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

FORM 10-Q

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

For the quarterly period ended December 27, 2014

Commission file number 000-49602

SYNAPTICS INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

77-0118518
(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)

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 No

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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

Number of shares of Common Stock outstanding at January 30, 2015: 36,713,303

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SYNAPTICS INCORPORATED
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED DECEMBER 27, 2014

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PART I - FINANCIAL INFORMATION**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****SYNAPTICS INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS**
(in thousands, except share data)
(unaudited)

	<u>December 31, 2014</u>	<u>June 30, 2014</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 327,546	\$ 447,205
Accounts receivable, net of allowances of \$1,165 and \$883 at December 31, 2014 and June 30, 2014, respectively	335,023	195,057
Inventories	145,215	82,311
Prepaid expenses and other current assets	35,196	17,858
Total current assets	<u>842,980</u>	<u>742,431</u>
Property and equipment at cost, net of accumulated depreciation of \$59,916 and \$49,482 at December 31, 2014 and June 30, 2014, respectively	115,145	80,849
Goodwill	214,443	61,030
Acquired intangibles, net	283,349	82,111
Non-current other assets	47,657	53,912
	<u>\$ 1,503,574</u>	<u>\$1,020,333</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 149,535	\$ 97,109
Accrued compensation	33,474	30,682
Income taxes payable	11,830	12,538
Acquisition-related liabilities	97,549	57,388
Other accrued liabilities	94,433	56,691
Current portion of long-term debt	7,500	—
Total current liabilities	<u>394,321</u>	<u>254,408</u>
Long-term debt, net of issuance costs	238,099	—
Acquisition-related liabilities	85,626	52,734
Deferred tax liability	57,342	—
Other long-term liabilities	13,609	12,034
Total liabilities	<u>788,997</u>	<u>319,176</u>
Stockholders' Equity:		
Common stock:		
\$0.001 par value; 120,000,000 shares authorized, 56,997,204 and 55,911,513 shares issued, and 36,662,018 and 36,863,802 shares outstanding, at December 31, 2014 and June 30, 2014, respectively	57	56
Additional paid-in capital	798,203	740,282
Treasury stock: 20,335,186 and 19,047,711 common treasury shares at December 31, 2014 and June 30, 2014, respectively, at cost	(621,027)	(530,422)
Accumulated other comprehensive income	8,105	8,560
Retained earnings	<u>529,239</u>	<u>482,681</u>
Total stockholders' equity	<u>714,577</u>	<u>701,157</u>
	<u>\$ 1,503,574</u>	<u>\$1,020,333</u>

See accompanying notes to condensed consolidated financial statements (unaudited).

SYNAPTICS INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)
(unaudited)

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2014	2013	2014	2013
Net revenue	\$463,705	\$205,763	\$746,446	\$428,370
Cost of revenue	336,874	111,218	499,426	224,546
Gross margin	126,831	94,545	247,020	203,824
Operating expenses:				
Research and development	77,223	45,931	134,748	86,373
Selling, general, and administrative	22,056	22,845	52,729	43,969
Acquired intangibles amortization	6,203	261	6,465	523
Change in contingent consideration	(7,121)	3,430	(11,623)	3,688
Total operating expenses	98,361	72,467	182,319	134,553
Operating income	28,470	22,078	64,701	69,271
Interest and other income, net	497	476	1,121	906
Interest expense	(1,212)	(5)	(1,212)	(9)
Income before provision for income taxes	27,755	22,549	64,610	70,168
Provision for income taxes	7,783	5,215	18,052	17,895
Net income	<u>\$ 19,972</u>	<u>\$ 17,334</u>	<u>\$ 46,558</u>	<u>\$ 52,273</u>
Net income per share:				
Basic	<u>\$ 0.55</u>	<u>\$ 0.51</u>	<u>\$ 1.26</u>	<u>\$ 1.56</u>
Diluted	<u>\$ 0.52</u>	<u>\$ 0.48</u>	<u>\$ 1.20</u>	<u>\$ 1.47</u>
Shares used in computing net income per share:				
Basic	<u>36,500</u>	<u>33,990</u>	<u>36,895</u>	<u>33,475</u>
Diluted	<u>38,248</u>	<u>36,059</u>	<u>38,882</u>	<u>35,586</u>

See accompanying notes to condensed consolidated financial statements (unaudited).

SYNAPTICS INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(unaudited)

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2014	2013	2014	2013
Net income	\$19,972	\$17,334	\$46,558	\$52,273
Other comprehensive income:				
Change in unrealized net gain on investments	143	724	214	1,291
Reclassification from accumulated other comprehensive income to interest income for accretion of non-current investments	(344)	(254)	(669)	(473)
Net current-period other comprehensive income/(loss)	(201)	470	(455)	818
Comprehensive income	<u>\$19,771</u>	<u>\$17,804</u>	<u>\$46,103</u>	<u>\$53,091</u>

See accompanying notes to condensed consolidated financial statements (unaudited).

SYNAPTICS INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended	
	December 31,	
	2014	2013
Cash flows from operating activities		
Net income	\$ 46,558	\$ 52,273
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation costs	20,223	14,664
Depreciation and amortization	10,519	6,727
Acquired intangibles amortization	49,362	2,119
Accretion and remeasurement of contingent consideration liability	(11,623)	3,688
Deferred taxes	(2,592)	9,136
Non-cash interest income	(669)	(473)
Impairment recovery on investments	(179)	—
Amortization of debt issuance costs	252	—
Foreign currency remeasurement gain	(7,238)	—
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable, net	(10,137)	19,272
Inventories	(56,590)	356
Prepaid expenses and other current assets	22,009	(3,477)
Other assets	4,797	(4,060)
Accounts payable	(3,372)	(13,163)
Accrued compensation	(582)	(2,722)
Income taxes payable	(29,813)	(1,341)
Other accrued liabilities	13,478	2,775
Net cash provided by operating activities	<u>44,403</u>	<u>85,774</u>
Cash flows from investing activities		
Proceeds from sales of non-current investments	4,900	—
Acquisition of business, net of cash acquired	(293,783)	(19,620)
Purchases of property and equipment	(34,285)	(17,142)
Net cash used in investing activities	<u>(323,168)</u>	<u>(36,762)</u>
Cash flows from financing activities		
Payment of contingent consideration	(7,706)	—
Purchases of treasury stock	(90,605)	(70,262)
Proceeds from issuance of shares	16,836	39,193
Proceeds from issuance of long-term debt	245,367	—
Payment of debt issuance costs	(400)	—
Excess tax benefit from share-based compensation	7,388	—
Payroll taxes for deferred stock units	(8,223)	(3,822)
Net cash provided by/(used in) financing activities	<u>162,657</u>	<u>(34,891)</u>
Effect of exchange rate changes on cash and cash equivalents	(3,551)	—
Net increase/(decrease) in cash and cash equivalents	(119,659)	14,121
Cash and cash equivalents at beginning of period	447,205	355,303
Cash and cash equivalents at end of period	<u>\$ 327,546</u>	<u>\$369,424</u>
Supplemental disclosures of cash flow information		
Cash paid for taxes	\$ 40,612	\$ 14,889
<i>Non-cash investing and financing activities:</i>		
Property and equipment received but unpaid	\$ 2,133	\$ 1,117
Common stock issued in settlement of contingent consideration liability	\$ 21,487	\$ 37,499

See accompanying notes to condensed consolidated financial statements (unaudited).

SYNAPTICS INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission, or the SEC, and U.S. generally accepted accounting principles, or U.S. GAAP. However, certain information or footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to SEC rules and regulations. In our opinion, the financial statements include all adjustments, which are of a normal and recurring nature, necessary for the fair presentation of the results of the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the operating results for the full fiscal year or any future period. These financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended June 28, 2014.

The consolidated financial statements include our financial statements and those of our wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated upon consolidation.

Our fiscal year is the 52- or 53-week period ending on the last Saturday in June. Our fiscal 2015 and 2014 years are 52-week periods ending on June 27, 2015 and June 28, 2014, respectively. The quarterly fiscal periods presented in this report were 13-week periods for the three months ended December 27, 2014 and December 28, 2013. For ease of presentation, the accompanying consolidated financial statements have been shown as ending on calendar quarter end dates for all annual, interim, and quarterly financial statement captions, unless otherwise indicated.

Use of Estimates

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

Foreign Currency Transaction Gains and Losses

We use the U.S. dollar as our functional currency for financial reporting and therefore foreign currency transaction and remeasurement gains and losses are included in results of operations and are primarily the result of revaluing assets and liabilities denominated in a currency other than the functional currency. These foreign currency transactions, which primarily related to a recent acquisition, resulted in a net gain of \$15.1 million in the three months ended December 31, 2014, and were not material in prior periods.

2. 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.

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3. Net Income Per Share

The computation of basic and diluted net income per share was as follows (in thousands, except per share data):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Numerator:				
Net income	<u>\$19,972</u>	<u>\$17,334</u>	<u>\$46,558</u>	<u>\$52,273</u>
Denominator:				
Shares, basic	36,500	33,990	36,895	33,475
Effect of dilutive share-based awards	<u>1,748</u>	<u>2,069</u>	<u>1,987</u>	<u>2,111</u>
Shares, diluted	<u>38,248</u>	<u>36,059</u>	<u>38,882</u>	<u>35,586</u>
Net income per share:				
Basic	<u>\$ 0.55</u>	<u>\$ 0.51</u>	<u>\$ 1.26</u>	<u>\$ 1.56</u>
Diluted	<u>\$ 0.52</u>	<u>\$ 0.48</u>	<u>\$ 1.20</u>	<u>\$ 1.47</u>

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 use the “treasury stock” method to determine the dilutive effect of our stock options, deferred stock units, or DSUs, and market stock units, or MSUs.

Dilutive net income per share amounts do not include the potential weighted average effect of 532,982 and 315,275 shares of common stock related to certain share-based awards that were outstanding during the three months ended December 31, 2014 and 2013, respectively, and 332,892 and 317,438 shares of common stock related to certain share-based awards that were outstanding during the six months ended December 31, 2014 and 2013, respectively. These share-based awards were not included in the computation of diluted net income per share because their effect would have been antidilutive.

4. Fair Value

Financial assets and liabilities, measured at fair value on a recurring basis by level within the fair value hierarchy, consisted of the following (in thousands):

	December 31, 2014		June 30, 2014	
	Level 1	Level 3	Level 1	Level 3
Assets:				
Money market funds	\$133,061	\$ —	\$439,675	\$ —
Auction rate securities	—	<u>15,278</u>	—	<u>19,785</u>
Total available-for-sale securities	<u>\$133,061</u>	<u>\$15,278</u>	<u>\$439,675</u>	<u>\$ 19,785</u>
Liabilities:				
Contingent consideration liabilities recorded for business combinations	<u>\$ —</u>	<u>\$69,306</u>	<u>\$ —</u>	<u>\$110,122</u>

In our condensed consolidated balance sheets as of December 31, 2014 and June 30, 2014, money market balances were included in cash and cash equivalents and auction rate securities, or ARS investments, were included in non-current investments; \$600,000 of the ARS investments were included in prepaid expenses and other current assets as of December 31, 2014. The contingent consideration liability recorded for business combinations was included in acquisition-related liabilities as of December 31, 2014 and June 30, 2014, respectively.

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Changes in fair value of our Level 3 financial assets as of December 31, 2014 were as follows (in thousands):

Balance as of June 30, 2014	\$19,785
Net gain	393
Redemptions	<u>(4,900)</u>
Balance as of December 31, 2014	<u>\$15,278</u>

Changes in fair value of our Level 3 contingent consideration liabilities as of December 31, 2014 were as follows (in thousands):

Balance as of June 30, 2014	\$110,122
Cash settlement of contingent consideration liability	(7,706)
Issuance of common stock in settlement of liability	<u>(21,487)</u>
Accretion and remeasurement	<u>(11,623)</u>
Balance as of December 31, 2014	<u>\$ 69,306</u>

In connection with our acquisition of Validity Sensors, Inc., or Validity, we entered into a contingent consideration arrangement and as of December 31, 2014, we may be required to make additional cash payments of up to \$130.9 million as consideration to the former Validity stockholders and option holders based on unit sales of products utilizing Validity technology through March 2016.

In connection with our acquisition of Pacinian Corporation, or Pacinian, we entered into a contingent consideration arrangement. As of December 31, 2014, we may be required to make additional cash payments of up to \$10.0 million as consideration to the former Pacinian stockholders based on unit sales of products utilizing ThinTouch technology through June 2016.

Changes in the fair value of our contingent consideration liabilities subsequent to the acquisition are included in operating expenses as change in contingent consideration in the condensed consolidated statements of income. Cash payments of contingent consideration are classified in the condensed consolidated statements of cash flows as a financing activity up to the amount of the contingent consideration recorded at the time of the acquisition, and as an operating activity for cash payments that exceed the liability recorded at the time of acquisition.

There were no transfers in or out of our Level 1, 2, or 3 assets or liabilities during the three and six months ended December 31, 2014 and 2013.

The fair values of our accounts receivable and accounts payable approximate their carrying values because of the short-term nature of those instruments. Intangible assets, property and equipment, and goodwill are measured at fair value on a non-recurring basis if impairment is indicated. Our bank debt is subject to a variable interest rate, which is subject to change from time to time to reflect a market interest rate; accordingly, the carrying value of our bank debt approximates fair value.

5. Non-current Investments

Our non-current investments consist of ARS investments, which have failed to settle in auctions and are not liquid. In the event we need to access these funds prior to their maturity, we will not be able to do so without a loss of principal, unless redeemed by the issuers or a future auction on these investments is successful. During the six months ended December 31, 2014, \$4.9 million of our ARS investments were redeemed.

As there are currently no active markets for our various failed ARS investments, we have estimated the fair value as of December 31, 2014 using a trinomial discounted cash flow analysis. The analysis considered, among others, the following factors:

- the collateral underlying the security investments;
- the creditworthiness of the counterparty;
- the timing of expected future cash flows;
- the probability of a successful auction in a future period;
- the underlying structure of each investment;

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- the present value of future principal and interest payments discounted at rates considered to reflect current market conditions;
- a consideration of the probabilities of default, passing a future auction, or redemption at par for each period; and
- estimates of the recovery rates in the event of default for each investment.

