SYNAPTICS Inc
Form 10-K
August 26, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended June 25, 2016

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 000-49602

SYNAPTICS INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware	77-0118518
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer 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
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 T No o

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 o No T

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 T No o

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 T No o

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. T

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.

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

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

The aggregate market value of Common Stock held by nonaffiliates of the registrant (32,351,299 shares), based on the closing price of the registrant’s Common Stock as reported on the Nasdaq Global Select Market on December 24, 2015 of $81.00, was $2,620,455,219. 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 16, 2016, there were outstanding 34,811,465 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 2016 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

SYNAPTICS INCORPORATED

ANNUAL REPORT ON FORM 10-K

FISCAL 2016

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PART IV

Statement Regarding Forward-Looking Statements

This Report on Form 10-K for the year ended June 25, 2016 contains forward-looking statements that are subject to the safe harbors created under the Securities Act of 1933, as amended (the “Securities Act”), and the Securities Act of 1934, as amended (the “Exchange Act”). Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business, and can be identified by the fact that they do not relate strictly to historical or current facts. Such forward-looking statements may include words such as ”expect,” “anticipate,” “intend,” “believe,” “estimate,” “plan,” “target,” “strategy,” “continue,” “may,” “ variations of such words, or other words and terms of similar meaning. All forward-looking statements reflect our best judgment and are based on several factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control. Such factors include, but are not limited to, the risks as identified in the “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business” sections in this Report on Form 10-K, and other risks as identified from time to time in our Securities and Exchange Commission reports. Forward-looking statements are based on information available to us on the date hereof, and we do not have, and expressly disclaim, any obligation to publicly release any updates or any changes in our expectations, or any change in events, conditions, or circumstances on which any forward-looking statement is based. Our actual results and the timing of certain events could differ materially from the forward-looking statements. These forward-looking statements do not reflect the potential impact of any mergers, acquisitions, or other business combinations that had not been completed as of the date of this filing.

Statements made in this report, unless the context otherwise requires, include the use of the terms “us,” “we,” “our,” the “Company” and “Synaptics” to refer to Synaptics Incorporated and its consolidated subsidiaries.

PART I

ITEM 1. BUSINESS

Overview

We are a leading worldwide developer and supplier of custom-designed human interface product 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 generate revenue from the markets for smartphones, tablets, personal computer, or PC, products, primarily notebook computers, and other select electronic devices, including devices in automobiles, with our customized human interface solutions. Every solution we deliver either contains or consists of our touch-, display driver- or fingerprint authentication-based semiconductor solutions, which includes our chip, customer-specific firmware, and software.

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

Our website is located at www.synaptics.com. Through our website, we make available, free of charge, all 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 on our website promptly 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. The contents of our website are not incorporated into or deemed to be a part of this report.

We were initially incorporated in California in 1986 and were re-incorporated in Delaware in 2002. 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 52-week periods ended June 25, 2016, June 27, 2015 and June 28, 2014. For ease of presentation, this report shows reporting periods ending on calendar month- or year-end dates as of and for all periods presented, unless otherwise indicated.

Mobile Product Applications Markets

We believe our intellectual property portfolio, engineering know-how, systems engineering experience, technological expertise, and experience in providing human interface product 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 discrete touch controller products, display driver (DDIC) products, touch and display driver integration (TDDI) products, and fingerprint authentication-based products. Based on these strengths, we are pursuing opportunities created by the growth of mobile computing communications, mobile product applications and entertainment devices. Mobile product applications include smartphones, tablets, large touchscreen applications, as well as a variety of mobile, handheld, wireless, and entertainment devices. Our array of human interface product solutions for mobile product applications are designed to enrich the interface on smartphones, tablets, and peripherals, allowing the user to access their devices or applications through fingerprint recognition, to view the screen on their devices, and 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, secure access, durability, reliability, and simplified security enable us to serve multiple aspects of the markets for mobile product applications and other electronic devices.

Our human interface product solutions for mobile applications constitute a substantial percentage of our net revenue. Net revenue for our human interface product solutions for mobile product applications accounted for approximately 88%, 85%, and 73% of our net revenue for fiscal 2016, 2015, and 2014, respectively. Our ongoing success in serving these markets will depend upon the continued growth of the smartphone 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 product solutions in terms of performance, usability, size, simplified security, durability, power consumption, integration, and industrial design possibilities; and the success of products utilizing our human interface product solutions. In addition, our success will depend on our ability to demonstrate to mobile product applications OEMs the advantages of our DDIC products, our TDDI products, our flexible touchscreen and fingerprint sensor fulfillment model and systems engineering expertise.

Industry projections for the smartphone market for the 2016 to 2017 calendar year period show a growth rate of approximately 6%, reflecting the trend towards greater functionality in 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 product solution to access their devices or applications, including to authenticate the user, through fingerprint recognition enable the user to view and 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 product solutions by OEMs in this market.

The tablet and large touchscreen markets also represent an opportunity for our touchscreen and fingerprint sensor intellectual property portfolio, engineering know-how, and technological expertise. Touchscreen, display driver, and fingerprint sensor 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 10.

PC Product Applications Market

We provide custom human interface product solutions for navigation, cursor control, and multimedia controls and for access to devices or applications through fingerprint recognition for many of the world's premier PC OEMs. These functions are offered as stand-alone and integrated touch pad plus fingerprint recognition solutions. In addition to notebook applications, other PC product applications for our technology include peripherals, such as keyboards, mice, and monitors for all-in-one and desktop product applications. Net revenue for our human interface product solutions for PC product applications accounted for approximately 12%, 15%, and 27% of our net revenue for fiscal 2016, 2015, and 2014, respectively.

While the latest industry projections for notebook units shows a declining rate of approximately 3% from the 2016 to 2017 calendar year period, we continue to expand our available product offerings through technology development and acquisitions enabling us to increase our product content within each notebook unit. We are also applying our technologies to enable adoption of fingerprint recognition solutions in all-in-one and desktop products to broaden our market opportunities. Based on the strength of our technology and engineering know-how, we believe we are well positioned to continue to take advantage of opportunities in the PC product applications market.

Our Strategy

Our objective is to continue to enhance our position as a leading supplier of human interface product solutions for the mobile product applications markets, including smartphones, tablets and large touchscreens, 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 product 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, including ongoing enhancement of our TDDI technology and development of OLED technology, the hiring of key engineering personnel, and strategic acquisitions and alliances. We believe that these efforts will enable us to meet customer expectations and achieve our goal of supplying, on a timely and cost-effective basis, the most advanced, easy-to-use, functional human interface semiconductor product solutions to our target markets.

Enhance Our Position in the Smartphone, Tablet, and PC Product Application Markets

We intend to continue introducing market-leading human interface product solutions in terms of performance, power consumption, functionality, size, and ease of use for the smartphone, tablet, and PC product applications markets. We plan to continue enhancing our customers' industrial design alternatives and device functionality through innovative product development, in order to enhance and grow our position within our target markets.

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, ultrabook and convertible portions of the PC market, and automotive market, brought about by the convergence of computing, communications, and entertainment devices. We plan to build upon our existing innovative, intuitive human interface semiconductor product solutions and continue to address the evolving portability, connectivity, security, 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, simplified security, 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 standing customer relationships and seek to build and establish successful relationships with new customers. In each market we serve, we plan to provide the most advanced human interface product solutions for our customers' products. We believe that our human interface product solutions enable our customers to deliver simplified security and 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 product solutions on a timely and cost-effective basis. To do so, we work continually to improve our productivity, reduce costs, and increase the speed of delivery of our human interface product 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 their purchase of our solutions.

We plan to increase our business with existing customers and attract new customers by offering fingerprint sensor solutions, display driver solutions, and both custom designed touch 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 such as smartphones, tablets, notebooks, PC peripherals, and other digital entertainment devices. We offer our customers a choice of determining the most optimal way to meet their emerging and growing touch solution needs: our chip solutions or our traditional custom module solutions, which enable customers to utilize our proprietary solutions together with third-party components and assembly. Our chip solution consists of our proprietary integrated circuit, customer-specific firmware, and software. Touchscreen applications for mobile phones, tablets, and notebooks are primarily a chip solution. Display driver products for mobile phones and tablets are a chip solution. Automotive products are a chip solution. Fingerprint sensor products are a module solution.

Pursue Strategic Relationships and Acquisitions

We intend to develop and expand strategic relationships to enhance our ability to offer value-added human interface product solutions to our customers, penetrate new markets, and strengthen the technological leadership of our product solutions. We also intend to evaluate 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 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.

Competitive Advantages

We develop and enhance human interface technologies that provide simplified security and 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 chips, which may include customer-specific firmware, to full module solutions. Our innovative and intuitive human interface product 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 include chips, firmware, software, mechanical and electrical designs, fingerprint authentication, pattern recognition, touch- and multi-finger touch-sensing technologies, and display driver technologies.

