SYNAPTICS INC
Form 10-K/A
September 21, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended June 30, 2012

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.)**
3120 Scott Blvd.	**95054**

Santa Clara, California
(Address of principal executive offices) **(Zip Code)**

(408) 454-5100

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
Preferred Stock Purchase Rights	The Nasdaq Global Select Market

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. ¨

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 (25,261,060 shares), based on the closing price of the registrant s Common Stock as reported on the Nasdaq Global Select Market on December 30, 2011 of $30.15, was $761,620,959. 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 13, 2012, there were outstanding 33,004,709 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 2012 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/A

FISCAL 2012

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EXPLANATORY NOTE

Synaptics Incorporated, a Delaware corporation, is filing this Amendment No. 1 on Form 10-K/A to amend our Annual Report on Form 10-K for the fiscal year ended June 30, 2012, as filed with the Securities and Exchange Commission on August 27, 2012, or the Original Form 10-K. The purpose of this Amendment No. 1 is to correct an inadvertent, immaterial error in the table listing our long-lived assets within geographic areas as of the end of fiscal 2012 and 2011 on page F-26 of the Original Form 10-K. The following items are being amended:

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

As required by Rule 12b-15 of the Securities Exchange Act of 1934, as amended, the complete text of Items 8 and 15 have been set forth in this Amendment No. 1, including those portions that have not been modified from the Original Form 10-K. In addition, as required by Rule 12b-15, this Amendment No. 1 contains new certifications by our Principal Executive Officer and Principal Financial Officer, filed as exhibits 31.1, 31.2, 32.1, and 32.2 hereto as well as a new Consent of Independent Registered Public Accounting Firm, filed as exhibit 23.1.

Except as set forth above, we have not modified or updated disclosures presented in the Original Form 10-K to reflect events or developments that have occurred after the date of the Original Form 10-K. Among other things, forward-looking statements made in the Original Form 10-K have not been revised to reflect events, results, or developments that have occurred or facts that have become known to us after the date of the Original Form 10-K (other than as discussed above), and such forward-looking statements should be read in their historical context. Accordingly, this Amendment No. 1 should be read in conjunction with our filings made with the Securities and Exchange Commission subsequent to the filing of the Original Form 10-K.

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PART II

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 48 of the Original Form 10-K, which quarterly results of operations are incorporated herein by reference.

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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; and as of May 22, 2012 with Bret Sewell (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)
10.25*	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)
10.29*	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)
21	List of Subsidiaries (19)
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

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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.
(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.
* Indicates a contract with management or compensatory plan or arrangement.

Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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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 September 21, 2012	By: /s/ Richard A. Bergman Richard A. Bergman President and Chief Executive Officer

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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 30, 2012 and June 25, 2011, and the related consolidated statements of income, stockholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended June 30, 2012. We also have audited the Company s internal control over financial reporting as of June 30, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). 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 30, 2012 and June 25, 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2012, 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 30, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the COSO.

/s/ KPMG LLP

Santa Clara, California

August 24, 2012

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SYNAPTICS INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except par value and share amounts)

	June 2012	June 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 305,005	$ 247,153
Accounts receivable, net of allowances of $567 and $709 at June 2012 and 2011, respectively	104,140	93,808
Inventories	31,667	28,850
Prepaid expenses and other current assets	5,365	4,373
Total current assets	446,177	374,184
Property and equipment, net	24,903	26,222
Goodwill	18,995	1,927
Purchased intangibles	12,800	
Non-current investments	15,321	25,876
Other assets	23,309	27,992
	$ 541,505	$ 456,201
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 55,220	$ 44,930
Accrued compensation	12,642	13,210
Income taxes payable	11,221	11,808
Other accrued liabilities	26,515	22,813
Total current liabilities	105,598	92,761
Notes payable	2,305	2,305
Other liabilities	36,812	21,142
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, 48,680,348 and 46,832,208 shares issued, and 32,896,256 and 33,465,732 shares outstanding, at June 2012 and 2011, respectively	49	47
Additional paid-in capital	471,569	406,653
Treasury stock: 15,784,092 and 13,366,476 common shares at June 2012 and 2011, respectively, at cost	(413,885)	(352,142)
Accumulated other comprehensive income	1,998	2,520
Retained earnings	337,059	282,915
Total stockholders equity	396,790	339,993
	$ 541,505	$ 456,201

See notes to consolidated financial statements.