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

We have ARS investments with a fair value of \$12.5 million maturing from fiscal years 2016 to 2018 and \$2.8 million fair value with no maturity date. Of our ARS investments, \$600,000 par value are investment grade, and the remaining \$18.5 million par value are below investment grade.

The various types of ARS investments we held as of December 31, 2014, including the original cost basis, other-than-temporary impairment included in retained earnings, new cost basis, unrealized gain/(loss), and fair value, consisted of the following (in thousands):

	Original Cost Basis	Other-than- temporary Impairment in Retained Earnings	New Cost Basis	Unrealized Gain/(Loss)	Fair Value
Credit linked notes	\$ 13,500	\$ (6,844) ⁽¹⁾	\$ 6,656	\$ 5,284	\$11,940
Preferred stock	5,000	(5,000)	—	2,750	2,750
Municipals	600	(83)	517	71	588
Total ARS	<u>\$ 19,100</u>	<u>\$ (11,927)</u>	<u>\$ 7,173</u>	<u>\$ 8,105</u>	<u>\$15,278</u>

- (1) Other-than-temporary impairment in retained earnings is partially offset by cumulative accretion of \$1.9 million on non-current investments. Accretion is reclassified from accumulated other comprehensive income and recorded in the condensed consolidated statements of income as non-cash interest income.

The various types of ARS investments we held as of June 30, 2014, including the original cost basis, other-than-temporary impairment included in retained earnings, new cost basis, unrealized gain/(loss), and fair value, consisted of the following (in thousands):

	Original Cost Basis	Other-than- temporary Impairment in Retained Earnings	New Cost Basis	Unrealized Gain/(Loss)	Fair Value
Student loans	\$ 3,500	\$ (179)	\$ 3,321	\$ (149)	\$ 3,172
Credit linked notes	13,500	(7,513) ⁽¹⁾	5,987	5,891	11,878
Preferred stock	5,000	(5,000)	—	2,750	2,750
Municipals	2,000	(83)	1,917	68	1,985
Total ARS	<u>\$ 24,000</u>	<u>\$ (12,775)</u>	<u>\$11,225</u>	<u>\$ 8,560</u>	<u>\$19,785</u>

- (1) Other-than-temporary impairment in retained earnings is partially offset by cumulative accretion of \$1.3 million on non-current investments. Accretion is reclassified from accumulated other comprehensive income and recorded in the condensed consolidated statements of income as non-cash interest income.

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

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

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6. Inventories

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

	December 31, 2014	June 30, 2014
Raw materials	\$ 75,089	\$58,717
Finished goods	70,126	23,594
	<u>\$ 145,215</u>	<u>\$82,311</u>

7. Acquisition

On June 11, 2014, we entered into a stock purchase agreement to acquire all of the outstanding stock of Renesas SP Drivers, Inc., or RSP, a leading provider of small- and medium-sized display driver integrated circuits for smartphones and tablets, or the RSP Acquisition. The RSP Acquisition is intended to accelerate our product roadmap for high-performance, low-cost display integration products, strengthen our relationships with key customers, and create opportunities to drive increased revenue. Effective as of October 1, 2014, or the Closing Date, we completed the RSP Acquisition of 100% of the outstanding capital stock of RSP for an initial purchase price of approximately ¥50.6 billion (or approximately \$463 million), with Japanese yen converted into U.S. dollars at the Closing Date conversion rate of 109.4 Japanese yen to U.S. dollar. The purchase price at the closing of the RSP Acquisition was paid entirely in cash, with ¥7.25 billion (or approximately \$66 million) held back until the date that is 18 months after the Closing Date to address any post-closing adjustments or claims, or the Indemnification Holdback, and ¥5.25 billion (or approximately \$48 million) held back in respect of a potential post-closing working capital, cash balance, indebtedness and transaction expenses adjustments, or the Working Capital Holdback, which is due in the three months ending March 31, 2015. Subsequent to the Closing Date, we determined that additional purchase consideration was due to the sellers and have adjusted the purchase price by \$10.9 million. The acquisition date fair value of the consideration transferred is approximately \$474 million.

The Working Capital Holdback as adjusted for additional purchase consideration is included in acquisition-related liabilities under current liabilities of the condensed consolidated balance sheet and is expected to be settled in our March 2015 quarter. The Indemnification Holdback is included in acquisition-related liabilities in the long-term liabilities section of the condensed consolidated balance sheet and is expected to be settled in fiscal 2016. The RSP Acquisition has been accounted for as a business combination in the three months ending in December 2014 and results of RSP's operations have been included in our consolidated financial statements since the Closing Date. Under the stock purchase agreement, RSP entered into an inventory purchase obligation with Renesas Electronics Corporation, or REL, to acquire closing date inventory held by REL. Such inventory purchase obligation was settled in the three months ended December 31, 2014 for approximately \$115 million.

Our estimate of the fair values of the acquired intangible assets at December 31, 2014 is preliminary and subject to change and is based on established and accepted valuation techniques performed by our third-party valuation specialists. Additional information, which existed as of the acquisition date but is yet unknown to us, may become known to us during the remainder of the measurement period, which will not exceed 12 months from the acquisition date. Changes to amounts recorded as assets or liabilities will be recorded as retrospective adjustments to the provisional amounts recognized as of the acquisition date and may result in a corresponding adjustment to goodwill.

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

Cash	\$ 54,705
Short-term deposit	36,614
Accounts receivable	140,210
Current deferred tax asset	2,762
Inventory	6,296
Property and equipment	11,674
Acquired intangible assets	250,600
Other assets	4,002
Total identifiable assets acquired	506,863
Accounts payable	66,544
Income taxes payable	32,534
Deferred tax liability	59,516
Other accrued liabilities	28,032
Net identifiable assets acquired	320,237
Goodwill	153,413
Net assets acquired	<u>\$473,650</u>

Of the \$250.6 million of acquired intangible assets, \$138.6 million was allocated to developed technology and will amortize over an estimated weighted average useful life of 5 years; \$60.2 million was allocated to customer relationships and will be amortized over estimated useful lives of 2 to 3 years; \$21.5 million was allocated to a supplier arrangement and will be amortized over an estimated useful life of less than 1 year; \$11.0 million was allocated to backlog and will be amortized over an estimated useful life of less than 1 year; and \$19.4 million was allocated to in-process research and development and will be amortized over an estimated useful life to be determined at the date the underlying projects are deemed to be substantively complete. Developed technology consists of established small- and medium-sized display driver technology designed for and sold into the smartphone and tablet markets. We preliminarily estimated the fair value of the identified intangible assets using a discounted cash flow model for each of the underlying identified intangible assets. These fair value measurements were based on significant inputs not observable in the market and thus represent a Level 3 measurement. Key assumptions include the level and timing of expected future cash flows, conditions and demands specific to each intangible asset over its remaining useful life, and discount rates we believe to be consistent with the inherent risks associated with each type of asset, which range from 9% to 14%. The fair value of these intangible assets is primarily affected by the projected income and the anticipated timing of the projected income associated with each intangible asset coupled with the discount rates used to derive their estimated present values. We believe the level and timing of expected future cash flows appropriately reflects market participant assumptions.

The value of goodwill reflects the anticipated synergies of the combined operations and workforce of RSP as of the acquisition date.

None of the goodwill is expected to be deductible for income tax purposes. Prior to the RSP Acquisition, we did not have an existing relationship or transactions with RSP. The condensed consolidated financial statements include approximately \$238.6 million of revenue and approximately \$16.5 million of operating income from RSP from the Closing Date through December 31, 2014.

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The following unaudited pro forma financial information presents the combined results of operations for us and RSP as if the RSP Acquisition had occurred on June 30, 2013. The unaudited pro forma financial information has been prepared for comparative purposes only and does not purport to be indicative of the actual operating results that would have been recorded had the RSP Acquisition actually taken place on June 30, 2013, and should not be taken as indicative of future consolidated operating results. Additionally, the unaudited pro forma financial results do not include any anticipated synergies or other expected benefits from the acquisition.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
	(in thousands, except per share data)			
Revenue	\$463,705	\$399,301	\$957,407	\$808,704
Net income	39,612	35,466	82,054	73,313
Net income per share - diluted	1.04	0.98	2.11	2.06

Pro forma adjustments used to arrive at pro forma net income for the three and six months ended December 31, 2014 and December 31, 2013, were as follows (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Buyer transaction costs	\$ 3,000	\$ 18	\$ 4,300	\$ 18
Amortization of debt issuance costs	—	(250)	(250)	(500)
Interest expense	—	(1,561)	(2,852)	(2,828)
Intangible amortization	26,000	(19,319)	13,131	(58,188)
Income tax adjustment	(9,360)	6,955	(4,727)	20,948
Total	<u>\$19,640</u>	<u>\$(14,157)</u>	<u>\$ 9,602</u>	<u>\$(40,550)</u>

8. Acquired Intangibles

The following table summarizes the life, the gross carrying value of our acquired intangible assets, and the related accumulated amortization as of December 31, 2014 and June 30, 2014 (in thousands):

	Life	December 31, 2014	June 30, 2014
Display driver developed technology	5 years	\$ 138,550	\$ —
Fingerprint developed technology	2-4 years	75,650	18,650
ThinTouch developed technology	7 years	8,900	8,900
Customer relationships	2-5 years	64,000	3,800
Licensed technology and other	5 years	1,335	1,335
Backlog	Less than 1 year	11,700	750
Patents	5 years	100	100
Supplier arrangement	Less than 1 year	21,500	—
In-process research and development	Not applicable	19,400	57,000
		341,135	90,535
Accumulated amortization		(57,786)	(8,424)
Acquired intangibles, net		<u>\$ 283,349</u>	<u>\$82,111</u>

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The total amortization expense for the acquired intangible assets was \$45.1 million and \$1.9 million for the three months ended December 31, 2014 and 2013, respectively, and \$49.4 million and \$2.1 million for the six months ended December 31, 2014, and 2013, respectively. During the first quarter of fiscal 2015, the in-process research and development projects related to the Validity acquisition were completed, have been included in fingerprint developed technology, and amortization commenced. Amortization expense was included in our condensed consolidated statements of income in cost of revenue and acquired intangibles amortization.

The following table presents expected annual fiscal year aggregate amortization expense as of December 31, 2014 (in thousands):

Remainder of 2015	\$ 44,648
2016	72,851
2017	60,731
2018	46,095
2019	30,948
2020	8,199
Thereafter	477
To be determined	19,400
Future amortization	<u>\$283,349</u>

9. Other Accrued Liabilities

Other accrued liabilities consisted of the following (in thousands):

	December 31, 2014	June 30, 2014
Customer obligations	\$ 59,372	\$38,758
Inventory obligations	15,832	4,096
Warranty	2,759	1,659
Other	16,470	12,178
	<u>\$ 94,433</u>	<u>\$56,691</u>

10. Product Warranties, Indemnifications, and Contingencies

Product Warranties

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

Indemnifications

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

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Contingencies

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

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

11. Debt

In connection with the RSP Acquisition, on October 1, 2014 (see Note 7), we entered into a credit agreement, or the Credit Agreement, with the lenders party thereto, or the Lenders, and Wells Fargo Bank, National Association, as administrative agent for the Lenders.

The Credit Agreement provides for, among other things, (i) a revolving credit facility of up to \$150 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. Debt issuance costs were approximately \$5.0 million, including a financing commitment provided to the seller at the RSP Acquisition signing date and legal fees, and are being amortized over 60 months.

Our obligations under the Credit Agreement are guaranteed by the material domestic subsidiaries of our company, subject to certain exceptions (such material subsidiaries, together with our company, collectively, the Credit Parties). The obligations of the Credit Parties under the Credit Agreement and the other loan documents delivered in connection therewith are secured by a first priority security interest in substantially all of the existing and future personal property of the Credit Parties, including, without limitation, 65% of the voting capital stock of certain of the Credit Parties' direct foreign subsidiaries, subject to certain exceptions.

The revolving credit facility and term loans bear interest at our election of a Base Rate plus an applicable margin or LIBOR plus an applicable margin. Swingline loans bear interest at a Base Rate plus an applicable margin. The Base Rate is a floating rate that is the greater of the Prime Rate, the Federal Funds Rate plus 50 basis points, or LIBOR plus 100 basis points. The applicable margin is based on a sliding scale which ranges from zero to 100 basis points for Base Rate loans and 100 basis points to 200 basis points for LIBOR loans.

The term loan facility requires repayment over five years with nineteen quarterly principal payments beginning in the three months ending March 31, 2015. Each of the first four quarterly principal payments is \$1.9 million, and each of the next fourteen quarterly principal payments is \$3.8 million, followed by a final principal payment of \$90.0 million on September 30, 2019. The revolving credit facility requires payment in full at the end of five years on September 30, 2019. We are also required to pay a commitment fee for any unused portion of the revolving credit facility, which ranges from 0.25% to 0.45% per annum. Interest on the term loan facility and revolving credit facility is payable quarterly.

Under the Credit Agreement, there are restrictive operating covenants, including three financial covenants which limit the consolidated total leverage ratio, or leverage ratio, the consolidated interest coverage ratio, or interest coverage ratio, and places a restriction on the amount of capital expenditures that may be made in any fiscal year. The leverage ratio is the ratio of debt as of the measurement date to earnings before interest, taxes, depreciation and amortization, or EBITDA, for the four consecutive quarters ending with the quarter of measurement. The leverage ratio must not exceed 2.50 to 1.0 during the first two years of the agreement, and 2.0 to 1.0 during the last three years of the agreement. The interest coverage ratio is EBITDA to interest expense for the four consecutive quarters ending with the quarter of measurement. The interest coverage ratio must not be less than 3.50 to 1.0 during the term of the agreement. As of December 31, 2014, we were in compliance with the restrictive operating covenants.

