| Research and development | 15,775 | 15,509 | 13,823 |
| Selling, general, and administrative | 15,524 | 17,523 | 18,808 |
| Total | $ 32,210 | $ 34,161 | $ 33,925 |
| Income tax benefit on share-based compensation | $ 9,202 | $ 9,589 | $ 9,745 |

We recognize tax benefit upon expensing certain share-based awards associated with our share-based compensation plans, including nonqualified stock options, and DSU and MSU awards, but we cannot recognize tax benefit concurrent with the recognition of share-based compensation expenses associated with incentive stock options and employee stock purchase plan shares (qualified stock options). For qualified stock options we recognize tax benefit only in the period when disqualifying dispositions of the underlying stock occur, which historically has been up to several years after vesting and in a period when our stock price substantially increases.

We determine excess tax benefit using the long-haul method in which we compare the actual tax benefit associated with the tax deduction from share-based award activity to the hypothetical tax benefit based on the grant date fair values of the corresponding share-based awards. Tax benefit associated with excess tax deduction creditable to additional paid-in capital is not recognized until the deduction reduces taxes payable.

Historically, we have issued new shares in connection with our share-based compensation plans; however, treasury shares were also available for issuance as of the end of fiscal 2013. Any additional shares repurchased under our common stock repurchase program would be available for issuance under our share-based compensation plans.

*Stock Options*

Our share-based compensation plans with outstanding stock option awards include our 2001 Plan and our 2010 Plan. Under our 2010 Plan, we may grant incentive stock options or nonqualified stock options to purchase shares of our common stock at not less than 100% of the fair market value, or FMV, on the date of grant. Stock options granted to our employees generally are incentive stock options, or qualified options, under the Internal Revenue Code, subject to calendar year vesting limitations with any balance being nonqualified stock options, while consultants and directors receive nonqualified stock options.

Options granted under our 2010 Plan generally vest over three to four years from the vesting commencement date and expire seven years after the date of grant if not exercised.

Certain stock option activity for fiscal 2013 and balances as of the end of fiscal 2013 were as follows:

| | Stock Option Awards Outstanding | Weighted Average Exercise Price | Intrinsic Value (In thousands) |
|---|---|---|---|
| Balance at June 2012 | 7,339,024 | $ 25.34 | |
| Granted | 513,448 | 31.96 | |
| Exercised | (1,350,372) | 22.78 | |
| Forfeited | (471,813) | 29.52 | |
| Balance at June 2013 | 6,030,287 | 26.15 | $ 75,334 |
| Exercisable at June 2013 | 4,553,792 | 25.17 | $ 61,098 |

The aggregate intrinsic value was determined using the closing price of our common stock on the last trading day of fiscal 2013, or June 28, 2013, of $38.56 and excludes the impact of options that were not in-the-money. Approximately 75% of the stock option awards outstanding were vested and in-the-money as of the end of fiscal 2013.

At the end of fiscal 2013, we estimated fully vested options and options expected to vest to be 5.9 million with an aggregate intrinsic value of $74.3 million, having a weighted average exercise price of $26.09 and a weighted average remaining contractual term of 4.9 years. The weighted average remaining contractual term for the options exercisable is approximately 4.7 years.

Cash received and the aggregate intrinsic value of stock options exercised for fiscal 2013, 2012, and 2011 were as follows (in thousands):

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Cash received | $ 30,766 | $ 28,939 | $ 19,445 |
| Aggregate intrinsic value | $ 23,559 | $ 16,878 | $ 17,684 |

The fair value of each award granted from our plans for fiscal 2013, 2012, and 2011 was estimated at the date of grant using the Black-Scholes option pricing model, assuming no expected dividends and the following range of assumptions:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Expected volatility | 41.8% - 48.9% | 44.6% - 47.6% | 42.7% - 47.0% |
| Expected life in years | 3.5 - 4.6 | 4.6 | 4.6 - 5.1 |
| Risk-free interest rate | 0.62% - 0.72% | 0.7% - 1.3% | 1.2% - 2.1% |
| Fair value per award | $7.26 - $14.95 | $8.86 - $14.13 | $10.00 - $12.58 |

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The unrecognized share-based compensation costs for stock options granted under our various plans were approximately $18.9 million as of the end of fiscal 2013 to be recognized over a weighted average period of approximately 2.0 years.

During fiscal 2011, we modified the vesting provisions of our former Chief Executive Officer s share-based awards and recorded an additional $1.4 million of share-based compensation expense in connection with the modification of the awards.