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SYNAPTICS INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

	Fiscal 2012	Fiscal 2011	Fiscal 2010
Net revenue	$ 548,228	$ 598,538	$ 514,890
Cost of revenue	292,661	352,468	306,188
Gross margin	255,567	246,070	208,702
Operating expenses:			
Research and development	117,954	105,003	86,552
Selling, general, and administrative	70,045	68,549	60,027
Total operating expenses	187,999	173,552	146,579
Operating income	67,568	72,518	62,123
Interest income	922	911	977
Interest expense	(17)	(17)	(2,400)
Impairment (loss)/recovery on investments, net	77	59	(443)
Income before provision for income taxes	68,550	73,471	60,257
Provision for income taxes	14,406	9,675	7,292
Net income	$ 54,144	$ 63,796	$ 52,965
Net income per share:			
Basic	$ 1.64	$ 1.87	$ 1.57
Diluted	$ 1.57	$ 1.80	$ 1.50
Shares used in computing net income per share:			
Basic	33,030	34,042	33,836
Diluted	34,435	35,454	35,423

See notes to consolidated financial statements.

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SYNAPTICS INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME

(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 2009	43,779,011	$ 44	$ 293,666	$ (237,387)	$ 129	$ 166,154	$ 222,606
Components of comprehensive income:							
Net income						52,965	52,965
Net unrealized gain on available-for-sale investments					1,386		1,386
Total comprehensive income							54,351
Issuance of common stock for share-based award compensation plans	1,112,823	1	14,030				14,031
Payroll taxes for deferred stock units			(2,374)				(2,374)
Purchases of treasury stock				(44,545)			(44,545)
Tax benefit associated with share-based awards			7,066				7,066
Share-based compensation			35,376				35,376
Balance at June 2010	44,891,834	45	347,764	(281,932)	1,515	219,119	286,511
Components of comprehensive income:							
Net income						63,796	63,796
Net unrealized gain on available-for-sale investments					1,005		1,005
Total comprehensive income							64,801
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
Components of comprehensive income:							
Net income						54,144	54,144
Net unrealized loss on available-for-sale investments					(522)		(522)
Total comprehensive income							53,622
	1,848,140	2	34,874				34,876

Issuance of common stock for share-based award compensation plans							
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

See notes to consolidated financial statements.

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SYNAPTICS INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Fiscal 2012	Fiscal 2011	Fiscal 2010
Cash flows from operating activities			
Net income	$ 54,144	$ 63,796	$ 52,965
Adjustments to reconcile net income to net cash provided by operating activities:			
Share-based compensation costs	34,161	33,925	35,376
Depreciation and amortization	10,409	11,169	8,677
Amortization of debt issuance costs			118
Amortization of debt discount			2,069
Tax benefit (shortfall) realized from share-based compensation	(173)	1,690	7,066
Excess tax benefit from share-based compensation	(2,153)	(2,886)	(7,066)
Deferred taxes	(741)	(3,666)	(6,534)
Impairment of property and equipment	1,269		
Impairment (recovery) of investments, net	(77)	(59)	443
Changes in operating assets and liabilities:			
Accounts receivable, net	(10,329)	7,701	(16,770)
Inventories	(2,817)	(10,183)	(3,717)
Prepaid expenses and other current assets	(530)	(146)	(128)
Other assets	1,894	332	(4,230)
Accounts payable	10,235	(20,688)	33,408
Accrued compensation	(634)	1,880	2,880
Income taxes payable	3,000	2,975	2,214
Other accrued liabilities	3,735	3,873	7,237
Net cash provided by operating activities	101,393	89,713	114,008
Cash flows from investing activities			
Purchases of short-term investments			(5,986)
Proceeds from sales and maturities of short-term investments			28,912
Proceeds from sales and maturities of non-current investments	10,110	3,200	1,775
Acquisition of business, net of cash acquired	(14,632)		
Purchases of property and equipment	(10,359)	(11,570)	(9,067)
Net cash (used in)/provided by investing activities	(14,881)	(8,370)	15,634
Cash flows from financing activities			
Purchases of treasury stock	(61,743)	(70,210)	(44,545)
Proceeds from issuance of shares	34,876	26,423	14,031
Retirement of debt, net of discount			(62,998)
Excess tax benefit from share-based compensation	2,153	2,886	7,066
Payroll taxes for deferred stock units	(3,946)	(3,147)	(2,374)
Net cash used in financing activities	(28,660)	(44,048)	(88,820)
Net increase in cash and cash equivalents	57,852	37,295	40,822
Cash and cash equivalents at beginning of period	247,153	209,858	169,036

Cash and cash equivalents at end of period	$ 305,005	$ 247,153	$ 209,858
Supplemental disclosures of cash flow information			
Cash paid for taxes	$ 12,305	$ 9,574	$ 11,789

See 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 personal computer, or PC, market, primarily notebook and ultrabook computers, the markets for digital lifestyle products, including mobile smartphones and feature phones, the tablet market, and other select electronic device markets with our customized human interface solutions. Our original equipment manufacturer, or OEM, customers include most of the tier one PC OEMs and many of the world s largest OEMs for mobile smartphones and feature phones.