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12. Share-Based Compensation

Share-based compensation and the related tax benefit recognized in our condensed consolidated statements of income were as follows (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Cost of revenue	\$ 336	\$ 262	\$ 638	\$ 516
Research and development	5,950	4,241	11,350	8,168
Selling, general, and administrative	4,442	3,119	8,235	5,980
Total	<u>\$10,728</u>	<u>\$7,622</u>	<u>\$20,223</u>	<u>\$14,664</u>
Income tax benefit on share-based compensation	<u>\$ 3,045</u>	<u>\$2,834</u>	<u>\$ 5,731</u>	<u>\$ 4,806</u>

Historically, we have issued new shares in connection with our share-based compensation plans, however, treasury shares were also available for issuance as of December 31, 2014. Any additional shares repurchased under our common stock repurchase program would be available for issuance under our share-based compensation plans.

Stock Options

Stock option activity, including stock options granted, exercised, and forfeited, and weighted average exercise prices for stock options outstanding and exercisable, and the aggregate intrinsic value were as follows:

	Stock Option Awards Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Balance at June 30, 2014	3,693,375	\$ 30.08	
Granted	261,991	68.87	
Exercised	(375,730)	29.21	
Forfeited	(25,363)	39.82	
Balance at December 31, 2014	<u>3,554,273</u>	32.96	<u>\$ 138,860</u>
Exercisable at December 31, 2014	<u>2,568,671</u>	26.77	<u>\$ 115,729</u>

The aggregate intrinsic value was determined using the closing price of our common stock on December 26, 2014 of \$71.80 and excludes the impact of stock options that were not in-the-money.

Deferred Stock Units

Deferred Stock Units, or DSU, activity, including DSUs granted, delivered, and forfeited, and the balance and aggregate intrinsic value of DSUs was as follows:

	DSU Awards Outstanding	Aggregate Intrinsic Value (in thousands)
Balance at June 30, 2014	1,058,243	
Granted	312,293	
Delivered	(264,784)	
Forfeited	(39,829)	
Balance at December 31, 2014	<u>1,065,923</u>	<u>\$ 76,533</u>

The aggregate intrinsic value was determined using the closing price of our common stock on December 26, 2014 of \$71.80.

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Of the shares delivered, 74,568 shares valued at \$5.2 million were withheld to meet statutory minimum tax withholding requirements.

Market Stock Units

Our Amended and Restated 2010 Incentive Compensation Plan provides for the grant of Market Stock Unit, or MSU awards, to our employees, consultants, and directors. An MSU is a promise to deliver shares of our common stock at a future date based on the achievement of market-based performance requirements in accordance with the terms of the MSU grant agreement.

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

$$(100\% + ([\text{Synaptics TSR} - \text{SOX Index TSR}] \times 2))$$

Beginning with the MSU grants in fiscal 2015, the payout for tranche one and two will not exceed 100% and the payout for tranche three will be calculated based on the total target quantity for the entire grant multiplied by the payout factor, which will then be reduced by tranche one and tranche two stock issuances.

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

During the six months ended December 31, 2014, MSU activity, including MSUs granted, delivered, and forfeited, and the balance and aggregate intrinsic value of MSUs as of December 31, 2014 was as follows:

	MSU Awards Outstanding	Aggregate Intrinsic Value (in thousands)
Balance at June 30, 2014	120,330	
Granted	70,300	
Performance adjustment	46,712	
Delivered	(93,424)	
Forfeited	—	
Balance at December 31, 2014	<u>143,918</u>	<u>\$ 10,333</u>

We value the MSUs using the Monte Carlo simulation model on the date of grant and amortize the compensation expense over the three-year performance and service period on a straight-line basis. The unrecognized share-based compensation cost of our outstanding MSUs was approximately \$7.7 million as of December 31, 2014, which will be recognized over a weighted average period of approximately 1.44 years. The aggregate intrinsic value was determined using the closing price of our common stock on December 26, 2014 of \$71.80.

Of the shares delivered, 47,883 shares valued at \$3.0 million were withheld to meet statutory minimum tax withholding requirements.

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Employee Stock Purchase Plan

Shares purchased, weighted average purchase price, cash received, and the aggregate intrinsic value for employee stock purchase plan purchases during the six-month period ended December 31, 2014 were as follows (in thousands, except for shares purchased and weighted average price):

Shares purchased	230,241
Weighted average purchase price	\$ 25.46
Cash received	\$ 5,862
Aggregate intrinsic value	\$ 8,390

13. Income Taxes

We account for income taxes under the asset and liability method. We consider the operating earnings of our foreign subsidiaries to be indefinitely invested outside the United States. Therefore no provision has been made for the federal, state, or foreign taxes that may result from future remittances of undistributed earnings of our foreign subsidiaries.

The provision for income taxes recorded in interim periods is recorded by applying the estimated annual effective tax rate to year-to-date income before income taxes, excluding the effects of significant unusual or infrequently occurring discrete items and the change in contingent consideration liability which is not reliably estimable. The tax effects of discrete items and the change in contingent consideration liability are recorded in the same period that the related item is reported and resulted in the difference between the actual effective tax rate for the three months ended December 31, 2014 and 2013, and the estimated annual effective tax rates for those same periods of 39.0% and 27.2%, respectively.

The provision for income taxes of \$7.8 million and \$5.2 million for the three months ended December 31, 2014 and 2013, respectively, represented estimated federal, state, and foreign income taxes. Our annual effective tax rate diverged from the combined U.S. federal and state statutory tax rate primarily because of foreign income taxed at lower tax rates, and research and development credits, partially offset by foreign withholding taxes, nondeductible amortization, and net unrecognized tax benefits associated with qualified stock options. Discrete items recognized in the three months ended December 31, 2014 and 2013, included additional penalties and interest for uncertain tax positions related to prior fiscal years, research and development credits, and tax benefits realized from share-based compensation.

The provision for income taxes of \$18.1 million and \$17.9 million for the six months ended December 31, 2014 and 2013, respectively, represented estimated federal, foreign, and state income taxes. Our annual effective tax rate diverged from the combined U.S. federal and state statutory tax rate primarily because of foreign income taxed at lower tax rates, and research and development credits, partially offset by foreign withholding taxes, nondeductible amortization, and net unrecognized tax benefits associated with qualified stock options. Discrete items recognized in the six months ended December 31, 2014 and 2013, included additional penalties and interest for uncertain tax positions related to prior fiscal years, research and development credits, and tax benefits realized from share-based compensation.

Unrecognized Tax Benefits

The total liability for gross unrecognized tax benefits increased \$1.4 million during the six months ended December 31, 2014 to \$11.6 million from \$10.2 million at June 30, 2014 and was included in other long-term liabilities on our condensed consolidated balance sheets. If recognized, this total amount would affect the effective tax rate on income from continuing operations. Accrued interest and penalties related to unrecognized tax benefits as of December 31, 2014 was \$1.1 million; this balance increased by \$116,000 from June 30, 2014. We classify interest and penalties as components of income tax expense.

The Tax Increase Prevention Act, or the Act, which retroactively extended the federal research credit from January 1, 2014 through December 31, 2014, was enacted on December 19, 2014. As such, we recognized six months of tax benefit from the federal research tax credit related to fiscal 2014 and another six months of federal research tax credit related to fiscal 2015.

In May 2011, we were notified by the Internal Revenue Service, or the Service, that our fiscal 2003 through 2006 and fiscal 2008 through 2010 returns would be subject to examination. In March 2013, we received the Revenue Agent's Report resolving our examination with the Service and paid an assessment that had no material impact on our condensed consolidated financial statements. Our case is pending review by the Joint Committee on Taxation, which we anticipate will conclude in our fiscal 2015. Any prospective adjustments to our unrecognized tax benefits will be recorded as an increase or decrease to income tax expense and cause a corresponding change to our effective tax rate. Accordingly, our effective tax rate could fluctuate materially from period to period.

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

14. Segment, Customers, and Geographic Information

We operate in one segment: the development, marketing, and sale of semiconductors, which provide interactive user interface solutions for electronic devices and products. We generate our revenue from two broad product categories: the mobile product market and the personal computing, or PC, product market. We sell our products to original equipment manufacturers, or OEMs, and to contract manufacturers that provide manufacturing services to OEMs.

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Net revenue within geographic areas based on our customers' locations for the periods presented was as follows (in thousands):

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2014	2013	2014	2013
China	\$126,251	\$110,570	\$274,421	\$217,936
Japan	231,271	10,386	237,007	22,466
United States	37,475	2,070	78,227	3,772
Taiwan	32,194	34,068	68,430	66,369
South Korea	31,975	48,669	78,816	117,827
Other	4,539	—	9,545	—
	<u>\$463,705</u>	<u>\$205,763</u>	<u>\$746,446</u>	<u>\$428,370</u>

Net revenue from external customers for each group of similar products was as follows (in thousands):

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2014	2013	2014	2013
Mobile product applications	\$398,308	\$133,604	\$598,042	\$296,268
PC product applications	65,397	72,159	148,404	132,102
	<u>\$463,705</u>	<u>\$205,763</u>	<u>\$746,446</u>	<u>\$428,370</u>

Net revenue from major customers as a percentage of total net revenue for the periods presented was as follows:

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2014	2013	2014	2013
Customer A	24%	*	15%	*
Customer B	13%	18%	17%	20%
Customer C	12%	*	*	*
Customer D	12%	*	*	*
Customer E	*	11%	*	*

* Less than 10%

We extend credit based on an evaluation of a customer's financial condition, and we generally do not require collateral. Major customer accounts receivable as a percentage of total accounts receivable at the dates presented were as follows:

	December 31,	June 30,
	2014	2014
Customer A	16%	*
Customer B	14%	*
Customer C	11%	*
Customer D	10%	*
Customer E	*	28%

* Less than 10%

15. Comprehensive Income

Our comprehensive income generally consists of net income plus the effect of unrealized gains and losses on our investments, primarily due to temporary changes in market value of certain of our ARS investments. In addition, we recognize the noncredit portion of other-than-temporary impairment on debt securities in other comprehensive income. We recognize foreign currency remeasurement adjustments and transaction gains and losses in our condensed consolidated statements of income as the U.S. dollar is the functional currency of our foreign entities.

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

Forward-Looking Statements and Factors That May Affect Results

This Quarterly Report on Form 10-Q for the quarter ended December 27, 2014 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," "will," "should," 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 of our Annual Report on Form 10-K for the fiscal year ended June 28, 2014, 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.

Overview

We are a leading worldwide developer and supplier of custom-designed human interface semiconductor 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 and engineer products that meet the demanding design specifications of OEMs.

Many of our customers have manufacturing operations in China, and many of our OEM customers have established design centers in that region. With our expanded global presence, including offices in China, Finland, 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, thereby reducing 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 foundries 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 long-term supply contracts with any of our contract manufacturers. We use three third-party 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 solutions. 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 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 in meeting their custom design requirements and the impact of our ongoing cost-improvement programs. These cost-improvement programs include reducing materials and component costs and implementing design and process improvements.

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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.

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 and 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 going forward, additional cash will be delivered to the former Pacinian stockholders and former Validity stockholders and option holders. Accordingly, we anticipate that changes in the fair value of the contingent consideration in future accounting periods could result in volatility in our operating results due to changes in our estimates of the timing and the number of qualifying units expected to be sold during the earn-out period, the degree of success of current and future projects incorporating the developed technology of Pacinian and/or Validity, and changes in the discount rates used to determine the fair value of the contingent consideration liabilities over time.

Acquisition Activity

On June 11, 2014, we entered into a stock purchase agreement to acquire RSP, a leading provider of small and medium-sized display driver integrated circuits for smartphones and tablets. The RSP Acquisition is intended to accelerate our product roadmap for high-performance, low-cost display integration products, strengthen our relationships with key customers, and create opportunities to drive increased revenue. Effective as of October 1, 2014, or the Closing Date, we completed the RSP Acquisition for an initial purchase price of approximately ¥50.6 billion (or approximately \$463 million), with Japanese yen converted into U.S. dollars at the Closing Date conversion rate of 109.4 Japanese yen to U.S. dollar. The purchase price at the closing of the RSP Acquisition was paid entirely in cash, with ¥7.25 billion (or approximately \$66 million) held back until the date that is 18 months after the Closing Date to address any post-closing adjustments or claims, and ¥5.25 billion (or approximately \$48 million) held back in respect of a potential post-closing working capital, cash balance, indebtedness and transaction expenses adjustment, or the Working Capital holdback, which is due in the three months ending March 31, 2015. Subsequent to the Closing Date, we determined that additional purchase consideration was due to the sellers and have adjusted the purchase price by \$10.9 million. The acquisition date fair value of the consideration transferred was approximately \$474 million.

Under the stock purchase agreement, RSP entered into an inventory purchase obligation with REL, to acquire the closing date inventory held by REL. The inventory purchase obligation was settled in the three months ended December 31, 2014 for approximately \$115 million.

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 \$150 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.

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Critical Accounting Policies and Estimates

There have been no significant changes in our critical accounting policies and estimates during the six months ended December 27, 2014 compared with our critical accounting policies and estimates disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended June 28, 2014.