Our human interface products are custom engineered, total solutions for our customers, and include sensor design, module layout, chips, 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 concept prototyping, to product development, to manufacturing, to testing and support. Through our engineering know-how and technological expertise, we provide our customers with solutions that address their individual design requirements 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 force sensing, 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.
- Simplified Security. Our fingerprint authentication solutions protect the user's identity, while simplifying the user experience for electronic devices.

We believe these characteristics will enable us to continue to enhance our position as a technological enabler within our target markets.

Our emphasis on technological leadership and design capabilities positions us to provide unique human interface product solutions that address specific customer requirements, as well as satisfy our customers' specifications, including features and functionality, industrial design, security, mechanical, and electrical requirements. Our products also offer unique integration options, including the ability to place our capacitive sensors underneath the plastic or glass of the device, allowing for streamlined and stylized designs, and LED integration to indicate status or enhance industrial design.

Our long-term working relationships with large, global OEMs provide us with the experience to satisfy their demanding design specifications and other requirements. Our custom product solutions provide OEMs with numerous benefits, including the following:

- ease of system integration;
- reduced product development costs;
- shorter product time to market;
- compact and efficient platforms;
- improved product functionality and utility; and
- product differentiation.

Our collaborative efforts with our customers reduce the duplication and overlap of investment and resources, enabling our OEM partners to devote more time and resources to the market development of their differentiated products.

We utilize capacitive technology, rather than resistive or mechanical technology, in our touch and fingerprint sensor 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.

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Products

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

ClearPad®

Our ClearPad family of products enables the user to interact directly with the display on electronic devices, such as smartphones 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 both discrete and integrated 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. A display integrated touchscreen product typically consists of a capacitive touch sensor embedded into the LCD panel, 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 force sensing, 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 as well as 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 7 product family is designed to meet the requirements of the large touchscreen market for products more closely related to 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.

ClearView™

Our ClearView family of DDICs offers advanced image processing and low power technology for entry-level smartphones through high-resolution tablets. ClearView products include adaptive image processing that works in concert with proprietary customization options to enable development of efficient and cost-effective solutions and faster time to market. Our DDICs offer automatic regional control of color balance and sunlight readability enhancement capabilities that optimize image quality under various lighting conditions.

TouchView™

Our TouchView products integrate touch and display technologies to deliver advanced performance and simplified design. Our proprietary algorithms synchronize touch sensing with display driving, effectively eliminating display-induced noise and improving capacitive sensing performance. TouchView display integration allows for thinner touchscreens with narrower bezels for greater industrial design flexibility. TouchView is available in two-chip and single-chip (TDDI) configurations, providing a range of solutions suitable for hybrid and full in-cell touchscreen designs. Both configurations reduce manufacturing complexity and simplify the supply chain for OEM device manufacturers.

Natural ID™

Our Natural ID family of fingerprint ID products is designed for use in smartphones, tablets, notebook PCs, PC peripherals, and other applications. Thin form factors provide industrial design flexibility, while robust matching algorithms and anti-spoofing technology provide strong security. The family spans a range of form factors, colors, and materials suitable for design on the front, back or side of a device.

Natural ID products are designed to be compatible with Fast IDentity Online (FIDO) protocols, enhancing compatibility and interoperability across the ecosystem. FIDO was formed to enhance online authentication by developing open, scalable technical standards to help facilitate the adoption of robust, easy to use authentication that reduces the reliance on passwords. Natural ID products increase the security of mobile and PC products while maintaining ease of use for the customer.

TouchPad™

Our TouchPad family of products, which can take the place of, and exceed 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 semiconductor product solutions. Our TouchPad solutions also 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, and 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.

SecurePad™

Our SecurePad integrates our Natural ID fingerprint sensor directly into the TouchPad area, improving usability for end users and simplifying the supply chain for notebook PC manufacturers.

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 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 improves 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 detecting 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. Automotive OEMs are also considering this technology as part of their human interaction options.

Other Products

Other product solutions we offer include Dual Pointing Solutions, TouchStyk™, and TouchButtons™. Our dual pointing solutions offer 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 used in our TouchPad. 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.

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 pattern-recognition technology.

SignalClarity™ Technology

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

TypeGuard™

TypeGuard technology allows the system to differentiate between a finger and a palm, virtually eliminating accidental cursor movements, scrolling and clicks.

Proximity Sensing

Our proximity sensing technology enables users to interact with consumer electronics without touch. 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 functionalities.

TDsync™

TDsync technology effectively eliminates problems caused by display-induced noise in the touch subsystem, improving capacitive sensing performance and reducing errors to deliver a better user experience. TDsync technology works with in-cell designs, including both two-chip and single-chip controller implementations.

ClearForce™

ClearForce gives our ClearPad and TouchView solutions a new dimension in user interfaces, by enabling features such as scrolling, zoom, text or photo editing, and enabling users to engage in gaming or other multi-touch applications by applying variable force with a finger or stylus.

Design Studio™

Our Design Studio streamlines the touchscreen design process, while reducing total design cost and accelerating time to market. The tool suite assists designers in creating optimal products that are tightly aligned with target design and performance specifications. Design Studio works seamlessly with multiple display configurations and stack-ups, including discrete sensor, on-glass-sensor, on-cell, and in-cell solutions. Design Studio includes tuning and configuration wizards, production test tools, and diagnostics tools that configure and test chips and modules built using Synaptics capacitive sensing technology.

SentryPoint™

Our SentryPoint is a suite of advanced security features available on our Natural ID fingerprint products. Capabilities include fingerprint matching directly on the sensor chip, advanced anti-spoofing technology, a cryptographic security engine, security key module generation, 256-bit AES encryption and TLS secure communications between the fingerprint subsystem and the host platform.

Image Studio™

Our Image Studio simplifies the display design process, reducing design costs and accelerating time to market. The tool suite assists designers in creating displays that are tightly aligned with target design and performance

specifications. Image Studio works seamlessly with all display drivers and can be used for tuning on the panel or at the phone level. Image Studio includes tuning and configuration wizards and diagnostics tools that configure and test the modules built using Synaptics DDICs.

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. 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 high-value human interface semiconductor product solutions in a variety of high-growth markets.

Our broad line of human interface semiconductor product solutions is currently 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;
- capacitive active pen technology;
- multi-touch technology;
- proprietary microcontroller technology; and
- fingerprint sensing technology.

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, 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. Our technology can also track one or more fingers in proximity to the touch surface.

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, ForcePad, or ClearForce. 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. Our capacitive force sensing technology can be integrated with our position sensing technology.

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");
- DDICs;
- SRAM, DRAM, and non-volatile memories;
- VLSI digital circuits with multiple clock and power domains; and
- communications and signal processing circuits.

Display Systems and Circuit Technology. This technology enables us to develop optimized human interface semiconductor product 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;
- DDICs;
- TFT gamma references;
- VCOM drivers;
- source drivers;
- content adaptive brightness control;
- contrast enhancement;
- color enhancement;
- color space adjustment;
- gamma curve control;
- local area active contrast optimization;
- sunlight readability enhancements;
- adaptive image compression;
- image decompression;
- sub-pixel rendering;
- video scaling;
- edge enhancement;
- frame rate control;
- selective update;
- force, touch and display synchronization;

- high-speed serial interfaces such as MIPI DSI and Qualcomm MDDI; and
- 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.

Capacitive Active Pen Technology. This technology allows us to develop a pen that can be used for input on a capacitive touchscreen. As well as generating a signal that allows the touchscreen to track the pen, additional data, such as the pen applied force and pen button states, are also communicated to the touchscreen device. Information can also be communicated from the touchscreen to the pen.

Multi-touch Technology. This technology allows us to create capacitive touch products that simultaneously track the presence, position and other characteristics of multiple objects in contact with or in close proximity to a flat or curved touch surface. It enables, for example, the recognition of multi-finger gestures, the tracking of a stylus position while the user's palm is also in contact with the touch surface, and the simultaneous interaction of multiple users with the same touch surface.

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.

Fingerprint Sensing Technology. This technology provides for fingerprint authentication by scanning and matching an image of a user's fingerprint, as well as initial fingerprint enrollment. Our sensing technology also incorporates spoof detection. Our fingerprint sensing technology simplifies the system or application authentication process by substituting the user's fingerprint for the login name and password. Our technology includes many implementation choices including back of phone, button integration, touchpad integration, and under glass.

Research and Development

We conduct ongoing research and development programs that focus on advancing our existing interface technologies, improving our current product solutions, developing new products, improving design and manufacturing processes, enhancing the quality and performance of our product solutions, and expanding our technologies to serve new markets. Our goal is to provide our customers with innovative solutions that address their needs and improve their competitive positions. Our long-term vision is to offer human interface semiconductor product solutions, such as touch, fingerprint, handwriting, vision, voice capabilities, and other biometrics that can be readily incorporated into various 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, and 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 their 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 2016, we employed 1,246 people in our technology, engineering, and product design functions in the United States, Taiwan, Japan, India, Korea, China, Hong Kong, and Armenia. Our research and development expenses were approximately $311.2 million, $293.2 million, and $192.7 million for fiscal 2016, 2015, and 2014, 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, trade secrets, copyrights, confidentiality agreements, and other statutory and contractual provisions to protect our intellectual property, but these measures may provide only limited protection.