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 53-week period ended June 30, 2012 and 52-week periods ended June 25, 2011 and June 26, 2010.

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, 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.

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 charge other-than-temporary declines in the fair value of equity securities to earnings, resulting in the establishment of a new cost basis in the equity security. 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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Amortized cost, gross unrealized gains and losses, and estimated fair value of our investments in available-for-sale securities and cash equivalents as of the end of fiscal 2012 and 2011 were as follows (in thousands):

	2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Money market	$ 301,451	$	$	$ 301,451
Auction rate securities	13,323	2,276	278	15,321
Total available-for-sale securities	$ 314,774	$ 2,276	$ 278	$ 316,772

	2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Money market	$ 243,966	$	$	$ 243,966
Auction rate securities	23,356	3,291	771	25,876
Total available-for-sale securities	$ 267,322	$ 3,291	$ 771	$ 269,842

Fair Values

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 (unadjusted) 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.

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 2012 and 2011 were as follows (in thousands):

	2012		2011	
	Level 1	Level 3	Level 1	Level 3
Assets				
Money market	$ 301,451	$	$ 243,966	$
Auction rate securities		15,321		25,876
Total available-for-sale securities	$ 301,451	$ 15,321	$ 243,966	$ 25,876

Liabilities				
Contingent consideration liability recorded for business combination	$	$ 11,900	$	$

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Money market balances are included in cash and cash equivalents as of the end of fiscal 2012 and 2011. ARS investments are included in non-current investments as of the end of fiscal 2012 and 2011. We have classified the contingent consideration recorded for a business combination as a Level 3 liability, which is included in the non-current portion of other liabilities as of the end of fiscal 2012. There have been no transfers of the value of this Level 3 liability during fiscal 2012 and there has been no material change to the value of this Level 3 liability during fiscal 2012. See Note 12 Acquisition of Pacinian. There were no Level 2 financial assets or liabilities as of the end of fiscal 2012 or 2011.

Changes in fair value of our Level 3 financial assets for fiscal 2012 and 2011 were as follows (in thousands):

	2012	2011
Beginning balance	$ 25,876	$ 28,012
Net unrealized gain/(loss)	(522)	1,005
Impairment recovery of redeemed investments	77	59
Redemptions	(10,110)	(3,200)
Ending balance	$ 15,321	$ 25,876

There were no transfers in or out of our Level 1, 2, or 3 assets during fiscal 2012 or 2011.

The fair values of our cash equivalents, 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 their carrying value.

Concentration of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash equivalents, investments, and trade 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. 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 our principal invested or may be required to further reduce the carrying value. We do not intend to sell our ARS investments for significantly less than par value.

We sell our products primarily to contract manufacturers that provide manufacturing services for OEMs. We extend credit based on an evaluation of a customer s financial condition, and we generally do not require collateral. To date, credit losses on our accounts receivable have been insignificant, and we believe that an adequate allowance for doubtful accounts has been provided.

The following customers accounted for more than 10% of our accounts receivable balance as the end of fiscal 2012 and 2011:

	2012	2011
Customer A	14%	12%
Customer B	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.

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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. We accrue for estimated sales returns and other allowances, based on historical experience, at the time we recognize revenue.

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.

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 wafer foundries 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; provisions for excess and obsolete inventories; and warranty costs.

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 2012 and 2011 and consisted of the following (in thousands):

	2012	2011
Raw materials	$ 26,957	$ 23,545
Finished goods	4,710	5,305
	$31,667	$ 28,850

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. 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 apply estimated useful lives of three years to our computer equipment, estimated useful lives ranging from three to seven years for our capitalized software; estimated useful lives ranging from one to five years to our manufacturing equipment; estimated useful lives ranging from three to five years to our furniture, fixtures, and leasehold improvements; and an estimated useful life of 35 years to our buildings and building improvements. We amortize leasehold improvements over the shorter of the lease term or the useful life of the asset.

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Foreign Currency Translation

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 translation. All of our revenue and approximately 91% of our consolidated costs are denominated in U.S. dollars. We translate certain 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 2012, 2011, and 2010 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 as of the fiscal year-end balance sheet date. The frequency of our review is dictated by events or changes in circumstances indicating that the carrying value may be impaired. Based on our latest review, we determined there was no impairment of the carrying value of goodwill.