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Results of Operations

Certain of the data used in our condensed consolidated statements of income for the periods indicated, together with comparative absolute and percentage changes in these amounts, were as follows (in thousands, except percentages):

	Three Months Ended December 31,				Six Months Ended December 31,			
	2014 (1)(2)	2013 (1)	\$ Change	% Change	2014 (1)(2)	2013 (1)	\$ Change	% Change
Mobile product applications	\$398,308	\$133,604	\$264,704	198.1%	\$598,042	\$296,268	\$301,774	101.9%
PC product applications	65,397	72,159	(6,762)	(9.4%)	148,404	132,102	16,302	12.3%
Net revenue	463,705	205,763	257,942	125.4%	746,446	428,370	318,076	74.3%
Gross margin	126,831	94,545	32,286	34.1%	247,020	203,824	43,196	21.2%
Operating expenses:								
Research and development	77,223	45,931	31,292	68.1%	134,748	86,373	48,375	56.0%
Selling, general, and administrative	22,056	22,845	(789)	(3.5%)	52,729	43,969	8,760	19.9%
Acquired intangibles amortization	6,203	261	5,942	2276.6%	6,465	523	5,942	1136.1%
Change in contingent consideration	(7,121)	3,430	(10,551)	(307.6%)	(11,623)	3,688	(15,311)	(415.2%)
Operating income	28,470	22,078	6,392	29.0%	64,701	69,271	(4,570)	(6.6%)
Interest and other income, net	497	476	21	4.4%	1,121	906	215	23.7%
Interest expense	(1,212)	(5)	(1,207)	24140.0%	(1,212)	(9)	(1,203)	13366.7%
Income before provision for income taxes	27,755	22,549	5,206	23.1%	64,610	70,168	(5,558)	(7.9%)
Provision for income taxes	7,783	5,215	2,568	49.2%	18,052	17,895	157	0.9%
Net income	\$ 19,972	\$ 17,334	\$ 2,638	15.2%	\$ 46,558	\$ 52,273	\$ (5,715)	(10.9%)

(1) Includes the results of operations from Validity, which was acquired on November 7, 2013

(2) Includes the results of operations from RSP, which was acquired on October 1, 2014

Certain of the data used in our condensed consolidated statements of income presented here as a percentage of net revenue for the periods indicated were as follows:

	Three Months Ended December 31,		Percentage Point Increase/ (Decrease)	Six Months Ended December 31,		Percentage Point Increase/ (Decrease)
	2014 (1)(2)	2013 (1)		2014 (1)(2)	2013 (1)	
Mobile product applications	85.9%	64.9%	21.0%	80.1%	69.2%	10.9%
PC product applications	14.1%	35.1%	(21.0%)	19.9%	30.8%	(10.9%)
Net revenue	100.0%	100.0%	0.0%	100.0%	100.0%	
Gross margin	27.4%	45.9%	(18.5%)	33.1%	47.6%	(14.5%)
Operating expenses:						
Research and development	16.7%	22.3%	(5.6%)	18.1%	20.2%	(2.1%)
Selling, general, and administrative	4.8%	11.1%	(6.3%)	7.1%	10.3%	(3.2%)
Acquired intangibles amortization	1.3%	0.1%	1.2%	0.9%	0.1%	0.8%
Change in contingent consideration	(1.5%)	1.7%	(3.2%)	(1.6%)	0.9%	(2.5%)
Operating income	6.1%	10.7%	(4.6%)	8.7%	16.2%	(7.5%)
Interest and other income, net	0.1%	0.2%	(0.1%)	0.2%	0.2%	0.0%
Interest expense	(0.3%)	0.0%	(0.3%)	(0.2%)	0.0%	(0.2%)
Income before provision for income taxes	6.0%	11.0%	(5.0%)	8.7%	16.4%	(7.7%)
Provision for income taxes	1.7%	2.5%	(0.8%)	2.4%	4.2%	(1.8%)
Net income	4.3%	8.4%	(4.1%)	6.2%	12.2%	(6.0%)

(1) Includes the results of operations from Validity, which was acquired on November 7, 2013

(2) Includes the results of operations from RSP, which was acquired on October 1, 2014

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Net Revenue

Net revenue was \$463.7 million for the three months ended December 31, 2014 compared with \$205.8 million for the three months ended December 31, 2013, an increase of \$257.9 million, or 125.4%. Of this net revenue, \$398.3 million, or 85.9%, was from mobile product applications and \$65.4 million, or 14.1%, was from PC product applications. The increase in net revenue for the three months ended December 31, 2014 was attributable to an increase in net revenue from mobile product applications. Net revenue from mobile product applications increased as a result of higher unit sales in the quarter, primarily due to the acquisition of RSP (which contributed \$238.6 million) and the increase in mobile-based biometric fingerprint authentication solutions. Net revenue from PC product applications decreased primarily as a result of lower unit sales in the quarter.

Net revenue was \$746.4 million for the six months ended December 31, 2014 compared with \$428.4 million for the six months ended December 31, 2013, an increase of \$318.0 million, or 74.3%. Of this net revenue, \$598.0 million, or 80.1%, was from mobile product applications and \$148.4 million, or 19.9%, was from PC product applications. The increase in net revenue for the six months ended December 31, 2014 was attributable to an increase in net revenue from both mobile and PC product applications. Net revenue from mobile product applications increased primarily as a result of higher unit sales in the quarter, reflecting the acquisition of RSP (which contributed \$238.6 million) and the increase in mobile based biometric fingerprint authentication solutions. Net revenue from PC product applications increased primarily as a result of higher unit sales in the six months ended December 31, 2014.

Based on industry estimates of unit shipments, the smartphone market is anticipated to increase approximately 12%, the tablet market is anticipated to increase approximately 5%, and the notebook market is anticipated to increase less than 1% in calendar year 2015 compared with calendar year 2014.

Gross Margin

Gross margin as a percentage of net revenue was 27.4%, or \$126.8 million, for the three months ended December 31, 2014 compared with 45.9%, or \$94.5 million, for the three months ended December 31, 2013. The 1,850 basis point decline in gross margin was primarily due to amortization of acquired intangibles recognized in the current quarter (750 basis points), as well as lower margins on our display driver integrated circuit, or DDIC products. The increased amortization of intangibles is related to the RSP and Validity acquisitions. The DDIC products were acquired as a result of the RSP acquisition.

Gross margin as a percentage of net revenue was 33.1%, or \$247.0 million, for the six months ended December 31, 2014 compared with 47.6%, or \$203.8 million, for the six months ended December 31, 2013. The 1,450 basis point decline in gross margin was primarily due to amortization of acquired intangibles recognized in the six months ended December 31, 2014 (530 basis points), as well as lower margins on our DDIC products. The increased amortization of intangibles is related to the RSP and Validity acquisitions. The DDIC products were acquired as a result of the RSP acquisition.

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 impacted materially by our shipment volume. We charge losses on inventory purchase obligations and write-down 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 \$31.3 million to \$77.2 million for the three months ended December 31, 2014 compared with the three months ended December 31, 2013. The increase in research and development expenses primarily reflected a \$20.6 million increase in personnel-related costs, which included additional headcount related to our acquisition of RSP in October 2014, our annual merit increase, and additional headcount associated with an expanded product portfolio, and a \$9.1 million increase in infrastructure-related costs.

Research and development expenses increased \$48.4 million to \$134.7 million for the six months ended December 31, 2014 compared with the six months ended December 31, 2013. The increase in research and development expenses primarily reflected a \$31.6 million increase in personnel-related costs, which included additional headcount related to our acquisition of RSP in October 2014, our annual merit increase, additional headcount associated with an expanded product portfolio, and a \$13.8 million increase in infrastructure-related costs.

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Selling, General, and Administrative Expenses. Selling, general, and administrative expenses decreased \$789,000 to \$22.1 million for the three months ended December 31, 2014 compared with the three months ended December 31, 2013. The decrease in selling, general, and administrative expenses primarily reflected \$15.4 million of foreign currency transaction and remeasurement gains related to our acquisition of RSP and related yen denominated net liabilities, partially offset by a \$11.5 million increase in personnel-related costs, which included additional headcount related to our acquisition of RSP in October 2014, our annual merit increase, and additional headcount in our traditional business.

Selling, general, and administrative expenses increased \$8.8 million to \$52.7 million for the six months ended December 31, 2014 compared with the six months ended December 31, 2013. The increase in selling, general, and administrative expenses primarily reflected a \$17.9 million increase in personnel-related costs, which included additional headcount related to our acquisition of RSP in October 2014, our annual merit increase, and additional headcount related to our expanded sales force, a \$2.3 million increase in share-based compensation costs, and a \$1.5 million increase in infrastructure-related costs, partially offset by a \$15.4 million of foreign currency transaction and remeasurement gains due to our acquisition of RSP and the related yen-denominated net liabilities.

Acquired intangibles amortization. Acquired intangibles amortization reflects the amortization of intangibles acquired through recent acquisitions. See note 8 to the condensed consolidated financial statements.

Change in Contingent Consideration. Our contingent consideration decreased \$10.6 million to a credit of \$7.1 million for the three months ended December 31, 2014 compared with the three months ended December 31, 2013. The change was primarily attributable to the decrease in the estimated fair value of the contingent consideration, which resulted from an adjustment in expected unit sales of products embodying Validity fingerprint sensor technology and Pacinian ThinTouch technology over the remaining earn-out periods.

Our contingent consideration decreased \$15.3 million to a credit of \$11.6 million for the six months ended December 31, 2014 compared with the six months ended December 31, 2013. The change was primarily attributable to the decrease in the estimated fair value of the contingent consideration, which resulted from an adjustment in expected unit sales of products embodying Validity fingerprint sensor technology and Pacinian ThinTouch technology over the remaining earn-out periods.

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 note 11 in the condensed consolidated financial statements.

Provision for Income Taxes

We account for income taxes under the asset and liability method. We consider the operating earnings of our foreign subsidiaries to be indefinitely invested outside the United States. Therefore no provision has been made for the federal, state, or foreign taxes that may result from future remittances of undistributed earnings of our foreign subsidiaries.

The provision for income taxes recorded in interim periods is recorded by applying the estimated annual effective tax rate to year-to-date income before income taxes, excluding the effects of significant unusual or infrequently occurring discrete items and the change in contingent consideration liability which is not reliably estimable. The tax effects of discrete items and the change in contingent consideration liability are recorded in the same period that the related item is reported and resulted in the difference between the actual effective tax rate for the three months ended December 31, 2014 and 2013, and the estimated annual effective tax rates for those same periods of 39.0% and 27.2%, respectively.

The provision for income taxes of \$7.8 million and \$5.2 million for the three months ended December 31, 2014 and 2013, respectively, represented estimated federal, foreign, and state income taxes. Our annual effective tax rate diverged from the combined U.S. federal and state statutory tax rate primarily because of foreign income taxed at lower tax rates, and research and development credits, partially offset by foreign withholding taxes, nondeductible amortization, and net unrecognized tax benefits associated with qualified stock options. Discrete items recognized in the three months ended December 31, 2014 and 2013, included additional penalties and interest for uncertain tax positions related to prior fiscal years, research and development credits, and tax benefits realized from share-based compensation.

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The provision for income taxes of \$18.1 million and \$17.9 million for the six months ended December 31, 2014 and 2013, respectively, represented estimated federal, foreign, and state income taxes. Our annual effective tax rate diverged from the combined U.S. federal and state statutory tax rate primarily because of foreign income taxed at lower tax rates, and research and development credits, partially offset by foreign withholding taxes, nondeductible amortization, and net unrecognized tax benefits associated with qualified stock options. Discrete items recognized in the six months ended December 31, 2014 and 2013, included additional penalties and interest for uncertain tax positions related to prior fiscal years, research and development credits, and tax benefits realized from share-based compensation.

The Tax Increase Prevention Act, or the Act, which retroactively extended the federal research credit from January 1, 2014 through December 31, 2014, was enacted on December 19, 2014. As such, we recognized six months of tax benefit from the federal research tax credit related to fiscal 2014 and another six months of federal research tax credit related to fiscal 2015.

In May 2011, we were notified by the Internal Revenue Service, or the Service, that our fiscal 2003 through 2006 and fiscal 2008 through 2010 returns would be subject to examination. In March 2013, we received the Revenue Agent's Report resolving our examination with the Service and paid an assessment that had no material impact on our condensed consolidated financial statements. Our case is pending review by the Joint Committee on Taxation, which we anticipate will conclude in our fiscal 2015. Any prospective adjustments to our unrecognized tax benefits will be recorded as an increase or decrease to income tax expense and cause a corresponding change to our effective tax rate. Accordingly, our effective tax rate could fluctuate materially from period to period.

Liquidity and Capital Resources

Our cash and cash equivalents were \$327.5 million as of December 31, 2014 compared with \$447.2 million as of June 30, 2014, a decrease of \$119.7 million. The decrease primarily reflected the combination of \$293.8 million net cash used for the acquisition of RSP; \$90.6 million used to repurchase 1,287,475 shares of our common stock; and \$34.3 million used for the purchase of property and equipment; partially offset by \$245.0 million of net proceeds from issuance of long-term debt, which was used to help fund the acquisition of RSP; \$44.4 million provided by operating cash flows; and \$16.8 million of proceeds from the issuance of shares of our common stock under our employee equity programs. We consider earnings of our foreign subsidiaries indefinitely invested overseas and have made no provision for income or withholding taxes that may result from a future repatriation of those earnings. As of December 31, 2014, \$245.8 million of cash and cash equivalents was held by our foreign subsidiaries. If these funds are needed for our operations in the United States, we would be required to accrue and pay U.S. federal, state, and foreign taxes to repatriate these funds.

Cash Flows from Operating Activities. Operating activities during the six months ended December 31, 2014 generated net cash of \$44.4 million compared with \$85.8 million of net cash generated during the six months ended December 31, 2013. For the six months ended December 31, 2014, net cash provided by operating activities was primarily attributable to net income of \$46.6 million, plus adjustments for non-cash charges of \$57.2 million, and a \$59.4 million net change in operating assets and liabilities. The net change in operating assets and liabilities was primarily attributable to a \$56.6 million increase in inventory; a \$30.0 million decrease in income taxes payable; a \$3.4 million decrease in accounts payable; partially offset by a \$22.0 million decrease in prepaid expenses and other current assets; and a \$13.5 million increase in other accrued liabilities. From June 30, 2014 to December 31, 2014, our days sales outstanding increased from 56 days to 65 days and our inventory turns increased from 6 to 8.

Cash Flows from Investing Activities. Investing activities during the six months ended December 31, 2014 used net cash of \$293.8 million for the acquisition of RSP and \$34.3 million for purchases of property and equipment, partially offset by \$4.9 million of proceeds for the sale of non-current investments, compared with \$19.6 million net cash used for the acquisition of Validity and \$17.1 million net cash used for purchases of property and equipment during the six months ended December 31, 2013.

Cash Flows from Financing Activities. Net cash provided by financing activities for the six months ended December 31, 2014, was \$162.7 million compared with \$34.9 million of net cash used during the six months ended December 31, 2013. Net cash provided by financing activities for the six months ended December 31, 2014 primarily included \$250.0 million of proceeds from the issuance of long-term debt, which was used to help fund the acquisition of RSP, and \$16.8 million in proceeds from the issuance of shares of our common stock under our employee equity programs, partially offset by \$90.6 million used to repurchase 1,287,475 shares of our common stock.