As of June 25, 2016, we held 816 active patents and 1,030 active patents pending worldwide. Collectively, these patents and patent applications cover various aspects of our key technologies, including those for opaque touchpads, clear touch screens, fingerprint sensors, and displays. Our proprietary firmware and software, including source code, are also protected by copyright laws and applicable trade secret laws.

Our extensive array of technologies includes those related to integrated circuits (ICs), firmware, software, and mechanical hardware. 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 lengths of our customers' design cycles and the customizations required by our customers' products also serve to protect our intellectual property rights.

Customers

Our customers include many of the world's largest smartphone, 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 semiconductor product solutions. We believe our strong relationship with our OEM customers, many of which are also currently developing tablets and mobile application products, will continue to position us as a source of supply for their product offerings.

Our leading OEM customers in fiscal 2016 included the following:

- Acer
- Dell
- Hewlett-Packard
- Huawei
- Lenovo
- LeTV
- LG Electronics
- Oppo Mobile
- Samsung
- Sony
- Vivo
- Xiaomi

We generally supply custom-designed products to OEMs through their contract manufacturers, supply chains or distributors. Sales to Samsung Electronics Co., Ltd. and its affiliates, Sanshin Electronics Co., Ltd., and Fuhrmeister Electronics Co., Ltd. accounted for 21%, 20%, and 15% of our net revenue in fiscal 2016, respectively.

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 semiconductor product solutions in their products. The contract manufacturers place orders with us for the purchase of our products, take title to the products purchased upon delivery 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, distributors and value added resellers. 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 2016, we employed 310 sales and marketing professionals. We maintain customer support offices domestically and internationally, which are located in the United States, Taiwan, China, India, Korea, Japan, and Europe. In addition, we utilize value-added resellers and sales distributors in China, Japan, and Taiwan.

International sales constituted over 85% of our revenue for each of fiscal 2016, 2015, and 2014. Approximately 81% of our sales in fiscal 2016 were made to companies located in China, Japan, and South Korea that provide design and manufacturing services for major notebook computer and mobile product applications OEMs. Our sales are almost exclusively denominated in U.S. dollars. This information should be read in conjunction with note 13 to the consolidated financial statements contained elsewhere in this report.

Manufacturing

We employ a virtual manufacturing platform through third-party relationships. We currently utilize a few 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 maintained as a standalone 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 diversify our production capacity through third-party relationships, thereby strengthening our virtual manufacturing platform. 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 investment.

Our third-party contract manufacturers and semiconductor fabricators are Asia-based organizations. We generally 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 these 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 its net realizable value and charge such write-downs 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 2016, we had a backlog of orders of $182.8 million, an increase of $23.8 million compared with a backlog of orders as of the end of fiscal 2015 of $159.0 million. The quantity of units in backlog is higher for products ordered by customers at the end of fiscal 2016 than those ordered at the end of fiscal 2015, which is partially offset by slightly lower average selling prices due to the mix of products ordered by customers. Our backlog consists

of products 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 necessarily be indicative of net revenue for any succeeding period.

Competition

Our touch, display and finger-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, Elan Microelectronics, Focaltech Systems, Goodix, Melfas, Parade Technologies, Samsung LSI, STMicroelectronics and various other companies involved in human interface semiconductor product solutions. Our principal competitors in the sale of notebook touch pads are Alps Electric and Elan Microelectronics. Our principal competitors in the sale of display driver products and TDDI products for the mobile and PC product applications markets include Focaltech, Himax Technologies, Novatek Microelectronics and SiliconWorks. Our principal competitors in the sale of fingerprint authentication solutions for the mobile and PC product applications markets are Cypress Semiconductor, Egis Technology, Elan Microelectronics, Fingerprint Cards, Goodix, IDEX, NEXT Biometrics, Silead and Qualcomm. In certain cases, large OEMs may acquire a competing technology, develop alternative human interface semiconductor product solutions for their own products or provide alternative key components for use in designing human interface semiconductor product solutions.

We believe our solutions-based systems and 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 marquee global customer base, our technology roadmap, 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 semiconductor product solutions.

Employees

As of the end of fiscal 2016, we employed a total of 1,763 persons, including 207 in operations, finance, and administration; 310 in sales and marketing; and 1,246 in research and development. Of these employees, 667 were located in North America, 1,087 in Asia/Pacific, and 9 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 16, 2016:

Name	Age	Position
Richard A. Bergman	52	President and Chief Executive Officer, and Director
Wajid Ali	43	Senior Vice President and Chief Financial Officer
Kevin D. Barber	56	Senior Vice President and General Manager, Smart Display Division
Scott Deutsch	51	Senior Vice President, Worldwide Sales
Ritu Favre	47	Senior Vice President and General Manager, Biometrics Product Division
John McFarland	49	Senior Vice President, General Counsel and Secretary
Huibert Verhoeven	48	Senior Vice President and General Manager, Human Interface Systems

		Division
Alex Wong	61	Senior Vice President, Worldwide 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 Devices ("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 the 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 is a member of the Board of Directors and a member of the Compensation Committee of Maxwell Technologies, a developer and manufacturer of energy storage and power delivery solutions. 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.

Wajid Ali has been Senior Vice President and Chief Financial Officer of our company since May 2015. Prior to joining our company, Mr. Ali was Vice President and Controller of Teledyne from 2012 to 2015, after previously serving as Vice President and Chief Financial Officer of Teledyne DALSA, Inc., a Teledyne Technologies subsidiary from 2011 to 2012, and as Chief Financial Officer of Teledyne DALSA's predecessor, DALSA Corporation, a public semiconductor company, from 2007 to 2011. Mr. Ali also held various key financial management positions at ATI Technologies prior to its acquisition by Advanced Micro Devices ("AMD"), after which Mr. Ali held a key financial management position at AMD. Mr. Ali holds a Bachelor of Arts and a Master of Arts in Economics from York University, a Masters of Business Administration from the Schulich School of Business, York University, and a CPA, CMA designation from the Chartered Professional Accountants of Ontario, Canada.

Kevin D. Barber has been Senior Vice President and General Manager of the Smart Display Division of our company since January 2011. Prior to joining our company, Mr. Barber was the Chief Executive Officer of ACCO Semiconductor from 2008 to 2010. 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 degree in Electrical Engineering from San Diego State University and a Master's degree in Business Administration from Pepperdine University.

Scott Deutsch has been Senior Vice President of Worldwide 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 as the Vice President of Worldwide 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.

Ritu Favre has been Senior Vice President and General Manager of the Biometrics Product Division of our company since June 2014. Prior to joining our company, Ms. Favre held various senior level positions at Freescale Semiconductor from 2003 to 2014, including Senior Vice President and General Manager of the RF Division from 2012 through 2014, and Vice President and Division General Manager of the RF Division from 2010 to 2012. Ms. Favre ran the North America/Japan Automotive Business in the Analog and Mixed Signal Products Division inside Motorola Semiconductor from 2002 to 2003 and the Compound Semiconductor business in the Motorola Wireless Infrastructure Division from 1999 to 2002. Ms. Favre holds a Bachelor of Science degree in Electrical Engineering, as well as a Master's of Science degree in Electrical Engineering from Arizona State University.

John McFarland has been Senior Vice President, General Counsel and Secretary of our company since November 2013. Prior to joining our company, Mr. McFarland served for nine years as the Executive Vice President, General Counsel and Secretary of MagnaChip Semiconductor. Mr. McFarland spent his early career at law firms in Palo Alto, California, and Seoul, Korea. Mr. McFarland holds a Bachelor of Arts degree in Asian Studies, conferred with highest distinction from the University of Michigan, and a Juris Doctor degree from the University of California, Los Angeles, School of Law.

Huibert Verhoeven has been Senior Vice President and General Manager of the Human Interface Systems Division of our company since August 2014. Prior to joining our company, Mr. Verhoeven was Vice President and General Manager of the Flash Components Division at LSI Corporation from 2013 to 2014. Mr. Verhoeven served as the Vice President and General Manager of the Mixed Signal Systems group for Intersil Corporation from 2008 to 2013. Prior to Intersil, Mr. Verhoeven held design engineering and design management positions at National Semiconductor Corporation. Mr. Verhoeven holds a Doctor of Philosophy and a Master's of Science in Electrical Engineering from Delft University, The Netherlands.

Alex Wong has been Senior Vice President of Worldwide Operations of our company since July 2010. Mr. Wong served as Vice President of Worldwide 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 Master's degree 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.

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 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 condition.

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 condition. Similarly, a softening of demand in the smartphone market, the tablet market, or the notebook portion of the PC product applications market, or a slowdown of growth in the mobile product applications market because of consumer preferences, the emergence of applications not including our 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 smartphones, 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 $1,459.5 million for fiscal 2016, $1,442.1 million for fiscal 2015, and $689.8 million for fiscal 2014. Our human interface business for mobile product applications faces many uncertainties, including our success in enhancing our position 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 would negatively affect our business.