*Deferred Stock Units*

Our 2001 Plan, which expired in March 2011, provided for the grant of DSU awards to our employees, consultants, and directors. Currently, our 2010 Plan provides for the grant of DSU awards to our employees, consultants, and directors. A DSU is a promise to deliver shares of our common stock at a future date in accordance with the terms of the DSU grant agreement. We began granting DSUs in January 2006.

DSUs granted under our 2010 Plan generally vest ratably over three to four years from the vesting commencement date. Delivery of shares under the plan takes place on the quarterly vesting dates. At the delivery date, we withhold shares to cover statutory minimum tax withholding by delivering a net quantity of shares. Until delivery of shares, the grantee has no rights as a stockholder.

An election to defer delivery of the underlying shares for unvested DSUs can be made by the grantee provided the deferral election is made at least one year before vesting and the deferral period is at least five years from the scheduled delivery date.

DSU activity, including DSUs granted, delivered, and forfeited in fiscal 2013, and the balance and aggregate intrinsic value of DSUs as of the end of fiscal 2013 were as follows:

| | DSU Awards Outstanding | Aggregate Intrinsic Value (in thousands) | Weighted Average Grant Date Fair Value |
|---|---|---|---|
| Balance at June 30, 2012 | 1,009,336 | | $ 29.12 |
| Granted | 572,225 | | 28.61 |
| Delivered | (458,051) | | 32.12 |
| Forfeited | (118,075) | | 29.24 |
| Balance at June 30, 2013 | 1,005,435 | $ 38,770 | 29.24 |

Of the shares delivered, 142,479 shares valued at $4.7 million were withheld to meet statutory minimum tax withholding requirements. The aggregate intrinsic value was determined using the closing price of our common stock on the last trading day of fiscal 2013, or June 28, 2013, of $38.56.

The unrecognized share-based compensation cost for DSUs granted under our 2001 Plan and our 2010 Plan was approximately $29.8 million as of the end of fiscal 2013, which will be recognized over a weighted average period of approximately 2.2 years. The aggregate market value of DSUs delivered in fiscal 2013, 2012, and 2011 was $14.7 million, $13.3 million, and $11.1 million, respectively.

*Market Stock Units*

Our 2010 Plan provides for the grant of MSU awards, which are a type of DSU award, to our employees, consultants, and directors. An MSU is a promise to deliver shares of our common stock at a future date based on the achievement of market-based performance requirements in accordance with the terms of the MSU grant agreement. We began granting MSUs in November 2012.

In November 2012, we granted MSUs to our executive officers, which were designed to vest in three tranches with the target quantity for each tranche equal to one-third of the total MSU grant. The first tranche vests based on a one-year performance period; the second tranche vests based on a two-year performance period; and the third tranche vests based on a three-year performance period. Performance is measured on the achievement of a specified level of total stockholder return, or TSR, relative to the TSR of the Philadelphia Semiconductor Index, or SOX Index. The potential payout ranges from 0% to 200% of the grant target quantity and is adjusted on a two-to-one ratio based on our TSR performance relative to the SOX Index TSR performance using the following formula:

(100% + ([Synaptics TSR - SOX Index TSR] x 2))

Delivery of shares earned, if any, will take place on the dates provided in the MSU grant agreement, assuming the grantee is still an employee, consultant, or director of our company at the end of the applicable performance period. On the delivery date, we withhold shares to cover statutory minimum tax withholding by delivering a net quantity of shares. Until delivery of shares, the grantee has no rights as a stockholder.

MSU activity, including MSUs granted, delivered, and forfeited in fiscal 2013, and the balance and aggregate intrinsic value of MSUs as of the end of fiscal 2013 were as follows:

| | MSU Awards Outstanding | Aggregate Intrinsic Value (in thousands) |
|---|---|---|
| Balance at June 30, 2012 | | |
| Granted | 74,000 | |
| Delivered | | |
| Forfeited | (6,600) | |
| Balance at June 30, 2013 | 67,400 | $ 2,599 |

We valued the MSUs using the Monte Carlo simulation model and amortize the compensation expense over the three-year performance and service period. The weighted average grant date fair value for the MSUs granted was $25.82. The unrecognized share-based compensation cost for MSUs granted was approximately $1.5 million as of June 30, 2013, which will be recognized over a weighted average period of approximately 1.25 years. As of June 30, 2013, the aggregate intrinsic value of the MSUs calculated assuming a 100% payout factor, was determined using the closing price of our common stock on June 28, 2013 of $38.56.