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 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.

Other Liabilities

As of the end of fiscal 2012 and 2011 other liabilities consisted of the following (in thousands):

	2012	2011
Customer obligation	$ 13,076	$ 7,837
Inventory obligation	5,680	6,275
Other	7,759	8,701
	$ 26,515	$ 22,813

Segment Information

We operate in one segment: the development, marketing, and sale of intuitive user 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 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 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. 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 four years for our stock option and deferred stock unit, or DSU, awards and up to two years for our employee stock purchase plan.

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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 2012 and 2011 were as follows (in thousands):

	2012	2011
Beginning accrued warranty	$ 2,984	$ 2,096
Provision for product warranties	1,759	5,963
Cost of warranty claims and settlements	(2,568)	(5,075)
Ending accrued warranty	$ 2,175	$ 2,984

Comprehensive Income

Our comprehensive income generally consists of net income plus the effect of unrealized gains and losses on our investments primarily due to changes in market value of certain of our ARS investments. In addition, we recognize the noncredit portion of other-than-temporary impairment on debt securities in comprehensive income.

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 expected 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

We expense costs to develop our products, which include the costs incurred to design interface solutions for customers prior to the customers incorporating those solutions into their products.

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Net Income Per Share

Basic net income per share amounts for each period presented have been computed using the weighted average number of shares of common stock outstanding.

Diluted net income per share amounts for each period presented have been computed (1) using the weighted average number of potentially dilutive shares issuable in connection with our share-based compensation plans under the treasury stock method, and (2) using the weighted average number of potentially dilutive shares issuable in connection with our convertible debt under the treasury stock method, when dilutive.

2. Net Income Per Share

The computation of basic and diluted net income per share for fiscal 2012, 2011, and 2010 was as follows (in thousands, except per share amounts):

	2012	2011	2010
Numerator:			
Net income	$ 54,144	$ 63,796	$ 52,965
Denominator:			
Shares, basic	33,030	34,042	33,836
Effect of dilutive share-based awards	1,405	1,412	1,587
Shares, diluted	34,435	35,454	35,423
Net income per share:			
Basic	$ 1.64	$ 1.87	$ 1.57
Diluted	$ 1.57	$ 1.80	$ 1.50

Diluted net income per share does not include the effect of share-based awards for fiscal 2012, 2011, and 2010 as follows (in thousands):

	2012	2011	2010
Share-based awards	3,841	3,584	3,468

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, 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 2012, 2011, and 2010, $10.1 million, $3.2 million, and $1.8 million, respectively, of our ARS investments were redeemed.

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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 2012 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.

Contractual maturities for our ARS investments are generally greater than five years, with fair value of $8.9 million maturing from fiscal 2016 to 2018 and $6.4 million maturing from 2040 to 2046. Of our ARS investments, $8.9 million par value is investment grade and the remaining $18.5 million par value are below investment grade.

The various types of failed 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.

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The various types of failed ARS investments we held as of the end of fiscal 2011, 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	$ 9,150	$ (242)	$ 8,908	$ (249)	$ 8,659
Closed end municipal funds	7,850	(54)	7,796	(467)	7,329
Credit linked notes	13,500	(8,765)	4,735	3,291	8,026
Preferred stock	5,000	(5,000)			
Municipals	2,000	(83)	1,917	(55)	1,862
Total ARS	$ 37,500	$ (14,144)	$ 23,356	$ 2,520	$ 25,876

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 the investments and it is not more likely than not that we will be required to sell the 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.

4. Property and Equipment

Property and equipment as of the end of fiscal 2012 and 2011 consisted of the following (in thousands):

	Life	2012	2011
Land		$ 2,500	$ 2,500
Building and building improvements	35 years	11,172	11,144
Computer equipment	3 years	6,983	5,566
Manufacturing equipment	1 year to 3 years	18,519	18,517
Furniture, fixtures, and leasehold improvements	3 years to 5 years	7,096	6,422
Capitalized software	3 years to 7 years	11,762	11,516
		58,032	55,665
Accumulated depreciation and amortization		(33,129)	(29,443)
Property and equipment, net		$ 24,903	$ 26,222

For fiscal 2012 and 2011, we retired fully depreciated equipment and furniture with an original cost of $5.1 million and $1.9 million, respectively.

5. Leases, Other Commitments, and Contingencies

Leases

We maintain office facilities in various locations under operating leases with expiration dates from fiscal 2013 to fiscal 2021, 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 $4.3 million, $4.0 million, and $3.4 million for fiscal

2012, 2011, and 2010, respectively.