We are exposed to industry downturns and cyclicality in our target markets that may result in fluctuations in our operating results.

The consumer electronics industry has 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 consumer electronics industry is 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.

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, automotive and electronic devices in addition to notebook computers and smartphones.

Various target markets for our interface solutions, such as 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 the 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 and a restructuring of our operations. We cannot predict the size or growth rate of these markets or the market share we will achieve or maintain in these markets in the future.

If we fail to maintain and build relationships with our customers, or our customers' products which utilize our human interface solutions do not gain widespread market acceptance, our revenue may stagnate or decline.

We do not sell any products to end users and we do not control or influence the manufacture, promotion, distribution, or pricing of the products that incorporate our human interface solutions. Instead, we design various human interface solutions that our OEM customers incorporate into their products, and we depend on such OEM customers to successfully manufacture and distribute products incorporating our solutions and to generate consumer demand through marketing and promotional activities. As a result of this, our success depends almost entirely upon the widespread market acceptance of our OEM customers' products that incorporate our human interface solutions. 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.

We must maintain our relationships with our existing customers, particularly with the leading notebook computer OEMs, and expand our relationships with smartphone and tablet OEMs. Our customers generally do not provide us with firm, long-term volume purchase commitments, opting instead to issue purchase orders that they can cancel, reduce, or delay at any time, subject to certain limitations. In order to meet the expectations of our customers, we must provide innovative human interface solutions on a timely and cost-effective basis. This requires us to 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 sales may decline or fail to develop, which would result in decreasing revenue.

In addition to maintaining and expanding our customer relationships, we must also identify areas of significant growth potential in other markets, establish relationships with OEMs in those markets, and assist those OEMs in developing products that incorporate our human interface product solutions. Our failure to identify potential growth opportunities, particularly in the smartphone and the tablet market, the PC product applications market, or establish and maintain relationships with OEMs in those markets, would prevent our business from growing in those markets.

A significant portion of our sales comes from one or more large customers, the loss of which could harm our business, financial condition, and operating results.

Historically, we have relied on a limited number of customers for a substantial portion of our total revenue. If we lost key customers, or if key customers reduced or stopped placing orders for our high-volume products, our financial results could be adversely affected. Sales to Samsung Electronics Co., Ltd. and its affiliates, Sanshin Electronics Co., Ltd., and Fuhrmeister Electronics Co., Ltd. accounted for 10% or more of our net revenue in fiscal 2016. Significant reductions in sales to our largest customers, the loss of other major customers, or a general decrease in demand for our products within a short period of time could adversely affect our revenue, financial condition and business.

We sell to 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 our 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 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 our contract manufacturers that guarantee production capacity, prices, lead times,

or delivery schedules. 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 contract manufacturers in the past, there is no guarantee that our contract manufacturers will be able to increase production capacity to meet customer demands in the future. Our contract manufacturers also 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. Qualifying new contract manufacturers, and specifically semiconductor foundries, is time consuming and might result in unforeseen manufacturing and operations problems. We may also encounter lower manufacturing yields and longer delivery schedules in commencing volume production of new products that we introduce, which could increase our costs or disrupt our supply of such products. The loss of 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, 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. 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 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. Future shortages of materials and components, including potential supply constraints of silicon, could cause delayed shipments and customer dissatisfaction, which may result in lower revenue.

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 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, be deferred, or be cancelled, which would adversely affect our operating results.

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 or mobile product applications markets, the emergence of new products not including our product solutions, rapid changes in the smartphone market and competitive pressures may result in lower demand for our product solutions 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 greater competitive advantages. As a result, they may be able to devote greater resources to the promotion and sale of products, negotiate lower prices for raw materials and components, deliver competitive products at lower prices, and 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, contract with our competitors, or use alternative technologies.

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 and existing 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 remain 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 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. Therefore, we will be required to expend substantial funds for and commit significant resources to enhancing and developing new technology which may include purchasing advanced design tools and test equipment, hiring additional highly qualified engineering and other technical personnel, and continuing and expanding research and development activities on existing and potential human interface solutions.

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 if 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 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.

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 develop and utilize new technologies more effectively or more quickly than we can. Any investments made to enhance or develop new technologies that are not successful could have an adverse effect on our net revenue and operating results.

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 customers 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;

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- 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.

Additionally, 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 could also 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 Armenia, China, India, 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 multinational organization;
- unexpected changes in regulatory requirements;
- differing labor regulations;
- potentially adverse tax consequences;
- tariffs, duties and other trade barrier restrictions;
- changes to export or import compliance laws;
- 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;
- political or economic instability in certain parts of the world; and
- natural disasters, including earthquakes or tsunamis.

If any of these risks associated with international operations materialize, our operations could be disrupted, which would negatively affect 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 we invoice and collect our sales in U.S. dollars. A weakening of the U.S. 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 2016, approximately 10% of our costs were denominated in non-U.S. currencies, including Armenian dram, Canadian dollars, European Union euro, Hong Kong dollars, Indian rupee, New 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 could 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.

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 further expand 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 may increase our personnel and make other expenditures to meet demand for our expanding product offerings, including offerings in the mobile product applications market and the notebook computer market. 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 contract manufacturers. An inability to quickly expand our development, design or production capacity or an inability of our third-party manufacturers to quickly expand development, design or production capacity to meet this customer demand could result in a decrease to our revenue or operating results. 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 many 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.

Our ability to compete successfully and continue growing as a company depends on our ability to adequately protect our proprietary technology and confidential information.

We protect our proprietary technology and confidential information through the use of patents, trade secrets, trademarks, confidentiality agreements and other contractual provisions. The process of seeking patent protection is lengthy and expensive. Further, there can be no assurance that even if a patent is issued, that it will not be challenged, invalidated or circumvented, or that the rights granted under the patents will provide us with 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 principal or other trademarks in key markets. Failure to obtain registrations could compromise our ability to fully protect our trademarks and brands, and could increase the risk of challenge from third parties to our use of our trademarks and brands. Effective intellectual property protection may be unavailable or limited in some foreign countries in which we operate. In particular, the validity, enforceability and scope of protection of intellectual property in China, where we derive a significant portion of our net sales, and certain other countries where we derive net sales, are still evolving and historically, have not protected and may not protect in the future, intellectual property rights to the same extent as laws developed in the United States.

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. Confidentiality and non-disclosure agreements which are in place may not be adequate to protect our proprietary technologies or may be breached by other parties. 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, or may use our technologies and products competitively and without appropriate limitations. Unauthorized parties may attempt to copy or otherwise use aspects of our technologies and products that we regard as proprietary. Other companies, including our competitors, may independently develop technologies that are similar or superior to our technologies, duplicate our technologies, or design around our patents. 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.

We may pursue, and are currently defending litigation to enforce our intellectual property rights, to protect our trade secrets, and to determine the validity and scope of the proprietary rights of others. These litigations, 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.

Any claims that our technologies infringe the intellectual property rights of third parties could result in significant costs and have a material adverse effect on our business.

We cannot be certain that our technologies and products do not and will not infringe issued patents or other third party proprietary rights. Any 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 or 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. We may also have to pay substantial damages to third parties, or indemnify customers or licensees for damages they suffer if the products they purchase from us or the technology they license from us violates any third party intellectual property rights. An adverse determination in a judicial or administrative proceeding, or a failure to obtain necessary licenses to use such third-party technology could prevent us from manufacturing, using, or selling certain of our products, and there is no guarantee that we will able to develop or acquire alternate non-infringing technology.

In addition, we license certain technology used in and for our products from third parties. 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 commercially acceptable terms.

If third-party technology currently utilized in our products is no longer available to us on commercially acceptable terms, or if any third party initiates litigation against us for alleged infringement of their proprietary rights, we may not be able to sell certain of our products and we could incur significant costs in defending against litigation or

attempting to develop or acquire alternate non-infringing products, which would have an adverse effect on our operating results.

If we become subject to product returns or claims resulting from defects in our products, we may incur significant costs resulting in a decrease in revenue.

We develop complex products in an evolving marketplace and generally warrant our products for a period of 12 months from the date of delivery. 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, causing us to incur significant warranty, support, and repair costs, and diverting the attention of our engineering personnel from key product development efforts.

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

We expect to continue 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 create 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 may also 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.

We may be unable to effectively complete an integration of the management, operations, facilities, and accounting and information systems of acquired businesses with our own; efficiently manage, combine or restructure the operations of the acquired businesses with our operations; achieve our operating, growth, and performance goals for acquired businesses; achieve additional revenue as a result of our expanded operations; or 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, 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
- the potential inability to create uniform standards, controls, procedures, policies, and information systems.

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.

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

We have entered, and we anticipate that we will continue to enter, into strategic alliances. 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. Certain strategic alliances may not achieve their intended objectives, and parties to our strategic alliances may not perform as contemplated. The failure of these alliances to achieve their objectives may impede our ability to introduce new products and enter new markets.