*Employee Stock Purchase Plan*

Our 2001 Employee Stock Purchase Plan, or our 2001 ESPP, became effective on January 29, 2002, the effective date of the registration statement for our initial public offering. Our 2010 ESPP became effective on January 1, 2011 and replaced our 2001 ESPP, which expired in December 2010. The 2010 ESPP allows employees to designate up to 15% of their base compensation, subject to legal restrictions and limitations, to purchase shares of common stock at 85% of the lesser of the FMV at the beginning of the offering period or the exercise date. The offering period extends for up to two years and includes four exercise dates occurring at six-month intervals. Under the terms of our 2010 ESPP, if the FMV at an exercise date is less than the FMV at the beginning of the offering period, the current offering period will terminate and a new two-year offering period will commence.

Shares purchased, weighted average purchase price, cash received, and the aggregate intrinsic value for employee stock purchase plan purchases in fiscal 2013, 2012, and 2011 were as follows (in thousands, except shares purchased and weighted average purchase price):

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Shares purchased | 327,465 | 242,225 | 397,204 |
| Weighted average purchase price | $ 20.36 | $ 24.51 | $ 17.57 |
| Cash received | $ 6,668 | $ 5,937 | $ 6,978 |
| Aggregate intrinsic value | $ 4,845 | $ 1,534 | $ 4,327 |

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In accordance with accounting standards related to the accounting for employee stock purchase plans with a look-back option, the early termination of an offering period followed by the commencement of a new offering period represents a modification to the terms of the related awards. Under the terms of our 2010 ESPP, the offering period that commenced on May 16, 2012 was terminated on November 15, 2012 and a new offering period commenced on November 16, 2012. The November 16, 2012 modification affected approximately 474 employees and resulted in incremental compensation costs that were not material and that will be recognized on a straight-line basis over the two-year period ending November 15, 2014.

Under the terms of our 2010 ESPP, the offering period that commenced on May 16, 2011 was terminated on May 15, 2012 and a new offering period commenced on May 16, 2012. The May 16, 2012 modification affected approximately 491 employees and resulted in incremental compensation costs that were not material and that will be recognized on a straight-line basis over the two-year period ending May 15, 2014.

Under the terms of our 2010 ESPP, the offering period that commenced on January 3, 2011 was terminated on May 13, 2011 and a new offering period commenced on May 16, 2011. The May 16, 2011 modification affected approximately 437 employees and resulted in incremental compensation costs that were not material and that were recognized on a straight-line basis over the two-year period ending May 15, 2013.

The fair value of each award granted under our 2001 ESPP and 2010 ESPP for fiscal 2013, 2012, and 2011 was estimated using the Black-Scholes option pricing model, assuming no expected dividends and the following range of assumptions:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Expected volatility | 38.6% - 40.2% | 34.0% - 37.3% | 32.5% - 48.6% |
| Expected life in years | 0.5 - 2.0 | 0.5 - 2.0 | 0.5 - 2.0 |
| Risk-free interest rate | 0.12% - 0.24% | 0.1% - 0.3% | 0.1% - 0.6% |
| Fair value per award | $6.26 - $14.73 | $6.72 - $9.32 | $6.77 - $11.56 |

The expected volatility is based on either implied volatility for the expected lives of 0.5 years or a weighting of implied and historical volatility for expected lives greater than 0.5 years; the expected life is based on each period that begins with the enrollment date until each purchase date remaining in the offering period at the date of enrollment in the plan; and the risk free interest rate is based on U.S. Treasury yields or yield curve in effect for each expected life.

Unrecognized share-based compensation costs for awards granted under our 2010 ESPP at the end of fiscal 2013 were approximately $5.7 million that will be amortized over the next 16 months.

**11. Employee Benefit Plans**

*401(k) Plan*

We have a 401(k) Retirement Savings Plan for full-time employees. Under the plan, eligible employees may contribute a portion of their net compensation up to the annual limit of $17,500. The annual limit for employees who are 50 years or older is $23,000. In fiscal 2013, we provided matching funds of 25% of the employees contributions, excluding catch-up contributions. The employer matching funds vest 25% over four years and are fully vested at the end of the fourth year. We made matching contributions of $1.4 million, $1.2 million, and $1.0 million, in fiscal 2013, 2012, and 2011, respectively.