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The aggregate future minimum rental commitments as of the end of fiscal 2012 for noncancelable operating leases with initial or remaining terms in excess of one year were as follows (in thousands):

Fiscal Year	Operating Lease Payments
2013	$ 3,720
2014	1,763
2015	681
2016	638
2017	621
Thereafter	1,852
Total minimum operating lease payments	$ 9,275

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 2012.

Building Purchase

In June 2012, we entered into a purchase and sale agreement to acquire a new headquarters in San Jose, California, consisting of three office buildings of approximately 151,247 square feet of space and approximately 7.84 acres of land for $12.1 million, exclusive of adjustments and closing costs. In July 2012, we entered into an amendment to the purchase and sale agreement, which modified the purchase price to approximately $11.8 million, and we subsequently closed the purchase transaction. During fiscal 2013, we anticipate consolidating our Santa Clara workforce into the new location upon completion of renovations and improvements. We currently plan to market and sell our existing Santa Clara headquarters property during fiscal 2013.

6. 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. In connection with issuing the convertible notes, we incurred issuance costs of $4.3 million, consisting primarily of the initial purchasers discount and costs related to legal, accounting, and printing. We used the net proceeds for working capital and general corporate purposes.

In fiscal 2009 and 2010, we repurchased and retired $122.7 million of our outstanding notes. As of the end of fiscal 2012, $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.

During the first quarter of fiscal 2010, we adopted the accounting standard on convertible debt that can be settled in cash. The adoption of this accounting standard, which must be applied on a retrospective basis, results in a non-cash interest charge for all periods presented in our financial statements during which the notes were outstanding. This standard requires issuers of convertible notes that can be settled in cash to separately account for the liability and equity components of such convertible notes in a manner that reflects the entity s nonconvertible debt borrowing rate. Prior to the application of the standard, the liability of the notes was carried at their par value, and only the contractual interest and amortization of debt issuance costs were recognized in our condensed consolidated statements of income.

Upon adoption of the new standard, and effective as of the issuance date of the notes, we recorded $39.4 million of the principal amount to equity, representing the debt discount for the difference between our estimated nonconvertible debt borrowing rate of 8.5% at the time of issuance and the 0.75% coupon rate of the notes using a five-year life, which coincides with the initial put rights of the noteholders. In addition, we allocated the $4.3 million of issuance costs pro-rata to the equity and debt components of the notes, or $1.4 million and $2.9 million, respectively. The discount and the issuance costs allocated to the debt component were amortized as interest expense using the effective interest method over five years and were fully amortized as of December 31, 2009.

The liability component of the notes was $2.3 million and the equity component of the notes was $727,000 as of the end of both fiscal 2012 and 2011.

The contractual interest expense and amortization of issuance costs and discount for the notes for fiscal 2012, 2011, and 2010 were as follows (in thousands):

	2012	2011	2010
Interest expense	$ 17	$ 17	$ 213
Amortization of issuance costs			118
Amortization of discount			2,069
Total interest	$ 17	$ 17	$ 2,400

7. Stockholders Equity

During fiscal 2012, we had a Stockholders Rights Plan that may have had the effect of deterring, delaying, or preventing a change in control that might otherwise be in the best interests of our stockholders. The rights plan expired under its terms on August 15, 2012, and no new rights plan exists or is currently contemplated in the foreseeable future.

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 2012, there were no shares of preferred stock outstanding and we have no current plans to issue any shares of preferred stock.

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Shares Reserved for Future Issuance

Shares of common stock reserved for future issuance as of the end of fiscal 2012 were as follows:

Stock options outstanding	7,339,024
Deferred stock units outstanding	1,009,336
Awards available for grant under all share-based compensation plans	2,372,348
Reserved for future issuance	10,720,708

Treasury Stock

Our cumulative authorization for our common stock repurchase program is $520.0 million, expiring in October 2013. 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 end of fiscal 2012, we had $106.1 million remaining under our common stock repurchase program.

8. 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 2010 Incentive Compensation Plan, or our 2010 Plan, and our 2010 Employee Stock Purchase Plan, or our 2010 ESPP.

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 2012, 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 2011	4,351,131		3,777,590	573,541
Stock options granted	(1,179,126)		(1,179,126)	
Deferred stock units granted	(647,593)		(647,593)	
Purchases under employee stock purchase plan	(242,225)			(242,225)
Forfeited	452,460	362,299	90,161	
Plan shares expired	(362,299)	(362,299)		
Balance at June 2012	2,372,348		2,041,032	331,316

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.