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 sufficiently increase our net revenue to offset these increased costs would adversely affect our operating results.

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. If obtained, the financing itself carries risks including the following: (i) debt financing increases expenses and must be repaid regardless of operating results; and (ii) equity financing, including the issuance of additional shares in connection with acquisitions, could result in dilution to existing stockholders and could adversely affect the price of our common stock.

Our indebtedness could adversely affect our financial condition or operating flexibility and prevent us from fulfilling our obligations outstanding under our credit agreement and other indebtedness we may incur from time to time.

We incurred a significant amount of indebtedness in connection with the acquisition of Renesas SP Drivers, Inc., or RSP, in fiscal 2015 (we refer to that acquisition herein as the “RSP Acquisition”). We entered into a credit agreement (which we refer to herein, as amended and supplemented, as the “Credit Agreement”) with the lenders party thereto, or the Lenders, and Wells Fargo Bank, National Association, or the Administrative Agent, as administrative agent for the Lenders, in connection with the RSP Acquisition. Our current and long-term bank debt incurred in connection with the close of the RSP Acquisition was approximately $250.0 million, and we have $150.0 million of undrawn availability in the revolving credit facility under the Credit Agreement. As of June 30, 2016, our current and long-term bank debt outstanding is $238.8 million.

Our level of indebtedness could have important consequences on our future operations, including:

- making it more difficult for us to satisfy our payment and other obligations under the Credit Agreement or our other outstanding debt from time to time;
- risking an event of default if we fail to comply with the financial and other covenants contained in the Credit Agreement, which could result in all of our bank debt becoming immediately due and payable and could permit the lenders under the Credit Agreement to foreclose on the assets securing such debt;
- subjecting us to the risk of increased sensitivity to interest rate increases on our debt with variable interest rates, including the debt incurred under the Credit Agreement;
- reducing the availability of our cash flows to fund working capital, capital expenditures, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;
- limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy; and
- placing us at a competitive disadvantage compared to our competitors that have less debt or are less leveraged.

Our business may not generate sufficient cash flow from operations and future borrowings may not be available to us under the Credit Agreement or otherwise in an amount sufficient to enable us to pay our debt or to fund our other liquidity needs.

The covenants in the Credit Agreement impose restrictions that may limit our operating and financial flexibility.

The Credit Agreement includes certain covenants that limit (subject to certain exceptions) our ability to, among other things: (i) incur or guarantee additional indebtedness; (ii) incur or suffer to exist liens securing indebtedness; (iii) make investments; (iv) consolidate, merge or transfer all or substantially all of our assets; (v) sell assets; (vi) pay dividends or other distributions on, redeem or repurchase capital stock; (vii) enter into transactions with affiliates; (viii) amend, modify, prepay or redeem subordinated indebtedness; (ix) enter into certain restrictive agreements; (x) engage in a new line of business; and (xi) enter into sale leaseback transactions. In addition, the Credit Agreement contains financial covenants that (i) restrict the amount of capital expenditures that may be made in any fiscal year, (ii) require the ratio of the amount of our consolidated total indebtedness to consolidated EBITDA to be less than certain maximum ratio levels, and (iii) require the ratio of the amount of our consolidated EBITDA to consolidated interest expense to be greater than a certain minimum ratio level.

If we violate these covenants and are unable to obtain waivers, our debt under the Credit Agreement would be in default and could be accelerated, and could permit, in the case of secured debt, the lenders to foreclose on our assets securing the Credit Agreement. If the indebtedness is accelerated, we may not be able to repay our debt or borrow sufficient funds to refinance it. Even if we are able to obtain new financing, it may not be on commercially reasonable terms or on terms that are acceptable to us. If our debt is in default for any reason, our cash flows, results of operations or financial condition could be materially and adversely affected. In addition, complying with these covenants may also cause us to take actions that may make it more difficult for us to successfully execute our business strategy and compete against companies that are not subject to such restrictions.

If we are unable to maintain effective internal control over our financial reporting, we may incur significant expenses to remediate internal control deficiencies, lose investor confidence and our share price may decline.

We are subject to rules adopted by the SEC, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, or SOX, which requires us to include in our quarterly and annual reports on Forms 10-Q and 10-K, our management's report on, and assessment of the effectiveness of, our internal control over financial reporting. We have concluded that our internal control over financial reporting is effective, however, we need to maintain our existing processes and systems and adapt such processes and systems as our business grows and changes. This continuous process of maintaining and adapting our internal controls and complying with SOX is expensive, time-consuming and requires significant management attention. We cannot be certain that we will be able to maintain adequate and effective internal controls over our financial processes and reporting and ensure compliance with SOX and SEC rules. Furthermore, as we grow our company or acquire other companies, our internal controls may become more complex and may require significantly more resources to ensure they remain effective. Failure to comply with SOX and SEC rules, including a delay in or failure to successfully integrate new businesses into our internal control over financial reporting, a failure to implement required new or improved controls, or difficulties encountered in the implementation of such new or improved controls, could harm our operating results or cause us to not meet our reporting obligations. If we or our auditors identify material weaknesses in our internal controls, the disclosure of that fact, even if quickly remedied, may cause investors to lose confidence in our consolidated financial statements and the trading price of our common stock may decline. Remediation of a material weakness could require us to incur significant expense and expend significant management attention. Failure to remedy any material weakness could result in inaccurate financial statements, an inability for the company to report our financial results on a timely and accurate basis, a loss in investor confidence, decline in the trading price of our common stock, restriction on access to worldwide capital markets, and sanctions or investigation by regulatory authorities, including the SEC or The Nasdaq Global Select Market.

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.

During the third quarter of calendar year 2012, the SEC adopted rules implementing the Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank. These rules impose diligence and disclosure requirements regarding the use of "conflict minerals" mined from the Democratic Republic of Congo and adjoining countries. Compliance with these rules results in additional costs and expenses, including costs and expenses incurred for due diligence to determine and verify the sources of any conflict minerals used in our products, and remediation and other changes to products, processes, or sources of supply as a consequence of such verification efforts. These rules may also affect the sourcing and availability of minerals used in the manufacture of our products as there may be only a limited number of suppliers offering "conflict free" minerals that can be used in our products. There can be no assurance that we will be able to obtain such minerals in sufficient quantities or at competitive prices.

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.

We consider the undistributed operating earnings of certain foreign subsidiaries, which totaled approximately $680.9 million as of the end of fiscal 2016, 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 these 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. Additionally, if changes to tax laws or Tax Court decisions invalidate existing tax laws or regulations upon which we have relied, this could adversely impact our financial position and results of operations.

If tax laws change in the jurisdictions in which we do business or if we receive a material tax assessment in connection with an examination of our income tax returns, our consolidated financial position, results of operations and cash flows could be adversely affected.

We are subject to U.S. federal, state, and foreign income taxes in the various jurisdictions in which we do business. Our future effective tax rates and the value of our deferred tax assets could be adversely affected by changes in tax laws in those jurisdictions. In addition, we are subject to the examination of our income tax returns by the tax authorities in the jurisdictions in which we do business. The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of highly complex tax laws. 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. While we believe we have adequately provided for reasonably foreseeable outcomes in connection with the resolution of income tax uncertainties, the 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 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 our systems, or systems owned by third parties affiliated with our company, were breached or attacked, the proprietary and confidential information of our company and our customers could be disclosed and we may be required to incur substantial costs and liabilities, including the following: 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; loss of competitive advantage if our proprietary information is obtained by competitors as a result of 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; damage to our reputation; and expenses to rectify the consequences of the security breach or cyber attack. In addition, any compromise of security from a security breach or cyber attack could deter customers or business partners from entering into transactions that involve providing confidential information to us. As a result, any compromise to the security of our systems could have a material adverse effect on our business, reputation, financial condition, and operating results.

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.

Competition for qualified personnel in our industry is extremely intense, particularly for engineering and other technical personnel. Our compensation program, which includes cash and share-based compensation award components, has been instrumental in attracting, hiring, motivating, and retaining qualified personnel. Our success depends on our continued ability to use our share-based compensation programs to effectively 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 we may be required to increase the cash elements of our compensation program to account for this disadvantage.

The accounting requirements for income taxes on certain of our share-based compensation awards may subject our future quarterly and annual effective tax rates to volatility.

We recognize a 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 that 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, 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 may be subject to volatility.

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 such 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 our 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, thereby increasing the difficulty of, or delaying a third party’s efforts in, replacing a majority of directors.

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, our competitors, or our customers;

- introductions of new products or new pricing policies by us, our competitors, or our customers;
- acquisitions or strategic alliances by us, or our competitors, or our customers;
- 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;
- new federal and state laws and regulations affecting our industry; and
- general financial market conditions or occurrences, including market volatility resulting from geopolitical risks, acts of war, terrorist attacks, cybersecurity attacks, financial market technological glitches and interruptions of trading activity.