**12. Income Taxes**

Income (loss) before provision for income taxes for fiscal 2013, 2012, and 2011 consisted of the following (in thousands):

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| United States | $ 44,005 | $ 3,602 | $ (915) |
| Foreign | 57,728 | 64,948 | 74,386 |
| Income before provision for income taxes | $ 101,733 | $ 68,550 | $ 73,471 |

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The provision for income taxes for fiscal 2013, 2012, and 2011 consisted of the following (in thousands):

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Current tax expense (benefit) | | | |
| Federal | $ (9,232) | $ 5,524 | $ 2,573 |
| State | 4 | 36 | 152 |
| Foreign | 10,521 | 9,587 | 10,616 |
| | 1,293 | 15,147 | 13,341 |
| Deferred tax expense (benefit) | | | |
| Federal | 1,876 | (814) | (3,579) |
| State | | | |
| Foreign | (369) | 73 | (87) |
| | 1,507 | (741) | (3,666) |
| Provision for income taxes | $ 2,800 | $ 14,406 | $ 9,675 |

The provision for income taxes differs from the federal statutory rate for fiscal 2013, 2012, and 2011 as follows (in thousands):

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Provision at U.S. federal statutory rate | $ 35,606 | $ 23,992 | $ 25,715 |
| State income taxes | 3 | 139 | 390 |
| Qualified stock options | 2,071 | 2,280 | 2,129 |
| Business credits | (3,722) | (1,278) | (2,910) |
| Foreign tax differential | (16,589) | (10,933) | (15,818) |
| Remeasurement of unrecognized tax benefits | (15,569) | | |
| Change in valuation allowance | (154) | (27) | (21) |
| Nondeductible amortization | 578 | | |
| Other differences | 576 | 233 | 190 |
| Provision for income taxes | $ 2,800 | $ 14,406 | $ 9,675 |

Net deferred tax assets as of the end of fiscal 2013 and 2012 consisted of the following (in thousands):

| | 2013 | 2012 |
|---|---|---|
| Current deferred tax assets | $ 2,837 | $ 1,596 |
| Non-current deferred tax assets | 13,374 | 13,725 |
| Net deferred tax assets | $ 16,211 | $ 15,321 |

Current deferred tax assets and non-current deferred tax assets are included in prepaid expenses and other current assets, and other assets, respectively, in the accompanying consolidated balance sheets.

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Significant components of our deferred tax assets (liabilities) as of the end of fiscal 2013 and 2012 consisted of the following (in thousands):

| | 2013 | 2012 |
|---|---|---|
| Deferred tax assets: | | |
| Investment writedowns | $ 6,769 | $ 6,871 |
| Capital loss carryforward | 1,352 | 1,984 |
| Inventory writedowns | 268 | 259 |
| Property and equipment | 86 | 605 |
| Accrued compensation | 2,027 | 1,443 |
| Share-based compensation | 15,436 | 15,913 |
| Business credit carryforward | 13,332 | 14,372 |
| Net operating loss carryforward | 1,166 | 1,403 |
| Other accruals | 437 | 612 |
| | 40,873 | 43,462 |
| Valuation allowance | (15,556) | (14,715) |
| | 25,317 | 28,747 |
| Deferred tax liabilities: | | |
| Acquisition intangibles | (834) | (4,583) |
| Interest deduction | (8,272) | (8,843) |
| | (9,106) | (13,426) |
| Net deferred tax assets | $ 16,211 | $ 15,321 |

Realization of deferred tax assets depends on our generating sufficient U.S. and certain foreign taxable income in future years to obtain benefit from the utilization of those deferred tax assets on our tax returns. Accordingly, the amount of deferred tax assets considered realizable may increase or decrease when we reevaluate the underlying basis for our estimates of future U.S. and foreign taxable income. As of the end of fiscal 2013, a valuation allowance of $15.6 million had been established to reduce deferred tax assets to levels that we believe are more likely than not to be realized through future taxable income. The net change in the valuation allowance during fiscal 2013 was $841,000.

Undistributed operating earnings of our foreign subsidiaries were approximately $384.6 million as of the end of fiscal 2013 and are considered to be indefinitely reinvested overseas, and no U.S. income taxes have been provided for on these earnings. The potential deferred tax liability associated with undistributed operating earnings of our foreign subsidiaries was approximately $95.1 million.

As of the end of fiscal 2013, we had California net operating loss carryforwards of approximately $26.1 million. The California net operating loss carryforwards were attributable to share-based award deductions. The benefit of these net operating losses will be recorded directly to additional paid-in capital when realized. The California net operating loss will begin to expire in fiscal 2021, if not utilized. The federal and state capital losses will begin to expire in fiscal 2014, if not utilized. In addition, we had $4.0 million of federal and Idaho operating losses in connection with the acquisition of Pacinian. Under current tax law, net operating loss and tax credit carryforwards available to offset future income or income taxes may be limited by statute or upon the occurrence of certain events, including significant changes in ownership.

We had $5.7 million and $10.8 million of federal and state research tax credit carryforwards, respectively, as of the end of fiscal 2013. The federal research tax credit carryforward will begin to expire in 2027 and the state research tax credit can be carried forward indefinitely. We also had $1.3 million of federal alternative minimum tax credit carryforward available to offset future federal tax liabilities with no expiration.