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Share-based compensation and the related tax benefit recognized in our consolidated statements of income for fiscal 2012, 2011, and 2010 were as follows (in thousands):

	2012	2011	2010
Cost of revenue	$ 1,129	$ 1,294	$ 2,307
Research and development	15,509	13,823	14,330
Selling, general, and administrative	17,523	18,808	18,739
Total	$ 34,161	$ 33,925	$ 35,376
Income tax benefit on share-based compensation	$ 9,589	$ 9,745	$ 9,642

We recognize tax benefit upon expensing certain share-based awards associated with our share-based compensation plans, including nonqualified stock options and DSU awards, but under current accounting standards 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 that vested after our adoption of the accounting standards, 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. For qualified stock options that vested prior to our adoption of the accounting standards, the tax benefit is recorded directly to additional paid-in capital.

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 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. During fiscal 2012, we recognized a $173,000 net shortfall of excess tax benefit through additional paid-in capital. During fiscal 2011 and 2010, we recognized $1.7 million and $7.1 million, respectively, of net excess tax benefit as additional paid-in capital.

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 2012. 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 employees, consultants, and directors 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.

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

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Certain stock option activity for fiscal 2012 and balances as of the end of fiscal 2012 were as follows:

	Stock Option Awards Outstanding	Weighted Average Exercise Price	Intrinsic Value (In thousands)
Balance at June 2011	7,835,499	$ 24.71	
Granted	1,179,126	27.26	
Exercised	(1,310,863)	22.08	
Forfeited	(364,738)	29.61	
Balance at June 2012	7,339,024	25.34	$ 31,947
Exercisable at June 2012	4,810,134	$ 24.08	$ 26,721

The aggregate intrinsic value was determined using the closing price of our common stock on the last trading day of fiscal 2012, or June 29, 2012, of $28.63 and excludes the impact of options that were not in-the-money. Approximately 50% of the stock option awards outstanding were vested and in-the-money as of the end of fiscal 2012.

At the end of fiscal 2012, we estimated fully vested options and options expected to vest to be 7.2 million with an aggregate intrinsic value of $31.6 million, having a weighted average exercise price of $25.28 and a weighted average remaining contractual term of six years. The weighted average remaining contractual term for the options exercisable is approximately five years.

Cash received and the aggregate intrinsic value of stock options exercised for fiscal 2012, 2011, and 2010 were as follows (in thousands):

	2012	2011	2010
Cash received	$ 28,939	$ 19,445	$ 9,469
Aggregate intrinsic value	$ 16,878	$ 17,684	$ 8,306

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options having no vesting restrictions and being fully transferable. As our stock option and 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. 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.

The fair value of each award granted from our plans for fiscal 2012, 2011, and 2010 was estimated at the date of grant using the Black-Scholes option pricing model, assuming no expected dividends and the following range of assumptions:

	2012	2011	2010
Expected volatility	44.6% - 47.6%	42.7% - 47.0%	44.2% - 62.2%
Expected life in years	4.6	4.6 - 5.1	4.7 - 5.1
Risk-free interest rate	0.7% - 1.3%	1.2% - 2.1%	1.9% - 2.7%
Fair value per award	$8.86 - $14.13	$10.00 - $12.58	$12.19 - $13.58

The unrecognized share-based compensation costs for stock options granted under our various plans were approximately $31.4 million as of the end of fiscal 2012 to be recognized over a weighted average period of approximately 2.3 years.

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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 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 2012, and the balance and aggregate intrinsic value of DSUs as of the end of fiscal 2012 were as follows:

	DSU Awards Outstanding	Aggregate Intrinsic Value (in thousands)	Weighted Average Grant Date Fair Value
Balance at June 30, 2011	868,025		$ 27.74
Granted	647,593		29.46
Delivered	(418,560)		31.72
Forfeited	(87,722)		28.77
Balance at June 30, 2012	1,009,336	$ 28,897	29.12

Of the shares delivered, 123,508 shares valued at $3.9 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 2012, or June 29, 2012, of $28.63.

The unrecognized share-based compensation cost for DSUs granted under our 2001 Plan and our 2010 Plan was approximately $29.4 million as of the end of fiscal 2012, which will be recognized over a weighted average period of approximately 2.7 years. The aggregate market value of DSUs delivered in fiscal 2012, 2011, and 2010 was $13.3 million, $11.1 million, and $7.7 million, respectively.

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.