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 and development, sales, marketing, and administrative functions, are located in San Jose, California, where we own and utilize approximately 213,000 square feet of facilities. We also have research and development functions in leased offices in New York, Arizona, Texas, and Georgia. Our two Asia/Pacific principal offices are located in leased offices in Hong Kong and Japan, where we have sales, operations, and research and development functions. We have leased facilities with logistics operations in Hong Kong and Japan, leased facilities with sales and support operations in China, Hong Kong, Japan, Korea, Switzerland and Taiwan, and leased facilities with engineering design support operations in Armenia, China, India, Japan, Korea, Switzerland and Taiwan.

ITEM 3. LEGAL PROCEEDINGS

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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 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 2016:		
First quarter	$89.90	$61.42
Second quarter	$94.48	$62.68
Third quarter	$86.76	$57.02
Fourth quarter	$90.91	$51.80
Fiscal 2015:		
First quarter	$93.27	$71.06
Second quarter	$77.25	$59.02
Third quarter	$86.27	$58.22
Fourth quarter	$102.50	$78.82

Stockholders

As of August 16, 2016, there were approximately 143 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 16, 2016 was $55.11.

Dividends

We have never declared or paid cash dividends on our common stock. We currently plan to retain all earnings to finance the growth of our business, make our debt payments, or purchase shares under our common stock repurchase program. 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.

The Credit Agreement entered into pursuant to the RSP Acquisition also places restrictions on the payment of any dividends.

Issuer Purchases of Equity Securities

From April 2005 through July 2016, our Board of Directors cumulatively authorized $1.15 billion for our common stock repurchase program, which expires in July 2018. As of July 31, 2016, the remaining amount authorized for the repurchase of our common stock is $232.7 million. Repurchases under the stock repurchase program during the three-month period ended June 25, 2016 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 27, 2016 - April 23, 2016	—		—	$273,323,000
April 24, 2016 - May 21, 2016	495,925	$ 64.70	495,925	241,237,000
May 22, 2016 - June 25, 2016	1,435,870	58.15	1,435,870	157,739,000 (1)
Total	1,931,795			

(1) In July 2016, our Board of Directors authorized the purchase of up to an additional $100.0 million of our common stock, bringing the remaining amount authorized for repurchase under our stock repurchase program to $232. 7 million as of July 31, 2016.

Performance Graph

The following line graph compares cumulative total stockholder returns for the five years ended June 30, 2016 for (i) our common stock, (ii) the Nasdaq Composite Index and (iii) the Philadelphia Semiconductor Index. The graph assumes an investment of $100 on June 30, 2011. The calculations of cumulative stockholder return on the Nasdaq Composite Index and the Philadelphia Semiconductor 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.

ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected financial data for each fiscal year in the five-year period ended June 30, 2016. Our fiscal year is the 52- or 53-week period ending on the last Saturday in June. All 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.

	2016	2015	2014	2013	2012
	(in millions, except per share amounts)				
Consolidated Statements of Income Data:					
Net revenue	$1,666.9	$1,703.0	$947.5	$663.6	$548.2
Cost of revenue	1,085.4	1,124.3	511.4	337.8	292.7
Gross margin	581.5	578.7	436.1	325.8	255.5
Operating expenses:					
Research and development	311.2	293.2	192.7	144.7	118.0
Selling, general, and administrative	161.7	127.9	100.0	79.6	70.0
Acquired intangibles amortization	18.6	14.2	1.0	1.0	—
Impairment of acquired intangibles	6.7	—	—	—	—
Change in contingent consideration	(0.5)	(18.8)	69.9	1.3	—
Restructuring costs	8.6	—	—	—	—
Gain on sale of property and equipment	—	—	—	(1.5)	—
Total operating expenses	506.3	416.5	363.6	225.1	188.0
Operating income	75.2	162.2	72.5	100.7	67.5
Interest income	3.1	1.6	2.0	1.0	0.9
Interest expense	(4.8)	(3.8)	—	—	—
Impairment recovery on investments, net	2.1	0.2	—	—	0.1
Income before provision for income taxes	75.6	160.2	74.5	101.7	68.5
Provision for income taxes	3.4	49.8	27.8	2.8	14.4
Net income	$72.2	$110.4	$46.7	$98.9	$54.1
Net income per share:					
Basic	$1.97	$2.99	$1.34	$3.03	$1.64
Diluted	$1.91	$2.84	$1.26	$2.89	$1.57
Shares used in computing net income per share:					
Basic	36.6	36.9	34.8	32.7	33.0
Diluted	37.9	38.9	37.1	34.2	34.4
Consolidated Balance Sheets Data:					
Cash, cash equivalents, and short-term investments	$352.2	$399.9	$447.2	$355.3	$305.0
Working capital	429.3	469.3	488.1	410.8	340.6
Total assets	1,300.2	1,519.4	1,020.3	691.3	541.5
Long-term debt	216.7	231.1	—	2.3	2.3
Treasury shares, at cost	892.3	651.7	530.4	460.2	413.9
Total stockholders' equity	705.0	793.1	701.2	521.9	396.8

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, Deferred Stock Units, or DSUs, Market Stock Units, or MSUs, and convertible notes.

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 elsewhere in this report under Item 1A. Risk Factors.

Overview

We are a leading worldwide developer and supplier of custom-designed human interface semiconductor product 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 $548.2 million for fiscal 2012 to $1,666.9 million for fiscal 2016, representing a compound annual growth rate of approximately 32%. For fiscal 2012, we derived 50.7% of our net revenue from the personal computer market and 49.3% of our net revenue from the mobile product applications market. For fiscal 2016, revenue from the personal computer market accounted for 12.4% of our net revenue and revenue from the mobile product applications market accounted for 87.6% 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 expanding global presence, including offices in Armenia, China, Hong Kong, India, 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 third-party wafer manufacturers to supply wafers and third-party packaging manufacturers 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, amortization of intangibles related to acquired developed technology, backlog, and supplier arrangements, 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, 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 to cost of revenue.

Our gross margin generally reflects the combination of the added value we bring to our OEM customers' products by 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 ASICs and 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 business acquisitions, increased business levels, growth in our existing markets, and penetration into new markets.

Acquired intangibles amortization is the amortization of the cost of our acquired intangible assets related to customer relationships and patents which are amortized over their estimated useful lives ranging from 1.8 to 7.7 years.

Impairment of acquired intangibles represents the reduction of the carrying value of intangibles which have been determined unrecoverable.

Change in contingent consideration is a cost associated with the acquisition of a business in which an earn-out arrangement is entered into between us and a selling party. We entered into earn-out arrangements in connection with our acquisitions of both Pacinian Corporation, or Pacinian, and Validity Sensors, Inc., or Validity. The earn-out arrangements were designed to deliver more purchase price consideration to the selling parties, provided the acquired business delivers on the negotiated earn-out terms. Under these earn-out arrangements, upon satisfaction of certain financial metrics and other conditions, additional cash was to be delivered to the former Pacinian stockholders and former Validity stockholders and option holders. Both earn-out periods are complete and the remaining obligation represent amounts we have not paid and have retained, subject to resolution of a legal dispute (see Legal Proceedings under Note 8 to the financial statements contained elsewhere in this report). We do not expect to record further changes in contingent consideration in the statement of income.

Restructuring costs primarily reflect severance costs related to restructuring of operations to reduce operating costs. These headcount-related costs were in cost of revenue, research and development, and selling, general and administrative (see Note 14 Restructuring Activities to the financial statements contained elsewhere in this report).

Acquisition and Financing Activities

On June 11, 2014, we entered into a stock purchase agreement to acquire Renesas SP Drivers, Inc., or RSP, a leading provider of small- and medium-sized display driver integrated circuits for smartphones and tablets. On October 1, 2014, we completed the RSP Acquisition.

In connection with the RSP Acquisition, on September 30, 2014, we entered into the Credit Agreement, with the lenders party thereto, or the Lenders, and Wells Fargo Bank, National Association, or Wells Fargo, as administrative agent for the Lenders.

The Credit Agreement provides for, among other things, (i) a revolving credit facility of up to $250 million, which includes a $20 million sublimit for letters of credit and a $20 million sublimit for swingline loans, and (ii) a term loan facility in an amount of $150 million. Under the terms of the Credit Agreement, we may, subject to the satisfaction of certain conditions, request increases in the revolving credit facility commitments and additional term loan commitments in an aggregate principal amount of up to $100 million to the extent existing or new lenders agree to provide such increased or additional commitments, as applicable. We borrowed $150 million under the term loan facility and $100 million under the revolving credit facility to finance a portion of the RSP Acquisition purchase price. The debt issuance costs were approximately $5.0 million, which are being amortized over 60 months.

On October 20, 2015, we entered into a Commitment Increase Agreement and First Amendment to Credit Agreement, or the First Amendment, with the Administrative Agent and each of the Lenders, which amends the Credit Agreement.

Pursuant to the First Amendment, we exercised our right under the Credit Agreement to request a $100 million increase to the aggregate revolving credit commitment thereunder, for total aggregate revolving credit commitments

of $250 million and the Lenders under the Credit Agreement agreed to provide such increased revolving credit.