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The total liability for gross unrecognized tax benefits, included in other liabilities in our consolidated balance sheets, decreased $14.9 million to $8.2 million in fiscal 2013 from $23.1 million in fiscal 2012. All of this amount would affect the effective tax rate on income from continuing operations, if recognized. A reconciliation of the beginning and ending balance of gross unrecognized tax benefits for fiscal 2013, 2012, and 2011 consisted of the following (in millions):

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Beginning balance | $ 23.1 | $ 20.2 | $ 19.0 |
| Increase in unrecognized tax benefits related to current year tax positions | 1.8 | 2.6 | 2.8 |
| Increase in unrecognized tax benefits related to prior year tax positions | | 0.3 | |
| Remeasurement for results of income tax examination | (15.0) | | |
| Decrease due to statute expiration | (1.7) | | (1.6) |
| Ending Balance | $ 8.2 | $ 23.1 | $ 20.2 |

Accrued interest and penalties decreased by $1.5 million, representing income tax benefit, in fiscal 2013, and increased $749,000 and $438,000, representing income tax expense, in fiscal 2012 and 2011, respectively. Our policy is to classify interest and penalties, if any, as components of income tax expense.

In May 2011, we were notified by the Internal Revenue Service (Service) that our fiscal 2003 through 2006 and fiscal 2008 through 2010 would be subject to examination. The early periods were being audited in connection with a mandatory review of tax refunds in excess of $2.0 million when we carried back our fiscal 2008 net operating loss. In March 2013, we received the Revenue Agent s Report resolving our examination with the Service and paid an assessment that had no material impact to our condensed consolidated financial statements. Our case is under review by the Joint Committee of Taxation, which we anticipate will be complete in fiscal 2014. Any prospective adjustments to our unrecognized tax benefits will be recorded as an increase or decrease to income tax expense and cause a corresponding change to our effective tax rate. Accordingly, our effective tax rate could fluctuate materially from period to period.

On January 2, 2013, President Barack Obama signed into law The American Taxpayer Relief Act of 2013 (The Act). The Act extends the federal research credit for two years retroactively from January 1, 2012 through December 31, 2013. As such, we recognized approximately a $3.5 million tax benefit in fiscal year 2013, the period that includes the enactment date.

It is reasonably possible that the amount of the liability for unrecognized tax benefits may change within the next 12 months and an estimate of the range of possible changes is an increase of up to $2.0 million.

Our major tax jurisdictions are the United States, California, and Hong Kong SAR, and fiscal 2003 onward remain subject to examination by one or more of these jurisdictions.

**13. Segment, Customers, and Geographic Information**

We operate in one segment: the development, marketing, and sale of interactive human interface solutions for electronic devices and products. We generate our revenue from two broad product categories: the mobile product applications markets and the PC product applications market. The mobile product applications market accounted for 64%, 49%, and 52% of our net revenue for fiscal 2013, 2012, and 2011, respectively.

Net revenue within geographic areas based on our customers locations for fiscal 2013, 2012, and 2011 consisted of the following (in thousands):

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| China | $ 390,043 | $ 353,522 | $ 399,798 |
| South Korea | 102,840 | 35,046 | 24,523 |
| Taiwan | 84,380 | 60,980 | 76,631 |
| Japan | 61,330 | 65,129 | 65,548 |
| United States | 22,576 | 5,179 | 6,314 |
| Other | 2,419 | 28,372 | 25,724 |

| | | | |
|---|---|---|---|
| | $ 663,588 | $ 548,228 | $ 598,538 |

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Net revenue from external customers for each group of similar products for fiscal 2013, 2012 and 2011 consisted of the following (in thousands):

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Mobile product applications | $ 424,076 | $ 270,106 | $ 309,166 |
| PC product applications | 239,512 | 278,122 | 289,372 |
| | $ 663,588 | $ 548,228 | $ 598,538 |

Long-lived assets within geographic areas as of the end of fiscal 2013 and 2012 consisted of the following (in thousands):

| | 2013 | 2012 |
|---|---|---|
| United States | $ 83,535 | $ 32,673 |
| Asia/Pacific | 8,305 | 5,030 |
| | $ 91,840 | $ 37,703 |

Our goodwill of $20.7 million has been allocated to a company-wide reporting unit.

Major customers revenue as a percentage of total net revenue for fiscal 2013, 2012, and 2011 were as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Customer A | 14% | * | * |
| Customer B | * | 12% | * |

* Less than 10%