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Shares purchased, weighted average purchase price, cash received, and the aggregate intrinsic value for employee stock purchase plan purchases in fiscal 2012, 2011, and 2010 were as follows (in thousands, except shares purchased and weighted average purchase price):

	2012	2011	2010
Shares purchased	242,225	397,204	301,215
Weighted average purchase price	$ 24.51	$ 17.57	$ 15.15
Cash received	$ 5,937	$ 6,978	$ 4,562
Aggregate intrinsic value	$ 1,534	$ 4,327	$ 5,901

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, 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 will be 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 2012, 2011, and 2010 was estimated using the Black-Scholes option pricing model, assuming no expected dividends and the following range of assumptions:

	2012	2011	2010
Expected volatility	34.0% - 37.3%	32.5% - 48.6%	56.6% - 63.2%
Expected life in years	0.5 - 2.0	0.5 - 2.0	0.5 - 2.0
Risk-free interest rate\	0.1% - 0.3%	0.1% - 0.6%	0.2% - 1.1%
Fair value per award	$6.72 - $9.32	$6.77 - $11.56	$10.05 - $18.81

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 2012 were approximately $5.8 million that will be amortized over the next 22 months.

9. 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 $17,000. The annual limit for employees who are 50 years or older is $22,500. In fiscal 2012, 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 $1.2 million, $1.0 million, and $943,000, in fiscal 2012, 2011, and 2010, respectively.

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10. Income Taxes

Income (loss) before provision for income taxes for fiscal 2012, 2011, and 2010 consisted of the following (in thousands):

	2012	2011	2010
United States	$ 3,602	$ (915)	$ (16,077)
Foreign	64,948	74,386	76,334
Income before provision for income taxes	$ 68,550	$ 73,471	$ 60,257

The provision for income taxes for fiscal 2012, 2011, and 2010 consisted of the following (in thousands):

	2012	2011	2010
Current tax expense			
Federal	$ 5,524	$ 2,573	$ 4,101
State	36	152	453
Foreign	9,587	10,616	9,272
	15,147	13,341	13,826
Deferred tax expense (benefit)			
Federal	(814)	(3,579)	(9,058)
State			2,619
Foreign	73	(87)	(95)
	(741)	(3,666)	(6,534)
Provision for income taxes	$ 14,406	$ 9,675	$ 7,292

The provision for income taxes differs from the federal statutory rate for fiscal 2012, 2011, and 2010 as follows (in thousands):

	2012	2011	2010
Provision at U.S. federal statutory rate	$ 23,992	$ 25,715	$ 21,088
State income taxes	139	390	2,650
Qualified stock options	2,280	2,129	2,474
Business credits	(1,278)	(2,910)	(846)
Foreign tax differential	(10,933)	(15,818)	(16,994)
Tax exempt interest	(18)	(18)	(106)
Change in valuation allowance	(27)	(21)	155
Tax benefit from NOL carryback			(1,804)
Other differences	251	208	675
Provision for income taxes	$ 14,406	$ 9,675	$ 7,292

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Net deferred tax assets as of the end of fiscal 2012 and 2011 consisted of the following (in thousands):

	2012	2011
Current deferred tax assets	$ 1,596	$ 1,143
Non-current deferred tax assets	13,725	16,514
Net deferred tax assets	$ 15,321	$ 17,657

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.

Significant components of our deferred tax assets (liabilities) as of the end of fiscal 2012 and 2011 consisted of the following (in thousands):

	2012	2011
Deferred tax assets:		
Investment writedowns	$ 6,871	$ 7,253
Capital loss carryforward	1,984	2,066
Inventory writedowns	259	334
Property and equipment	605	651
Accrued compensation	1,443	924
Share-based compensation	15,913	15,996
Business credit carryforward	14,372	13,958
Net operating loss carryforward	1,403	
Other accruals	612	274
	43,462	41,456
Valuation allowance	(14,715)	(15,058)
	28,747	26,398
Deferred tax liabilities:		
Acquisition intangibles	(4,583)	
Interest deduction	(8,843)	(8,741)
	(13,426)	(8,741)
Net deferred tax assets	$ 15,321	$ 17,657

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 2012, a valuation allowance of $14.7 million had been established to reduce deferred tax assets to levels that we believe are more than likely than not to be realized through future taxable income.

Undistributed operating earnings of our foreign subsidiaries were approximately $334.8 million as of the end of fiscal 2012 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 $84.1 million.

As of the end of fiscal 2012, we had California net operating loss carryforwards of approximately $33.5 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 2013, if not utilized. In addition, we had $4.0 million of federal and Idaho operating losses in connection with the acquisition of Pacinian Corporation, or Pacinian. See Note 12. 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.

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We had $8.0 million and $8.4 million of federal and state research tax credit carryforwards, respectively. 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 $1.7 million of federal alternative minimum tax credit carryforward available to offset future federal tax liabilities with no expiration.