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. We accrue for estimated sales returns, incentives, and other allowances at the time we recognize revenue. Our products contain embedded firmware and software, which together with, or consisting of, our ASIC chip, deliver the essential functionality of our products and, as such, software revenue recognition guidance is not applicable. Our sales to distributors are made under agreements that generally do not provide for price adjustments after purchase and provide for only limited return rights under product warranty. Revenue on these sales is recognized in the same manner as sales to our non-distributor customers. When sales rebates and price allowances are applicable they are estimated and recorded in the period the related revenue is recognized.

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

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, 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.

Acquired Intangibles

We review acquired 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 acquired 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 consider our in-process research and development projects to be 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.

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. 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 2002. 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 to establish 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 to establish the expected life as we have a limited 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 to four years for our stock options, DSUs, and MSUs, 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 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 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.

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 based on 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 established for our deferred tax assets may change, which could impact income tax expense.

We use a two-step approach to recognizing and measuring the tax benefits related to 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 a 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 benefits 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 a 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 may be subject to volatility.

Results of Operations

The following sets forth certain of our consolidated statements of income data for fiscal 2016, 2015, and 2014, along with comparative information regarding the absolute and percentage changes in these amounts (in millions, except percentages):

	2016 [1] [2]	2015 [1] [2]	$ Change	% Change	2015 [1] [2]	2014 [1]	$ Change	% Change
Mobile product applications	$1,459.5	$1,442.1	$17.4	1.2 %	$1,442.1	$689.8	$752.3	109.1 %
PC product applications	207.4	260.9	(53.5)	(20.5 %)	260.9	257.7	3.2	1.2 %
Net revenue	1,666.9	1,703.0	(36.1)	(2.1 %)	1,703.0	947.5	755.5	79.7 %
Gross margin	581.5	578.7	2.8	0.5 %	578.7	436.1	142.6	32.7 %
Operating expenses:								
Research and development	311.2	293.2	18.0	6.1 %	293.2	192.7	100.5	52.2 %
Selling, general, and administrative	161.7	127.9	33.8	26.4 %	127.9	100.0	27.9	27.9 %
Acquired intangibles amortization	18.6	14.2	4.4	31.0 %	14.2	1.0	13.2	1320.0 %
Impairment of acquired intangibles	6.7	—	6.7	100.0 %	—	—	—	nm[3]
Change in contingent consideration	(0.5)	(18.8)	18.3	(97.3 %)	(18.8)	69.9	(88.7)	(126.9 %)
Restructuring costs	8.6	—	8.6	100.0 %	—	—	—	nm[3]
Operating income	75.2	162.2	(87.0)	(53.6 %)	162.2	72.5	89.7	123.7 %
Interest and other income, net	5.2	1.8	3.4	188.9 %	1.8	2.0	(0.2)	(10.0 %)
Interest expense	(4.8)	(3.8)	(1.0)	26.3 %	(3.8)	—	—	100.0 %
Income before provision for income taxes	75.6	160.2	(84.6)	(52.8 %)	160.2	74.5	85.7	115.0 %
Provision for income taxes	3.4	49.8	(46.4)	(93.2 %)	49.8	27.8	22.0	79.1 %
Net income	$72.2	$110.4	$(38.2)	(34.6 %)	$110.4	$46.7	$63.7	136.4 %

(1) Includes the post-acquisition results of operations from Validity, acquired on November 7, 2013.
(2) Includes the post-acquisition results of operations from RSP, acquired on October 1, 2014 (see Note 5 to the financial statements contained elsewhere in this report).
(3) Not meaningful.

The following sets forth certain of our consolidated statements of income data as a percentage of net revenues for fiscal 2016, 2015, and 2014:

	Percentage Point	Percentage Point

	2016 (1) (2)	2015 (1) (2)	Increase (Decrease)	2015 (1) (2)	2014 (1)	Increase (Decrease)
Mobile product applications	87.6 %	84.7 %	2.9 %	84.7 %	72.8 %	11.9 %
PC product applications	12.4 %	15.3 %	(2.9 %)	15.3 %	27.2 %	(11.9 %)
Net revenue	100.0%	100.0%		100.0%	100.0%	
Gross margin	34.9 %	34.0 %	0.9 %	34.0 %	46.0 %	(12.0 %)
Operating expenses:						
Research and development	18.7 %	17.2 %	1.5 %	17.2 %	20.3 %	(3.1 %)
Selling, general, and administrative	9.7 %	7.5 %	2.2 %	7.5 %	10.6 %	(3.1 %)
Acquired intangibles amortization	1.1 %	0.8 %	0.3 %	0.8 %	0.1 %	0.7 %
Impairment of acquired intangibles	0.4 %	0.0 %	0.4 %	0.0 %	0.0 %	0.0 %
Change in contingent consideration	0.0 %	(1.1 %)	1.1 %	(1.1 %)	7.4 %	(8.5 %)
Restructuring costs	0.5 %	0.0 %	0.5 %	0.0 %	0.0 %	0.0 %
Operating income	4.5 %	9.5 %	(5.0 %)	9.5 %	7.7 %	1.8 %
Income before provision for income taxes	4.5 %	9.4 %	(4.9 %)	9.4 %	7.9 %	1.5 %
Provision for income taxes	0.2 %	2.9 %	(2.7 %)	2.9 %	2.9 %	0.0 %
Net income	4.3 %	6.5 %	(2.2 %)	6.5 %	4.9 %	1.6 %

(1) Includes the post-acquisition results of operations from Validity, acquired on November 7, 2013.

(2) Includes the post-acquisition results of operations from RSP, acquired on October 1, 2014 (see Note 5 to the financial statements contained elsewhere in this report).

Fiscal 2016 Compared with Fiscal 2015

Net Revenue.

Net revenue was $1,666.9 million for fiscal 2016 compared with $1,703.0 million for fiscal 2015, a decrease of $36.1 million, or 2.1%. Of our fiscal 2016 net revenue, $1,459.5 million, or 87.6%, of net revenue was from the mobile product applications market and $207.4 million, or 12.4%, of net revenue was from the PC product applications market. The overall decrease in net revenue for fiscal 2016 was attributable to a decrease of $53.5 million, or 20.5%, in net revenue from PC product applications, partially offset by a $17.4 million, or 1.2%, increase in net revenue from mobile product applications. The decrease in net revenue from PC product applications was driven by a decrease in the units sold as well as a decline in average selling prices. The increase in mobile product applications was driven by an increase in the units sold as well as a slight increase in average selling prices.

Gross Margin.

Gross margin as a percentage of net revenue was 34.9%, or $581.5 million, for fiscal 2016 compared with 34.0%, or $578.7 million, for fiscal 2015. The 90 basis point increase in gross margin was primarily due to a reduction of acquisition-related amortization costs related to the RSP Acquisition in October 2014 and higher gross margins on our DDIC products.

We continuously introduce new product solutions, many of which have life cycles of less than one year. Further, as we sell our technology solutions 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. As a virtual manufacturer, our gross margin percentage is generally not materially impacted 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 $18.0 million, to $311.2 million, for fiscal 2016 compared with fiscal 2015. The increase in research and development expenses primarily reflected (i) a $15.8 million increase in employee compensation and employment-related costs, resulting from a 16% increase in research and development headcount associated with the expansion of our product portfolio and annual compensation adjustments early in the year, (ii) an $11.1 million increase in infrastructure costs related to facilities and information technology to support the additional staff early in the year, partially offset by (x) a $7.8 million decline in non-employee services, and (y) a $2.3 million decline in travel related costs.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses increased $33.8 million, to $161.7 million, for fiscal 2016 compared with fiscal 2015. The increase in selling, general, and administrative expenses primarily reflected (i) a $20.5 million change from foreign currency gains in fiscal 2015 to foreign currency losses in fiscal 2016, primarily related to the remeasurement of RSP Acquisition related liabilities denominated in yen, (ii) a $14.0 million increase in employee compensation and employment-related costs resulting from a 10.0% increase in selling, general, and administrative headcount, including new employees early in the year and annual compensation adjustments, and (iii) a $12.5 increase in legal expenses, partially offset by (x) a $4.2 million decline in facilities related costs, (y) a $2.9 million decrease in professional services, and (z) a $2.6 million decrease in travel and related expenses,

Acquired Intangibles Amortization. Acquired intangibles amortization reflects the amortization of intangibles acquired through recent acquisitions. Acquired intangibles amortization increased in fiscal 2016 due to a full year of amortization from intangibles related to the RSP Acquisition in October 2014. See Note 5 to the financial statements

contained elsewhere in this report.

Impairment of Acquired Intangibles. Impairment of acquired intangibles represents the reduction of the carrying value of intangibles which have been determined unrecoverable.

Change in Contingent Consideration. Our contingent consideration increased $18.3 million to a credit of $0.5 million for fiscal 2016 compared with a credit of $18.8 million in fiscal 2015. The change was primarily attributable to a small decrease in the fair value of the contingent consideration in fiscal 2016, which resulted from a small adjustment to account for actual unit sales of products embodying the Validity fingerprint sensor technology through the end of the earn-out period.