Common Stock Repurchase Program. Our board has cumulatively authorized \$730.0 million for our common stock repurchase program, expiring in July 2016. The program authorizes us to purchase our common stock in the open market or in privately negotiated transactions, depending upon market conditions and other factors. The number of shares purchased and the timing of purchases is based on the level of our cash balances, general business and market conditions, and other factors, including alternative investment opportunities. Common stock purchased under this program is held as

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treasury stock. From April 2005 through December 31, 2014, we purchased 20,335,186 shares of our common stock in the open market for an aggregate cost of \$621.0 million. Treasury shares purchased prior to August 28, 2008 were not subject to the stock split on that date. During the six months ended December 31, 2014, we repurchased 1,287,475 shares of our common stock for a total cost of \$90.6 million, leaving \$109.0 million remaining under our common stock repurchase program.

Bank Credit Facility. In connection with the RSP Acquisition, on September 30, 2014, we entered into the Credit Agreement, with the Lenders, and Wells Fargo, as administrative agent for the Lenders.

The Credit Agreement provides for, among other things, (i) a revolving credit facility of up to \$150 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. As of December 31, 2014, the outstanding balance of the debt was \$250.0 million.

Our obligations under the Credit Agreement are guaranteed by the material domestic subsidiaries of our company, subject to certain exceptions (such material subsidiaries, together with our company, collectively, the Credit Parties). The obligations of the Credit Parties under the Credit Agreement and the other loan documents delivered in connection therewith are secured by a first priority security interest in substantially all of the existing and future personal property of the Credit Parties, including, without limitation, 65% of the voting capital stock of certain of the Credit Parties' direct foreign subsidiaries, subject to certain exceptions.

Under our Credit Agreement, the revolving credit facility and term loans bear interest at our election of a Base Rate plus an applicable margin or LIBOR plus an applicable margin. Swingline loans bear interest at a Base Rate plus an applicable margin. The Base Rate is the greater of the Prime Rate, the Federal Funds Rate plus 50 basis points, or LIBOR plus 100 basis points. The applicable margin is based on a sliding scale which ranges from zero to 100 basis points for Base Rate loans and 100 basis points to 200 basis points for LIBOR loans.

The term loan facility requires repayment over five years with nineteen quarterly principal payments beginning in the three months ending March 31, 2015. Each of the first four quarterly principal payments is \$1.9 million, and each of the next fourteen quarterly principal payments is \$3.8 million, followed by a final principal payment of \$90.0 million on September 30, 2019. The revolving credit facility requires payment in full at the end of five years on September 30, 2019. Interest on the term loan facility and revolving credit facility is payable quarterly.

Under the Credit Agreement, there are various restrictive covenants, including three financial covenants which limit; the consolidated total leverage ratio, or leverage ratio, the consolidated interest coverage ratio, or interest coverage ratio, and places a restriction on the amount of capital expenditures that may be made in any fiscal year. The leverage ratio is the ratio of debt as of the measurement date to earnings before interest, taxes, depreciation and amortization, or EBITDA, for the four consecutive quarters ending with the quarter of measurement. The leverage ratio must not exceed 2.50 to 1.0 during the first two years of the agreement, and 2.0 to 1.0 during the last three years of the agreement. The interest coverage ratio is EBITDA to interest expense for the four consecutive quarters ending with the quarter of measurement. The interest coverage ratio must not be less than 3.50 to 1.0 during the term of the agreement.

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

Liquidity and Capital Resources. We believe our existing cash and cash equivalents, anticipated cash flows from operating activities, and available credit under our revolving credit facility will be sufficient to meet our working capital and other cash requirements for at least the next 12 months, including our contingent consideration obligations associated with the acquisitions of Validity and Pacinian, the anticipated settlement of the Working Capital Holdback in connection with our acquisition of RSP, and our debt. Our future capital requirements will depend on many factors, including our revenue, the timing and extent of spending to support product development efforts, costs related to protecting our intellectual property, the expansion of sales and marketing activities, the timing of introductions of new products and enhancements to existing products, the costs to ensure access to adequate manufacturing capacity, the costs of maintaining sufficient space or renovating recently acquired building space for our expanding workforce, the continuing

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market acceptance of our product solutions, our common stock repurchase program, and the amount and timing of our investments in, or acquisitions of, other technologies or companies. Further equity or debt financing may not be available to us on acceptable terms or at all. If sufficient funds are not available or are not available on acceptable terms, our ability to take advantage of business opportunities or to respond to competitive pressures could be limited or severely constrained.

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

Based on our ability to access our cash and cash equivalents, our expected operating cash flows, and our other sources of cash, we do not anticipate that the lack of liquidity on these investments will affect our ability to operate our business as usual. Further, we do not anticipate the need to repatriate any undistributed earnings of our foreign subsidiaries to meet our working capital and other cash requirements.

Contractual Obligations and Commercial Commitments

Our material contractual obligations and commercial commitments as of December 31, 2014 were as follows (in millions):

	Remaining in Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	Thereafter	Total
Long-term debt (1)	\$ 6,269	\$ 16,310	\$19,315	\$19,001	\$19,056	\$191,045	\$270,996
Leases	3,391	9,170	6,074	2,593	950	989	23,167
Purchase obligations and other commitments (2)	2,575	—	—	—	—	—	2,575
Other long-term obligations (3)	74,755	118,095	—	—	—	—	192,850
Total	<u>\$ 86,990</u>	<u>\$143,575</u>	<u>\$25,389</u>	<u>\$21,594</u>	<u>\$20,006</u>	<u>\$192,034</u>	<u>\$489,588</u>

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

(2) Purchase obligations and other commitments include payments due for a long-term services agreement and inventory purchase obligations with contract manufacturers.

(3) Represents a hold back liability under the RSP acquisition and payments due for contingent consideration.

Effective as of October 1, 2014, we completed the acquisition of RSP for an initial purchase price of approximately ¥50.6 billion (or approximately \$463 million), with Japanese yen converted into U.S. dollars at the Closing Date conversion rate of 109.4 Japanese yen to U.S. dollar. The purchase price at the closing of the acquisition was paid entirely in cash, with ¥7.25 billion (or approximately \$66 million) held back to address any post-closing adjustments or claims, or the Indemnification Holdback, and ¥5.25 billion (or approximately \$48 million) held back with respect of a potential post-closing working capital, cash balance, indebtedness and transaction expenses adjustment, or the Working Capital Holdback. Subsequent to the Closing Date, we determined that additional purchase consideration was due to the sellers and have adjusted the purchase price by \$10.9 million. The acquisition date fair value of the consideration transferred is approximately \$474 million. We anticipate settlement of the Indemnification Holdback to occur in the fourth quarter of fiscal 2016 and settlement of the Working Capital Holdback to occur in the March quarter of fiscal 2015.

In connection with the acquisition of Validity in November 2013, we entered into a contingent consideration arrangement. As of December 31, 2014, we may be required to make additional cash payments of up to \$130.9 million as consideration to the former Validity stockholders and option holders based on unit sales of products utilizing Validity technology through March 2016. The estimated fair value of the contingent consideration liability as of December 31, 2014 was \$68.8 million.

In connection with the acquisition of Pacinian in June 2012, we entered into a contingent consideration arrangement and subsequently paid \$5.0 million of additional consideration to the former Pacinian stockholders upon customer acceptance of a ThinTouch product. As of December 31, 2014, we may be required to make additional cash payments of up to \$10.0 million as consideration to the former Pacinian stockholders based on unit sales of products utilizing ThinTouch technology through June 2016. The estimated fair value of the contingent consideration liability as of December 31, 2014 was \$0.5 million.

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The amounts in the table above exclude unrecognized tax benefits of \$11.6 million. As of December 31, 2014, we were unable to make a reasonably reliable estimate of when cash settlement with a taxing authority may occur in connection with our gross unrecognized tax benefit.

Recently Issued Accounting Pronouncements Not Yet Effective

In May 2014, the FASB issued an accounting standards update on Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue it expects to be entitled to for the transfer to customers of promised goods or services. The new standard will replace most existing revenue recognition guidance in U.S. GAAP when the new standard becomes effective. The new standard is effective for us in our fiscal 2018. Early application is not permitted. We are evaluating the effect the new standard will have on our consolidated financial statements and related disclosures. The new standard permits the use of either the retrospective or cumulative effect transition method. We have not yet selected a transition method or determined the effect of the standard on our ongoing financial reporting.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of December 31, 2014, our market risk related to interest rates on our cash and cash equivalents and ARS investments has not changed materially from the interest rate risks disclosed in Item 7A of our Annual Report on Form 10-K for the fiscal year ended June 28, 2014.

Our exposure to market risk for variable interest rate risk and foreign currency exchange risks has changed since June 28, 2014, as discussed below.

Variable Interest Rate Risk

Under our Credit Agreement, the revolving credit facility and term loans bear interest at our election of a Base Rate plus an applicable margin or LIBOR plus an applicable margin. Swingline loans bear interest at a Base Rate plus an applicable margin. The Base Rate is a floating rate that is the greater of the Prime Rate, the Federal Funds Rate plus 50 basis points, or LIBOR plus 100 basis points. The applicable margin is based on a sliding scale which ranges from zero to 100 basis points for Base Rate loans and 100 basis points to 200 basis points for LIBOR loans. We are also required to pay a commitment fee for the unused portion of the revolving credit facility, which ranges from 0.25% to 0.45% per annum. A one percent increase in the variable rate of interest on the term loan and revolving credit facility would increase interest expense by approximately \$2.5 million annually.

Foreign currency exchange risk

In the past, we have had relatively little exposure to foreign currency exchange risks and foreign exchange losses have been immaterial. At June 30, 2014, we had no material foreign currency denominated liabilities. However, with the recent acquisition of RSP, our foreign currency exchange risk profile changed for the December quarter as a result of transitioning the RSP business from a primarily Japanese yen based revenue and cost of goods model to a U.S. dollar based revenue and cost of goods model and incurring yen-denominated acquisition holdback liabilities to the sellers at the RSP Acquisition Closing Date. At December 31, 2014, our balance sheet included \$47.6 million of Japanese yen based accounts receivable and \$113.9 million of Japanese yen based holdback liabilities. The Japanese yen based accounts receivable was carried over from an initial transition period, our fiscal October, and was paid after December 31, 2014; the Japanese yen based accounts receivable are not expected to recur in that magnitude as revenue invoicing was converted to U.S. dollars after October. The short-term portion of our Japanese yen based holdback liabilities is expected to be paid during our March quarter in fiscal 2015. The long-term portion of our Japanese yen based holdback liabilities will be settled in our fiscal 2016.

Looking forward, almost none of our revenue and only certain costs, assets and liabilities will be denominated in foreign currency. We do not currently enter into forward-exchange contracts to hedge exposure denominated in foreign currencies or any other derivative financial instruments for trading or speculative purposes. In the future, we may consider entering into hedging transactions to mitigate such risk.

Net revenue denominated in foreign currencies was approximately 16% of our total net revenue for the three months ended December 31, 2014, and approximately 10% of our total net revenue for the six months ended December 31, 2014. Our total net revenue for the same periods in fiscal 2013 was denominated in U.S. dollars.

Costs denominated in foreign currencies were approximately 27% and 9% of our total costs for the three months ended December 31, 2014 and 2013, respectively, and approximately 14% and 8% of our total costs for each of the six months ended December 31, 2014 and 2013, respectively.

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We also face the risk that our accounts receivable denominated in foreign currencies will be devalued if such foreign currencies weaken quickly and significantly against the U.S. dollar. Approximately 14% of our accounts receivable were denominated in foreign currency as of December 31, 2014. None of our accounts receivable were denominated in foreign currency as of June 30, 2014.

Similarly, we face the risk that our accounts payable and acquisition-related liabilities denominated in foreign currencies will increase if such foreign currencies strengthen quickly and significantly against the U.S. dollar. Approximately 5% and 2% of our accounts payable were denominated in foreign currencies at December 31, 2014 and June 30, 2014, respectively. All of our \$113.9 million in acquisition-related liabilities at December 31, 2014 were denominated in a foreign currency. We did not have any acquisition-related liabilities at June 30, 2014, which were denominated in a foreign currency.

To provide an assessment of the foreign currency exchange risk associated with our foreign currency exposures within revenue, cost and operating expense, we performed a sensitivity analysis to determine the impact that an adverse change in exchange rates would have on our financial statements. A hypothetical weighted-average change of 10% in currency exchange rates would have changed our operating income before taxes by approximately \$4.4 million for the six months ended December 31, 2014, assuming no offsetting hedge positions.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and procedures designed to reasonably ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 as amended, such as this Report, are recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and to reasonably ensure that such information is accumulated and communicated to our management, including the Chief Executive Officer, or CEO, and the Chief Financial Officer, or CFO, as appropriate to allow timely decisions regarding required disclosure.

Under guidelines established by the SEC, companies are allowed to exclude acquisitions from their assessment of internal control over financial reporting during the first year of an acquisition while integrating the acquired company.

Under the supervision and with the participation of our management, including our CEO and CFO, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Report. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Report.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurances with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

We assessed the effectiveness of our internal control over financial reporting as of the end of the period covered by this Report. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, in Internal Control-Integrated Framework.

Our assessment of the internal controls excluded RSP which was acquired on October 1, 2014. RSP had net revenues of approximately \$238.6 million and total assets of approximately \$300.3 million, which are included in our condensed consolidated financial statements as of and for the three months ended December 31, 2014. We are currently assessing the control environment of this acquired business. RSP's sales constitute approximately 52% of our sales for the quarterly period covered by this report, and RSP's assets constitute approximately 20% of our total assets as of the end of such period.

Based on our assessment using those criteria, we concluded that, as of the end of the period covered by this Report, our internal control over financial reporting is effective.