The total liability for gross unrecognized tax benefits, included in other liabilities in our consolidated balance sheets, increased $2.9 million to $23.1 million in fiscal 2012 from $20.2 million in fiscal 2011. 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 consisted of the following (in millions):

Balance as of June 2011	$ 20.2
Increase in unrecognized tax benefits related to prior year tax positions	0.3
Increase in unrecognized tax benefits related to current year tax positions	2.6
Balance as of June 2012	$ 23.1

Accrued interest and penalties increased by $750,000 to $2.4 million at the end of fiscal 2012 from $1.6 million at the end of fiscal 2011. Our policy is to classify interest and penalties, if any, as components of income tax expense.

In May 2011, we were notified by the Service, that our fiscal 2003 through 2006 and fiscal 2008 through 2010 would be subject to an audit. The early periods are 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 April 2012, we received notices of proposed adjustments disallowing certain interest deductions resulting in a potential tax liability of approximately $1.0 million, excluding interest and penalties. We intend to contest the proposed adjustments through the administrative process. While we believe our unrecognized tax benefits associated with the years and issues under audit are adequate, we can make no assurances that an assessment, if any, will not exceed our accrued unrecognized tax benefits.

We anticipate the federal audit will conclude in fiscal 2013 and could result in a change to our unrecognized tax benefits. 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.

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.

11. Segment, Customers, and Geographic Information

We operate in one segment: the development, marketing, and sale of interactive user interface solutions for electronic devices and products. We generate our revenue from two broad product categories: the PC market and digital lifestyle product markets. The PC market accounted for 51%, 48%, and 59% of our net revenue for fiscal 2012, 2011, and 2010, respectively.

Net revenue within geographic areas based on our customers   locations for fiscal 2012, 2011, and 2010 consisted of the following (in thousands):

	2012	2011	2010
China	$ 353,522	$ 399,798	$ 389,499
Japan	65,129	65,548	35,838
Taiwan	60,980	76,631	56,096
Korea	35,046	24,523	32,496
United States	5,179	6,314	430
Other	28,372	25,724	531
	$ 548,228	$ 598,538	$ 514,890

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Long-lived assets within geographic areas as of the end of fiscal 2012 and 2011 consisted of the following (in thousands):

	2012	2011
United States	$32,673	$ 19,730
Asia/Pacific	5,030	6,492
	$37,703	$ 26,222

Our goodwill of $18.9 million represents a corporate asset of $17.0 million arising from the acquisition of Pacinian in the United States in fiscal 2012 and $1.9 million from an acquisition of an Asian company in a prior year.

Major customers revenue as a percentage of total net revenue for fiscal 2012, 2011, and 2010 were as follows:

	2012	2011	2010
Customer A	12%	*	*
Customer B	*	*	11%
Customer C	*	*	10%

* Less than 10%

12. Acquisition of 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	11,900
	$ 26,916

The contingent consideration arrangement requires 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 will be remeasured to fair value in future reporting periods and any adjustments recorded through earnings.

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

Cash	$ 384
Intangible assets	12,800
Total identifiable assets acquired	13,184
Other net tangible liabilities	110
Non-current deferred tax liabilities	3,077
Notes payable	149
Net identifiable assets acquired	9,848
Goodwill	17,068
Net assets acquired	$ 26,916

Of the $12.8 million of acquired intangible assets, $8.9 million was assigned to in-process research and development and will be amortized over an estimated useful life to be determined at the date the project is completed, $3.8 million was assigned to customer relationships and will be amortized over an estimated useful life of five years, and $100,000 was assigned to patents and will be amortized over an estimated useful life of five years.

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

We recognized approximately $200,000 of acquisition-related costs that were expensed in fiscal 2012. These costs are included in our consolidated statements of income as selling, general, and administrative expenses.

The amounts of revenue and earnings of Pacinian included in our consolidated statements of income from the acquisition date to the period ended June 30, 2012, were immaterial. Pro forma consolidated statements of income as if Pacinian had been included for the entire years ended June 30, 2012 and June 25, 2011, are not materially different than those reported.

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

13. Subsequent Event

In July 2012, we entered an agreement to acquire tangible and intangible assets and certain liabilities of the Video Display Operation of Integrated Device Technology, Inc., including a worldwide non-exclusive, irrevocable, non-transferable, royalty-free paid up license, for $5.0 million. We completed this transaction in August 2012. This acquisition was effected to enhance our technology portfolio with a primary focus on the emerging large touchscreen market for notebooks, ultrabooks, and tablets.