Restructuring costs. Restructuring costs primarily reflect employee severance costs related to restructuring of operations to reduce operating costs. These headcount-related costs included people in operations, research and development, and selling, general and administrative functions. Restructuring costs incurred in fiscal 2016 were $8.6 million due to restructuring plans implemented in fiscal 2016. We expect to incur additional restructuring costs in fiscal 2017 as our restructuring activities are completed, which will include additional severance costs and facility consolidation costs. There were no restructuring plans in fiscal 2015. See Note 14 to the financial statements contained elsewhere in this report.

Non-Operating Income.

Interest and other income, net. Interest and other income, net was $5.2 million for fiscal 2016 compared with $1.8 million for fiscal 2015, resulting from an impairment recovery on investments upon redemption and a gain on legal settlement.

Interest expense. Interest expense represents interest on the $250.0 million in debt borrowed in conjunction with our acquisition of RSP in October 2014. See Notes 5 and 7 to the financial statements contained elsewhere in this report.

Provision for Income Taxes.

The provision for income taxes was $3.4 million and $49.8 million for fiscal 2016 and 2015, respectively. The income tax provision represents estimated U.S. federal, foreign, and state taxes for fiscal 2016 and 2015. The effective rate for fiscal 2016 differed from 2015 primarily as a result of an increase in benefit from research tax credits and foreign profits taxed at lower tax rates. The effective tax rate for fiscal 2016 was approximately 4.5% and diverged from the combined federal and state statutory rate, primarily as a result of overseas profits taxed at generally lower tax rates, 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 2015 was approximately 31.1% and diverged from the combined federal and state statutory rate, primarily as a result of overseas profits taxed at generally lower tax rates, the recognition of unrealized tax benefits upon 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.

On March 31, 2016, Japan’s parliament approved legislation to reduce corporate combined income tax rates by 2.58 percentage points to 33.06%, which will be further reduced to 30.86% over the next two years. We have accounted for the impact of the tax rate change of $0.7 million in the fourth quarter of our fiscal 2016.

The Protecting Americans from Tax Hikes Act of 2015, or the PATH Act, which made the federal research tax credit permanent, was enacted on December 17, 2015. The PATH Act retroactively extended federal research tax credit from January 1, 2015. During fiscal 2016, we recognized tax benefit totaling $4.5 million from the federal research tax credit related to fiscal 2015.

It is reasonably possible that the amount of liability for unrecognized tax benefits may change within the next 12 months; an estimate of the range of possible changes could result from a decrease of $0.8 million to an increase of $1.9 million.

In July 2015, the U.S. Tax Court issued an opinion in Altera Corp. v. Commissioner related to a treasury regulation addressing the treatment of stock-based compensation in a cost-sharing arrangement with a related party. The U.S. Department of the Treasury has not withdrawn the requirement in its regulations related to the treatment of stock-based compensation. The Commissioner filed an appeal to the Ninth Circuit Court of Appeals in February 2016. While we determined no adjustment to our financial statements is required due to the uncertainties with respect to the ultimate resolution, we will continue to monitor developments in this case.

In September 2015, we were notified by the National Tax Agency of Japan that our open tax years would be subject to audit. In April 2016, this audit was concluded with adjustments that are not material to our consolidated financial statements. We have recorded the impact of this audit in the fourth quarter of fiscal 2016.

Fiscal 2015 Compared with Fiscal 2014

Net Revenue.

Net revenue was $1,703.0 million for fiscal 2015 compared with $947.5 million for fiscal 2014, an increase of $755.5 million, or 79.7%. Of our fiscal 2015 net revenue, $1,442.1 million, or 84.7%, of net revenue was from the mobile product applications market and $260.9 million, or 15.3%, of net revenue was from the PC product applications market. The overall increase in net revenue for fiscal 2015 was attributable to a $752.3 million, or 109.1%, increase in net revenue from mobile product applications, and an increase of $3.2 million, or 1.2%, in net revenue from PC product applications. The increase in net revenue was driven by an increase in the units sold in the mobile product applications market, primarily reflecting substantial contributions from our acquisition of RSP's display driver integrated circuit, or DDIC, products (which contributed $715.5 million). The increase in PC product applications was primarily a result of higher unit sales related to our biometrics products.

Gross Margin.

Gross margin as a percentage of net revenue was 34.0%, or $578.7 million, for fiscal 2015 compared with 46.0%, or $436.1 million, for fiscal 2014. The 1200 basis point decline in gross margin was primarily related to amortization of acquired intangibles recognized in the current year (430 basis points), as well as lower margins on our DDIC products. The increased amortization of intangibles is related to our acquisitions of RSP and Validity.

Operating Expenses.

Research and Development Expenses. Research and development expenses increased $100.5 million, to $293.2 million, for fiscal 2015 compared with fiscal 2014. The increase in research and development expenses primarily reflected (i) a $50.6 million increase in employee compensation and employment-related costs, resulting from a 52.8% increase in research and development headcount associated with the ongoing expansion of our product portfolio, including new employees related to the RSP Acquisition and annual compensation adjustments, (ii) a $14.3 million increase in infrastructure costs related to new facilities and information technology to support the additional staff, (iii) a $13.8 million increase in non-employee services, (iv) a $11.0 million increase in software license fees, and (v) a $7.5 million increase in supplies and project related costs.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses increased $27.9 million, to $127.9 million, for fiscal 2015 compared with fiscal 2014. The increase in selling, general, and administrative expenses primarily reflected (i) a $26.0 million increase in employee compensation and employment-related costs resulting from a 54.2% increase in selling, general, and administrative headcount, including new employees related to the RSP Acquisition, and annual compensation adjustments, (ii) a $7.8 million increase in temporary employee services, and (iii) a $3.6 million increase in travel and related expenses, partially offset by $14.7 million of foreign currency gains primarily related to the RSP Acquisition.

Acquired Intangibles Amortization. Acquired intangibles amortization reflects the amortization of intangibles acquired through recent acquisitions. See Note 5 to the financial statements contained elsewhere in this report.

Change in Contingent Consideration. Our contingent consideration decreased $88.7 million for fiscal 2015 compared with fiscal 2014. The decrease was primarily attributable to the decrease in the estimated fair value of the contingent consideration liability related to the Validity acquisition, which resulted from a decrease in expected unit sales of products embodying the Validity fingerprint sensor technology over the remaining earn-out period.

Operating Income.

We generated operating income of $162.2 million for fiscal 2015, an increase of $89.7 million compared with $72.5 million in fiscal 2014. As discussed in the preceding paragraphs, the increase in operating income was primarily the result of a significant decrease in the change in contingent consideration, partially offset by increased operating leverage from the 79.7% increase in net revenue.

Non-Operating Income.

Interest and other income, net. Interest and other income, net was $1.8 million for fiscal 2015 compared with $2.0 million for fiscal 2014, resulting from a decrease in cash and cash equivalents.

Interest expense. Interest expense represents interest on the $250.0 million in debt borrowed in conjunction with our acquisition of RSP in October 2014. See Notes 5 and 7 to the financial statements contained elsewhere in this report.

Provision for Income Taxes.

The provision for income taxes was $49.8 million and $27.8 million for fiscal 2015 and 2014, respectively. The income tax provision represented estimated U.S. federal, foreign, and state taxes for fiscal 2015 and 2014. The effective tax rate for fiscal 2015 was approximately 31.1% and diverged from the combined federal and state statutory rate, primarily as a result of overseas profits taxed at generally lower tax rates, nontaxable contingent consideration, 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 2014 was approximately 37.3% and diverged from the combined federal and state statutory rate, primarily as a result of overseas profits taxed at generally lower tax rates, 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.

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, 2016. 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, which are of a normal and recurring nature 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.

	Three Months Ended							
(in millions, except per share amounts)	June	March	December	September	June	March	December	September
(unaudited)	2016 (1)	2016 (1)	2015 (1)	2015 (1)	2015 (1)	2015 (1)	2014 (1)	2014
Net revenue	$323.9	$402.5	$ 470.5	$ 470.0	$478.9	$477.6	$ 463.7	$ 282.8
Cost of revenue	215.8	258.1	305.3	306.2	311.6	313.3	336.9	162.5
Gross margin	108.1	144.4	165.2	163.8	167.3	164.3	126.8	120.3
Operating expenses:								
Research and development	78.2	73.9	78.6	80.5	79.7	78.7	77.3	57.5
Selling, general, and administrative	36.9	43.6	41.0	40.2	39.4	35.8	22.0	30.7
Acquired intangibles amortization	4.6	4.7	4.6	4.7	4.7	4.6	4.6	0.3
Impairment of acquired intangibles	6.7	—	—	—	—	—	—	—
Change in contingent consideration	—	1.1	(4.3)	2.7	(0.5)	(6.7)	(7.1)	(4.5)
Restructuring costs	6.7	—	—	1.9	—	—	—	—
Total operating expenses	133.1							