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Changes in Internal Control over Financial Reporting

As noted above, our assessment of the internal controls excluded RSP which was acquired on October 1, 2014. Under guidelines established by the SEC, companies are permitted to exclude acquisitions from their assessment of internal control over financial reporting during the first year of an acquisition while integrating the acquired company. During the integration period management is developing additional controls to ensure the financial information provided by RSP is complete and accurate in all material respects.

Except as noted above, there were no changes in our internal control over financial reporting during the three months ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****Issuer Purchases of Equity Securities**

Our cumulative authorization for our common stock repurchase program is \$730.0 million. The remaining amount authorized for the repurchase of our common stock through July 2016 is \$109.0 million. Repurchases under our common stock repurchase program during the three-month period ended December 27, 2014 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
September 28, 2014—October 25, 2014	—	—	—	\$149,579,000
October 26, 2014—November 22, 2014	658,945	\$61.62	659,000	108,973,000
November 23, 2014—December 27, 2014	—	—	—	108,973,000
Total	<u>658,945</u>			

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ITEM 6. EXHIBITS

10.1*	Credit Agreement, dated as of September 30, 2014, among Synaptics Incorporated, the lenders party thereto, and Wells Fargo Bank, National Association, as administrative agent.
10.24(e)**	Amended and Restated 2010 Incentive Compensation Plan
31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer
32.1***	Section 1350 Certification of Chief Executive Officer
32.2***	Section 1350 Certification of Chief Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Incorporated by reference to the registrant's Form 8-K as filed with the SEC on October 1, 2014.

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

*** This information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SYNAPTICS INCORPORATED

Date: February 5, 2015

By: /s/ Richard A. Bergman

Name: Richard A. Bergman

Title: President and Chief Executive Officer

Date: February 5, 2015

By: /s/ Kathleen A. Bayless

Name: Kathleen A. Bayless

Title: Senior Vice President, Chief Financial Officer and Treasurer

INDEX TO EXHIBITS

<u>Exhibit Number</u>	<u>Exhibit</u>
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SYNAPTICS INCORPORATED
AMENDED AND RESTATED
2010 INCENTIVE COMPENSATION PLAN

1. **Purpose.** The purpose of this PLAN (the “Plan”) is to assist SYNAPTICS INCORPORATED, a Delaware corporation (the “Company”) and its Related Entities in attracting, motivating, retaining and rewarding high-quality executives and other Employees, officers, Directors and Consultants by enabling such persons to acquire or increase a proprietary interest in the Company in order to strengthen the mutuality of interests between such persons and the Company’s stockholders, and providing such persons with annual and long term performance incentives to expend their maximum efforts in the creation of stockholder value. The Plan is intended to qualify certain compensation awarded under the Plan for tax deductibility under Section 162(m) of the Code (as hereafter defined) to the extent deemed appropriate by the Committee.

2. **Definitions.** For purposes of the Plan, the following terms shall be defined as set forth below, in addition to such terms defined in Section 1 hereof.

(a) “**Annual Incentive Award**” means a conditional right granted to a Participant under Section 7(c) hereof to receive a cash payment, Stock or other Award, unless otherwise determined by the Committee, after the end of a specified fiscal year.

(b) “**Award**” means any Option, Stock Appreciation Right, Restricted Stock, Deferred Stock Unit, Stock granted as a bonus or in lieu of another award, Dividend Equivalent, Other Stock-Based Award, Performance Award or Annual Incentive Award, together with any other right or interest, granted to a Participant under the Plan.

(c) “**Beneficiary**” means the person, persons, trust or trusts which have been designated by a Participant in his or her most recent written beneficiary designation filed with the Committee to receive the benefits specified under the Plan upon such Participant’s death or to which Awards or other rights are transferred if and to the extent permitted under Section 10(b) hereof. If, upon a Participant’s death, there is no designated Beneficiary or surviving designated Beneficiary, then the term Beneficiary means the person, persons, trust or trusts entitled by will or the laws of descent and distribution to receive such benefits.

(d) “**Beneficial Owner**”, “**Beneficially Owning**” and “**Beneficial Ownership**” shall have the meanings ascribed to such terms in Rule 13d-3 under the Exchange Act and any successor to such Rule.

(e) “**Board**” means the Company’s Board of Directors.

(f) “**Cause**” shall, with respect to any Participant, have the equivalent meaning (or the same meaning as “cause” or “for cause”) set forth in any employment, consulting, change in control or other agreement for the performance of services between the Participant and the Company or a Related Entity or, in the absence of any such agreement or any such definition in such agreement, such term shall mean (i) the failure by the Participant to perform his or her duties as assigned by the Company (or a Related Entity) in a reasonable manner, (ii) any violation or breach by the Participant of his or her employment, consulting or other similar agreement with the Company (or a Related Entity), if any, (iii) any violation or breach by the Participant of his or her non-competition and/or non-disclosure agreement with the Company (or a Related Entity), if any, (iv) any act by the Participant of dishonesty or bad faith with respect to the Company (or a Related Entity), (v) chronic addiction to alcohol, drugs or other similar substances affecting the Participant’s work performance, or (vi) the commission by the Participant of any act, misdemeanor, or crime reflecting unfavorably upon the Participant or the Company or any Related Entity. The good faith determination by the Committee of whether the Participant’s Continuous Service was terminated by the Company for “Cause” shall be final and binding for all purposes hereunder.

(g) “**Change in Control**” means a Change in Control as defined with related terms in Section 9 of the Plan.

(h) “**Code**” means the Internal Revenue Code of 1986, as amended from time to time, including regulations thereunder and successor provisions and regulations thereto.

(i) “**Committee**” means a committee designated by the Board to administer the Plan; provided, however, that the Committee shall consist of at least two directors, and each member of which shall be (i) a “non-employee director” within the meaning of Rule 16b-3 under the Exchange Act, unless administration of the Plan by “non-employee directors” is not then required in order for exemptions under Rule 16b-3 to apply to transactions under the Plan, and (ii) an “outside director” within the meaning of Section 162(m) of the Code, unless administration of the Plan by “outside directors” is not then required in order to qualify for tax deductibility under Section 162(m) of the Code.

(j) “**Consultant**” means any person (other than an Employee or a Director, solely with respect to rendering services in such person’s capacity as a director) who is engaged by the Company or any Related Entity to render consulting or advisory services to the Company or such Related Entity.

(k) “**Continuous Service**” means uninterrupted provision of services to the Company in any capacity of Employee, Director, or Consultant. Continuous Service shall not be considered to be interrupted in the case of (i) any approved leave of absence, (ii) transfers among the Company, any Related Entities, or any successor entities, in any capacity of Employee Director, or Consultant, or (iii) any change in status as long as the individual remains in the service of the Company or a Related Entity in any capacity of Employee, Director, or Consultant (except as otherwise provided in the Option Agreement). An approved leave of absence shall include sick leave, military leave, or any other authorized personal leave. A leave of absence will be treated as Continuous Service for purposes of determining the continued vesting of an Award (as differentiated from the use of Continuous Service as a trigger for the termination or forfeiture of the Award) only to the extent provided in the Company’s leave of absence policy, in the written terms of any leave of absence agreement applicable to the Participant, or as otherwise required by law.

(l) “**Covered Employee**” means an Eligible Person who is a Covered Employee as specified in Section 7(e) of the Plan.

(m) “**Deferred Stock Unit**” means a right, granted to a Participant under Section 6(e) hereof, to receive Stock, cash or a combination thereof at the end of a specified deferral period.

(n) “**Director**” means a member of the Board or the board of directors of any Related Entity.

(o) “**Disability**” means a permanent and total disability (within the meaning of Section 22(e) of the Code), as determined by a medical doctor satisfactory to the Committee.

(p) “**Dividend Equivalent**” means a right, granted to a Participant under Section 6(g) hereof, to receive cash, Stock, other Awards or other property equal in value to dividends paid with respect to a specified number of shares of Stock, or other periodic payments.

(q) “**Effective Date**” means the effective date of the Plan, which shall be the date of stockholder approval of this Plan.

(r) “**Eligible Person**” means each Executive Officer of the Company (as defined under the Exchange Act) and other officers, Directors and Employees of the Company or of any Related Entity, and Consultants with the Company or any Related Entity. The foregoing notwithstanding, only employees of the Company, the Parent, or any Subsidiary shall be Eligible Persons for purposes of receiving any Incentive Stock Options. An Employee on leave of absence may be considered as still in the employ of the Company or a Related Entity for purposes of eligibility for participation in the Plan.

(s) “**Employee**” means any person, including an officer or Director, who is an employee of the Company or any Related Entity. The Payment of a director’s fee by the Company or a Related Entity shall not be sufficient to constitute “employment” by the Company.

(t) “**Exchange Act**” means the Securities Exchange Act of 1934, as amended from time to time, including rules thereunder and successor provisions and rules thereto.

(u) “**Executive Officer**” means an executive officer of the Company as defined under the Exchange Act.

(v) “**Fair Market Value**” means the fair market value of Stock, Awards or other property as determined by the Committee, or under procedures established by the Committee. Unless otherwise determined by the Committee, the Fair Market Value of Stock as of any given date shall be the closing sale price per share reported on a consolidated basis for stock listed on the principal stock exchange or market on which Stock is traded on the date as of which such value is being determined or, if there is no sale on that date, then on the last previous day on which a sale was reported.

(w) “**Good Reason**” shall, with respect to any Participant, have the equivalent meaning (or the same meaning as “good reason” or “for good reason”) set forth in any employment, consulting, change in control or other agreement for the performance of services between the Participant and the Company or a Related Entity or, in the absence of any such agreement, such term shall mean (i) the assignment to the Participant of any duties inconsistent in any respect with the Participant’s position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as assigned by the Company (or a Related Entity), or any other action by the Company (or a Related Entity) which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company (or a Related Entity) promptly after receipt of notice thereof given by the Participant; (ii) any failure by the Company (or a Related Entity) to comply with its obligations to the Participant as agreed upon, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company (or a Related Entity) promptly after receipt of notice thereof given by the Participant; (iii) the Company’s (or Related Entity’s) requiring the Participant to be based at any office or location outside of fifty miles from the location of employment as of the date of Award, except for travel reasonably required in the performance of the Participant’s responsibilities; (iv) any purported termination by the Company (or a Related Entity) of the Participant’s Continuous Service otherwise than for Cause as defined in Section 2(f), or by reason of the Participant’s Disability as defined in Section 2(q). For purposes of this Section 2(y), any good faith determination of “Good Reason” made by the Committee shall be conclusive.

(x) “**Incentive Stock Option**” means any Option intended to be designated as an incentive stock option within the meaning of Section 422 of the Code or any successor provision thereto.

(y) “**Incumbent Board**” means the Incumbent Board as defined in Section 9(b)(ii) of the Plan.

(z) “**Option**” means a right granted to a Participant under Section 6(b) hereof, to purchase Stock or other Awards at a specified price during specified time periods.

(aa) “**Optionee**” means a person to whom an Option is granted under this Plan or any person who succeeds to the rights of such person under this Plan.

(bb) “**Other Stock-Based Awards**” means Awards granted to a Participant under Section 6(h) hereof.

(cc) “**Parent**” means a “parent corporation,” whether now or hereafter existing, as defined in Section 424(e) of the Code.

(dd) “**Participant**” means a person who has been granted an Award under the Plan which remains outstanding, including a person who is no longer an Eligible Person.

(ee) “**Performance Award**” means a right, granted to an Eligible Person under Section 7 hereof, to receive Awards based upon performance criteria specified by the Committee.

(ff) “**Person**” shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, and shall include a “group” as defined in Section 13(d) thereof.

(gg) “**Related Entity**” means any Parent, Subsidiary, and any business, corporation, partnership, limited liability company, or other entity designated by the Committee in which the Company, a Parent, or a Subsidiary, directly or indirectly, holds a substantial ownership interest.

(hh) “**Restricted Stock**” means Stock granted to a Participant under Section 6(d) hereof, that is subject to certain restrictions and to a risk of forfeiture.

(ii) “**Rule 16b-3**” and “**Rule 16a-1(c)(3)**” means Rule 16b-3 and Rule 16a-1(c)(3), as from time to time in effect and applicable to the Plan and Participants, promulgated by the Securities and Exchange Commission under Section 16 of the Exchange Act.

(jj) “**Stock**” means the Company’s Common Stock, and such other securities as may be substituted (or resubstituted) for Stock pursuant to Section 10(c) hereof.

(kk) “**Stock Appreciation Right**” means a right granted to a Participant under Section 6(c) hereof.

(ll) “**Subsidiary**” means a “subsidiary corporation” whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Administration.

(a) **Authority of the Committee.** The Plan shall be administered by the Committee. The Committee shall have full and final authority, in each case subject to and consistent with the provisions of the Plan, to select Eligible Persons to become Participants, grant Awards, determine the type, number and other terms and conditions of, and all other matters relating to, Awards, prescribe Award agreements (which need not be identical for each Participant) and rules and regulations for the administration of the Plan, construe and interpret the Plan and Award agreements and correct defects, supply omissions or reconcile inconsistencies therein, and to make all other decisions and determinations as the Committee may deem necessary or advisable for the administration of the Plan. In exercising any discretion granted to the Committee under the Plan or pursuant to any Award, the Committee shall not be required to follow past practices, act in a manner consistent with past practices, or treat any Eligible Person in a manner consistent with the treatment of other Eligible Persons.

(b) **Manner of Exercise of Committee Authority.** Any action of the Committee shall be final, conclusive and binding on all persons, including the Company, its Related Entities, Participants, Beneficiaries, transferees under Section 10(b) hereof or other persons claiming rights from or through a Participant, and stockholders. The express grant of any specific power to the Committee, and the taking of any action by the Committee, shall not be construed as limiting any power or authority of the Committee. The Committee may delegate to officers or managers of the Company or any Related Entity, or committees thereof, the authority, subject to such terms as the Committee shall determine, (i) to perform administrative functions, (ii) with respect to Participants not subject to Section 16 of the Exchange Act, to perform such other functions as the Committee may determine, and (iii) with respect to Participants subject to Section 16, to perform such other functions of the Committee as the Committee may determine to the extent performance of such functions will not result in the loss of an exemption under Rule 16b-3 otherwise available for transactions by such persons, in each case to the extent permitted under applicable law and subject to the requirements set forth in Section 7(d). The Committee may appoint agents to assist it in administering the Plan.

(c) **Limitation of Liability.** The Committee, and each member thereof, shall be entitled to, in good faith, rely or act upon any report or other information furnished to him or her by any Executive Officer, other officer or Employee, the Company’s independent auditors, Consultants or any other agents assisting in the administration of the Plan. Members of the Committee, and any officer or Employee acting at the direction or on

behalf of the Committee, shall not be personally liable for any action or determination taken or made in good faith with respect to the Plan, and shall, to the extent permitted by law, be fully indemnified and protected by the Company with respect to any such action or determination.

4. Stock Subject to Plan.

(a) **Limitation on Overall Number of Shares Subject to Awards.** Subject to adjustment as provided in Section 10(c) hereof, the total number of shares of Stock reserved and available for delivery in connection with Awards under the Plan shall equal the sum of (i) the number of shares of Stock available for issuance under the Company's Amended and Restated 2001 Incentive Compensation Plan (the "2001 Plan") that are not subject to an outstanding award under the 2001 Plan as of the date of stockholder approval of this Plan (and such shares shall no longer be available for issuance under the 2001 Plan) plus (ii) 3,000,000 shares of Stock. Any shares of Stock delivered under the Plan may consist, in whole or in part, of authorized and unissued shares or treasury shares.

(b) **Availability of Shares Not Issued pursuant to Awards.** In the event that any Option or other Award granted hereunder is exercised through the withholding of shares of Stock from the Award by the Company or withholding tax liabilities arising from such Option or other Award are satisfied by the withholding of shares of Stock from the Award by the Company, then only the number of shares of Stock issued net of the shares of Stock withheld shall be counted as issued for purposes of determining the maximum number of shares of Stock available for grant under the Plan, subject to Section 4(c) below.

(c) **Limitation on Number of Incentive Stock Option Shares.** Subject to adjustment as provided in Section 10(c) hereof, the number of shares of Stock which may be issued pursuant to Incentive Stock Options shall be the lesser of (i) the number of shares of Stock that may be subject to Awards under Section 4(a), or (ii) 15,000,000.

(d) **Application of Limitations.** The limitation contained in this Section 4 shall apply not only to Awards that are settled by the delivery of shares of Stock but also to Awards relating to shares of Stock but settled only in cash (such as cash-only Stock Appreciation Rights). The Committee may adopt reasonable counting procedures to ensure appropriate counting, avoid double counting (as, for example, in the case of tandem or substitute awards) and make adjustments if the number of shares of Stock actually delivered differs from the number of shares previously counted in connection with an Award.

5. Eligibility; Per-Person Award Limitations. Awards may be granted under the Plan only to Eligible Persons. In each fiscal year during any part of which the Plan is in effect, an Eligible Person may not be granted Awards relating to more than 1,000,000 shares of Stock, subject to adjustment as provided in Section 10(c), under each of Sections 6(b), 6(c), 6(d), 6(e), 6(f), 6(g), 6(h), 7(b) and 7(c). In addition, the maximum amount that may be earned as an Annual Incentive Award or other cash Award in any fiscal year by any one Participant shall be \$2,000,000, and the maximum amount that may be earned as a Performance Award or other cash Award in respect of a performance period by any one Participant shall be \$5,000,000.

6. Specific Terms of Awards.

(a) **General.** Awards may be granted on the terms and conditions set forth in this Section 6. In addition, the Committee may impose on any Award or the exercise thereof, at the date of grant or thereafter (subject to Section 10(e)), such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall determine, including terms requiring forfeiture of Awards in the event of termination of Continuous Service by the Participant and terms permitting a Participant to make elections relating to his or her Award. The Committee shall retain full power and discretion to accelerate, waive or modify, at any time, any term or condition of an Award that is not mandatory under the Plan. Except in cases in which the Committee is authorized to require other forms of consideration under the Plan, or to the extent other forms of consideration must be paid to satisfy the requirements of Delaware law, no consideration other than services may be required for the grant (but not the exercise) of any Award.

(b) **Options.** The Committee is authorized to grant Options to Participants on the following terms and conditions:

(i) **Stock Option Agreement.** Each grant of an Option under the Plan shall be evidenced by a Stock Option Agreement. Such Stock Option Agreement shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions which are not inconsistent with the Plan and which the Committee deems appropriate for inclusion in a Stock Option Agreement. The provisions of the various Stock Option Agreements entered into under the Plan need not be identical.

(ii) **Number of Shares.** Each Stock Option Agreement shall specify the number of shares of Stock that are subject to the Option and shall provide for the adjustment of such number in accordance with Section 10(c) hereof. The Stock Option Agreement shall also specify whether the Option is an Incentive Stock Option or a Non-Qualified Stock Option.

(iii) **Exercise Price.**

(A) **In General.** Each Stock Option Agreement shall state the price at which shares of Stock subject to the Option may be purchased (the "Exercise Price"), which shall be not less than 100% of the Fair Market Value of the Stock on the date of grant.

(B) **Ten Percent Stockholder.** If an individual owns or is deemed to own (by reason of the attribution rules applicable under Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company or any Related Entity, the Exercise Price of an Incentive Stock Option must be at least 110% of the Fair Market Value of a share of Stock on the date of grant and such Incentive Stock Option by its terms is not exercisable after the expiration of five years from the date of grant.

(iv) **Time and Method of Exercise.** The Committee shall determine the time or times at which or the circumstances under which an Option may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), provided that in the case of an Optionee who is not an officer, Director, or Consultant of the Company or a Related Entity, his or her Options shall become exercisable at least as rapidly as 20% per year, over a 5 year period commencing on the date of the grant, unless a determination is made by counsel for the Company that such vesting requirements are not required in the circumstances under applicable federal or state securities laws. The Committee may also determine the time or times at which Options shall cease to be or become exercisable following termination of Continuous Service or upon other conditions; provided, however, if the Optionee's Continuous Service is terminated for any reason other than Cause, that portion of the Option that is exercisable as of the date of termination shall remain exercisable for at least 6 months from the date of termination if by reason of death or Disability, and for at least 30 days from the date of termination if by reason other than the Optionee's death or Disability. The Committee may determine the methods by which such exercise price may be paid or deemed to be paid (including in the discretion of the Committee a cashless exercise procedure), the form of such payment, including, without limitation, cash, Stock, other Awards or awards granted under other plans of the Company or a Related Entity, or other property (including notes or other contractual obligations of Participants to make payment on a deferred basis), and the methods by or forms in which Stock will be delivered or deemed to be delivered to Participants.

(v) **Incentive Stock Options.** The terms of any Incentive Stock Option granted under the Plan shall comply in all respects with the provisions of Section 422 of the Code. Anything in the Plan to the contrary notwithstanding, no term of the Plan relating to Incentive Stock Options (including any Stock Appreciation Rights in tandem therewith) shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be exercised, so as to disqualify either the Plan or any Incentive Stock Option under Section 422 of the Code, unless the Participant has first requested the change that will result in such disqualification. Thus, if and to the extent required to comply with Section 422 of the Code, Options granted as Incentive Stock Options shall be subject to the following special terms and conditions:

(A) the Option shall not be exercisable more than seven years after the date such Incentive Stock Option is granted; provided, however, that if a Participant owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10% of the combined voting power of all

classes of stock of the Company or any Parent Corporation and the Incentive Stock Option is granted to such Participant, the term of the Incentive Stock Option shall be (to the extent required by the Code at the time of the grant) for no more than five years from the date of grant; and

(B) The aggregate Fair Market Value (determined as of the date the Incentive Stock Option is granted) of the shares of stock with respect to which Incentive Stock Options granted under the Plan and all other option plans of the Company or its Parent Corporation during any calendar year are exercisable for the first time by the Participant during any calendar year shall not (to the extent required by the Code at the time of the grant) exceed \$100,000.

(vi) **Repurchase Rights.** The Committee shall have the discretion to grant Options which are exercisable for unvested shares of Common Stock. Should the Optionee's Continuous Service cease while holding such unvested shares, the Company shall have the right to repurchase, at the exercise price paid per share, any or all of those unvested shares. The terms upon which such repurchase right shall be exercisable (including the period and procedure for exercise and the appropriate vesting schedule for the purchased shares) shall be established by the Committee and set forth in the document evidencing such repurchase right.

(c) **Stock Appreciation Rights.** The Committee is authorized to grant Stock Appreciation Rights to Participants on the following terms and conditions:

(i) **Right to Payment.** A Stock Appreciation Right shall confer on the Participant to whom it is granted a right to receive, upon exercise thereof, the excess of (A) the Fair Market Value of one share of stock on the date of exercise, over (B) the grant price of the Stock Appreciation Right as determined by the Committee. The grant price of a Stock Appreciation Right shall not be less than the Fair Market Value of a share of Stock on the date of grant.

(ii) **Other Terms.** The Committee shall determine at the date of grant or thereafter, the time or times at which and the circumstances under which a Stock Appreciation Right may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), the time or times at which Stock Appreciation Rights shall cease to be or become exercisable following termination of Continuous Service or upon other conditions, the method of exercise, method of settlement, form of consideration payable in settlement, method by or forms in which Stock will be delivered or deemed to be delivered to Participants, whether or not a Stock Appreciation Right shall be in tandem or in combination with any other Award, and any other terms and conditions of any Stock Appreciation Right. Stock Appreciation Rights may be either freestanding or in tandem with other Awards.

(d) **Restricted Stock.** The Committee is authorized to grant Restricted Stock to Participants on the following terms and conditions:

(i) **Grant and Restrictions.** Restricted Stock shall be subject to such restrictions on transferability, risk of forfeiture and other restrictions, if any, as the Committee may impose, or as otherwise provided in this Plan. The restrictions may lapse separately or in combination at such times, under such circumstances (including based on achievement of performance goals and/or future service requirements), in such installments or otherwise, as the Committee may determine at the date of grant or thereafter provided that the restrictions shall not lapse in less than three years or less than one year in the case of performance-based Restricted Stock except that a total of not more than 400,000 shares of Common Stock may be subject of restricted stock and deferred stock units without regard to such restriction period. Except to the extent restricted under the terms of the Plan and any Award agreement relating to the Restricted Stock, a Participant granted Restricted Stock shall have all of the rights of a stockholder, including the right to vote the Restricted Stock and the right to receive dividends thereon (subject to any mandatory reinvestment or other requirement imposed by the Committee). During the restricted period applicable to the Restricted Stock, subject to Section 10(b) below, the Restricted Stock may not be sold, transferred, pledged, hypothecated, margined or otherwise encumbered by the Participant.

(ii) **Forfeiture.** Except as otherwise determined by the Committee at the time of the Award, upon termination of a Participant's Continuous Service during the applicable restriction period, the Participant's Restricted Stock that is at that time subject to restrictions shall be forfeited (or, in accordance with

Section 6(b)(vi), reacquired by the Company); provided that the Committee may provide, by rule or regulation or in any Award agreement, or may determine in any individual case, that restrictions or forfeiture conditions relating to Restricted Stock shall be waived in whole or in part in the event of terminations resulting from specified causes, and the Committee may in other cases waive in whole or in part the forfeiture of Restricted Stock.

(iii) **Certificates for Stock.** Restricted Stock granted under the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing Restricted Stock are registered in the name of the Participant, the Committee may require that such certificates bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Restricted Stock, that the Company retain physical possession of the certificates, and that the Participant deliver a stock power to the Company, endorsed in blank, relating to the Restricted Stock.

(iv) **Dividends and Splits.** As a condition to the grant of an Award of Restricted Stock, the Committee may require that any cash dividends paid on a share of Restricted Stock be automatically reinvested in additional shares of Restricted Stock or applied to the purchase of additional Awards under the Plan. Unless otherwise determined by the Committee, Stock distributed in connection with a Stock split or Stock dividend, and other property distributed as a dividend, shall be subject to restrictions and a risk of forfeiture to the same extent as the Restricted Stock with respect to which such Stock or other property has been distributed.

(e) **Deferred Stock Units.** The Committee is authorized to grant Deferred Stock Units to Participants, which are rights to receive Stock, cash, or a combination thereof at the end of a specified time period, subject to the following terms and conditions:

(i) **Award and Restrictions.** Satisfaction of an Award of Deferred Stock Units shall occur upon expiration of the time specified for such Deferred Stock Units by the Committee (or, if permitted by the Committee, as elected by the Participant). In addition, Deferred Stock Units shall be subject to such restrictions (which may include a risk of forfeiture) as the Committee may impose, if any, which restrictions may lapse at the expiration of the time period or at earlier specified times (including based on achievement of performance goals and/or future service requirements), separately or in combination, in installments or otherwise, as the Committee may determine provided that the restrictions shall not lapse in less than three years or less than one year in the case of performance-based Deferred Stock Units except that a total of not more than 400,000 shares of Common Stock may be the subject of restricted stock and deferred stock units without regard to such restriction period. The terms of an Award of Deferred Stock Units shall be set forth in a written Award Agreement that shall contain provisions determined by the Committee and not inconsistent with the Plan. Deferred Stock Units may be satisfied by delivery of Stock, cash equal to the Fair Market Value of the specified number of shares of Stock covered by the Deferred Stock Units, or a combination thereof, as determined by the Committee at the date of grant or thereafter. Prior to satisfaction of an Award of Deferred Stock Units, an Award of Deferred Stock Units carries no voting or dividend or other rights associated with share ownership. Notwithstanding the foregoing or any other provision of the Plan, (A) all grants of Deferred Stock Units shall comply with the vesting terms of Section 6(b)(iv), and (B) unless otherwise exempt from Section 409A of the Code or otherwise specifically determined by the Committee, each Award of Deferred Stock Units shall be structured to avoid the imposition of any excise tax under Section 409A of the Code.

(ii) **Forfeiture.** Except as otherwise determined by the Committee, upon termination of a Participant's Continuous Service during the applicable time period thereof to which forfeiture conditions apply (as provided in the Award agreement evidencing the Deferred Stock Units), the Participant's Deferred Stock Units (other than those Deferred Stock Units subject to deferral at the election of the Participant) shall be forfeited; provided that the Committee may provide, by rule or regulation or in any Award agreement, or may determine in any individual case, that restrictions or forfeiture conditions relating to Deferred Stock Units shall be waived in whole or in part in the event of terminations resulting from specified causes, and the Committee may in other cases waive in whole or in part the forfeiture of Deferred Stock Units.

(iii) **Dividend Equivalents.** Unless otherwise determined by the Committee at date of grant, any Dividend Equivalents that are granted with respect to any Award of Deferred Stock Units shall be either (A) paid with respect to such Deferred Stock Units at the dividend payment date in cash or in shares of unrestricted Stock having a Fair Market Value equal to the amount of such dividends, or (B) deferred with respect to

such Deferred Stock Units and the amount or value thereof automatically deemed reinvested in additional Deferred Stock Units, other Awards or other investment vehicles, as the Committee shall determine or permit the Participant to elect.

(f) **Bonus Stock and Awards in Lieu of Obligations.** The Committee is authorized to grant Stock as a bonus, or to grant Stock or other Awards in lieu of Company obligations to pay cash or deliver other property under the Plan or under other plans provided each such Award shall have a restricted period of not less than three years or not less than one year in the case of performance-based Awards or compensatory arrangements, provided that, in the case of Participants subject to Section 16 of the Exchange Act, the amount of such grants remains within the discretion of the Committee to the extent necessary to ensure that acquisitions of Stock or other Awards are exempt from liability under Section 16(b) of the Exchange Act. Stock or Awards granted hereunder shall be subject to such other terms as shall be determined by the Committee.

(g) **Dividend Equivalents.** The Committee is authorized to grant Dividend Equivalents to a Participant entitling the Participant to receive cash, Stock, other Awards, or other property equal in value to dividends paid with respect to a specified number of shares of Stock, or other periodic payments. Dividend Equivalents may be awarded on a free-standing basis or in connection with another Award. The Committee may provide that Dividend Equivalents shall be paid or distributed when accrued or shall be deemed to have been reinvested in additional Stock, Awards, or other investment vehicles, and subject to such restrictions on transferability and risks of forfeiture, as the Committee may specify. Notwithstanding any other provision of the Plan, unless otherwise exempt from Section 409A of the Code or otherwise specifically determined by the Committee, each Dividend Equivalent shall be structured to avoid the imposition of any excise tax under Section 409A of the Code.

(h) **Other Stock-Based Awards.** The Committee is authorized, subject to limitations under applicable law, to grant to Participants such other Awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Stock, as deemed by the Committee to be consistent with the purposes of the Plan, including, without limitation, convertible or exchangeable debt securities, other rights convertible or exchangeable into Stock, purchase rights for Stock, Awards with value and payment contingent upon performance of the Company or any other factors designated by the Committee, and Awards valued by reference to the book value of Stock or the value of securities of or the performance of specified Related Entities or business units. The Committee shall determine the terms and conditions of such Awards provided each such Award shall have a restricted period of not less than three years or not less than one year in the case of performance-based Awards. Stock delivered pursuant to an Award in the nature of a purchase right granted under this Section 6(h) shall be purchased for such consideration (including without limitation loans from the Company or a Related Entity), paid for at such times, by such methods, and in such forms, including, without limitation, cash, Stock, other Awards or other property, as the Committee shall determine. The Committee shall have the discretion to grant such other Awards which are exercisable for unvested shares of Common Stock. Should the Optionee's Continuous Service cease while holding such unvested shares, the Company shall have the right to repurchase, at the exercise price paid per share, any or all of those unvested shares. The terms upon which such repurchase right shall be exercisable (including the period and procedure for exercise and the appropriate vesting schedule for the purchased shares) shall be established by the Committee and set forth in the document evidencing such repurchase right. Cash awards, as an element of or supplement to any other Award under the Plan, may also be granted pursuant to this Section 6(h). Notwithstanding any other provision of the Plan, unless otherwise exempt from Section 409A of the Code or otherwise specifically determined by the Committee, each such Award shall be structured to avoid the imposition of any excise tax under Section 409A of the Code.

7. Performance and Annual Incentive Awards.

(a) **Performance Conditions.** The right of a Participant to exercise or receive a grant or settlement of any Award, and the timing thereof, may be subject to such performance conditions as may be specified by the Committee. The Committee may use such business criteria and other measures of performance as it may deem appropriate in establishing any performance conditions, and may exercise its discretion to reduce the amounts payable under any Award subject to performance conditions, except as limited under Sections 7(b) and 7(c) hereof in the case of a Performance Award or Annual Incentive Award intended to qualify under Code Section 162(m).

(b) **Performance Awards Granted to Designated Covered Employees.** If and to the extent that the Committee determines that a Performance Award to be granted to an Eligible Person who is designated by the Committee as likely to be a Covered Employee should qualify as “performance-based compensation” for purposes of Code Section 162(m), the grant, exercise and/or settlement of such Performance Award shall be contingent upon achievement of pre-established performance goals and other terms set forth in this Section 7(b).

(i) **Performance Goals Generally.** The performance goals for such Performance Awards shall consist of one or more business criteria and a targeted level or levels of performance with respect to each of such criteria, as specified by the Committee consistent with this Section 7(b). Performance goals shall be objective and shall otherwise meet the requirements of Code Section 162(m) and regulations thereunder including the requirement that the level or levels of performance targeted by the Committee result in the achievement of performance goals being “substantially uncertain.” The Committee may determine that such Performance Awards shall be granted, exercised and/or settled upon achievement of any one performance goal or that two or more of the performance goals must be achieved as a condition to grant, exercise and/or settlement of such Performance Awards. Performance goals may differ for Performance Awards granted to any one Participant or to different Participants.

(ii) **Business Criteria.** One or more of the following business criteria for the Company, on a consolidated basis, and/or specified Related Entities or business units of the Company (except with respect to the total stockholder return and earnings per share criteria), shall be used exclusively by the Committee in establishing performance goals for such Performance Awards: (1) total stockholder return; (2) such total stockholder return as compared to total return (on a comparable basis) of a publicly available index such as, but not limited to, the Standard & Poor’s 500 Stock Index or the S&P Specialty Retailer Index; (3) net income; (4) pretax earnings; (5) earnings before interest expense, taxes, depreciation and amortization; (6) pretax operating earnings after interest expense and before bonuses, service fees, and extraordinary or special items; (7) operating margin; (8) earnings per share; (9) return on equity; (10) return on capital; (11) return on investment; (12) operating earnings; (13) working capital or inventory; (14) operating earnings before the expense for share based awards; and (15) ratio of debt to stockholders’ equity. One or more of the foregoing business criteria shall also be exclusively used in establishing performance goals for Annual Incentive Awards granted to a Covered Employee under Section 7(c) hereof that are intended to qualify as “performance-based compensation” under Code Section 162(m).

(iii) **Performance Period; Timing For Establishing Performance Goals.** Achievement of performance goals in respect of such Performance Awards shall be measured over a performance period of up to seven years, as specified by the Committee. Performance goals shall be established not later than 90 days after the beginning of any performance period applicable to such Performance Awards, or at such other date as may be required or permitted for “performance-based compensation” under Code Section 162(m).

(iv) **Performance Award Pool.** The Committee may establish a Performance Award pool, which shall be an unfunded pool, for purposes of measuring Company performance in connection with Performance Awards. The amount of such Performance Award pool shall be based upon the achievement of a performance goal or goals based on one or more of the business criteria set forth in Section 7(b)(ii) hereof during the given performance period, as specified by the Committee in accordance with Section 7(b)(iii) hereof. The Committee may specify the amount of the Performance Award pool as a percentage of any of such business criteria, a percentage thereof in excess of a threshold amount, or as another amount which need not bear a strictly mathematical relationship to such business criteria.

(v) **Settlement of Performance Awards; Other Terms.** Settlement of such Performance Awards shall be in cash, Stock, other Awards or other property, in the discretion of the Committee. The Committee may, in its discretion, reduce the amount of a settlement otherwise to be made in connection with such Performance Awards. The Committee shall specify the circumstances in which such Performance Awards shall be paid or forfeited in the event of termination of Continuous Service by the Participant prior to the end of a performance period or settlement of Performance Awards.

(c) **Annual Incentive Awards Granted to Designated Covered Employees.** The Committee may, within its discretion, grant one or more Annual Incentive Awards to any Eligible Person, subject to the terms and conditions set forth in this Section 7(c).

(i) **Annual Incentive Award Pool.** The Committee may establish an Annual Incentive Award pool, which shall be an unfunded pool, for purposes of measuring Company performance in connection with Annual Incentive Awards. In the case of Annual Incentive Awards intended to qualify as “performance-based compensation” for purposes of Code Section 162(m), the amount of such Annual Incentive Award pool shall be based upon the achievement of a performance goal or goals based on one or more of the business criteria set forth in Section 7(b)(ii) hereof during the given performance period, as specified by the Committee in accordance with Section 7(b)(iii) hereof. The Committee may specify the amount of the Annual Incentive Award pool as a percentage of any such business criteria, a percentage thereof in excess of a threshold amount, or as another amount which need not bear a strictly mathematical relationship to such business criteria.

(ii) **Potential Annual Incentive Awards.** Not later than the end of the 90th day of each fiscal year, or at such other date as may be required or permitted in the case of Awards intended to be “performance-based compensation” under Code Section 162(m), the Committee shall determine the Eligible Persons who will potentially receive Annual Incentive Awards, and the amounts potentially payable thereunder, for that fiscal year, either out of an Annual Incentive Award pool established by such date under Section 7(c)(i) hereof or as individual Annual Incentive Awards. In the case of individual Annual Incentive Awards intended to qualify under Code Section 162(m), the amount potentially payable shall be based upon the achievement of a performance goal or goals based on one or more of the business criteria set forth in Section 7(b)(ii) hereof in the given performance year, as specified by the Committee; in other cases, such amount shall be based on such criteria as shall be established by the Committee. In all cases, the maximum Annual Incentive Award of any Participant shall be subject to the limitation set forth in Section 5 hereof.

(iii) **Payout of Annual Incentive Awards.** After the end of each fiscal year, the Committee shall determine the amount, if any, of (A) the Annual Incentive Award pool, and the maximum amount of potential Annual Incentive Award payable to each Participant in the Annual Incentive Award pool, or (B) the amount of potential Annual Incentive Award otherwise payable to each Participant. The Committee may, in its discretion, determine that the amount payable to any Participant as an Annual Incentive Award shall be reduced from the amount of his or her potential Annual Incentive Award, including a determination to make no Award whatsoever. The Committee shall specify the circumstances in which an Annual Incentive Award shall be paid or forfeited in the event of termination of Continuous Service by the Participant prior to the end of a fiscal year or settlement of such Annual Incentive Award.

(d) **Written Determinations.** All determinations by the Committee as to the establishment of performance goals, the amount of any Performance Award pool or potential individual Performance Awards and as to the achievement of performance goals relating to Performance Awards under Section 7(b), and the amount of any Annual Incentive Award pool or potential individual Annual Incentive Awards and the amount of final Annual Incentive Awards under Section 7(c), shall be made in writing in the case of any Award intended to qualify under Code Section 162(m). The Committee may not delegate any responsibility relating to such Performance Awards or Annual Incentive Awards if and to the extent required to comply with Code Section 162(m).

(e) **Status of Section 7(b) and Section 7(c) Awards Under Code Section 162(m).** It is the intent of the Company that Performance Awards and Annual Incentive Awards under Section 7(b) and 7(c) hereof granted to persons who are designated by the Committee as likely to be Covered Employees within the meaning of Code Section 162(m) and regulations thereunder shall, if so designated by the Committee, constitute “qualified performance-based compensation” within the meaning of Code Section 162(m) and regulations thereunder. Accordingly, the terms of Sections 7(b), (c), (d) and (e), including the definitions of Covered Employee and other terms used therein, shall be interpreted in a manner consistent with Code Section 162(m) and regulations thereunder. The foregoing notwithstanding, because the Committee cannot determine with certainty whether a given Participant will be a Covered Employee with respect to a fiscal year that has not yet been completed, the term Covered Employee as used herein shall mean only a person designated by the Committee, at the time of grant of Performance Awards or an Annual Incentive Award, as likely to be a Covered Employee with respect to that fiscal year. If any provision of the Plan or any agreement relating to such Performance Awards or Annual Incentive Awards does not

comply or is inconsistent with the requirements of Code Section 162(m) or regulations thereunder, such provision shall be construed or deemed amended to the extent necessary to conform to such requirements.

8. Certain Provisions Applicable to Awards or Sales.

(a) **Stand-Alone, Additional, Tandem, and Substitute Awards.** Awards granted under the Plan may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with, or in substitution or exchange for, any other Award or any award granted under another plan of the Company, any Related Entity, or any business entity to be acquired by the Company or a Related Entity, or any other right of a Participant to receive payment from the Company or any Related Entity. Such additional, tandem, and substitute or exchange Awards may be granted at any time. If an Award is granted in substitution or exchange for another Award or award, the Committee shall require the surrender of such other Award or award in consideration for the grant of the new Award. In addition, Awards may be granted in lieu of cash compensation, including in lieu of cash amounts payable under other plans of the Company or any Related Entity in which the value of Stock subject to the Award is equivalent in value to the cash compensation.

(b) **Term of Awards.** The term of each Award shall be for such period as may be determined by the Committee or the Board; provided that in no event shall the term of any Option or Stock Appreciation Right exceed a period of seven years (or such shorter term as may be required in respect of an Incentive Stock Option under Section 422 of the Code).

(c) **Form and Timing of Payment Under Awards; Deferrals.** Subject to the terms of the Plan and any applicable Award agreement, payments to be made by the Company or a Related Entity upon the exercise of an Option or other Award or settlement of an Award may be made in such forms as the Committee shall determine, including, without limitation, cash, other Awards or other property, and may be made in a single payment or transfer, in installments, or on a deferred basis. The settlement of any Award may be accelerated, and cash paid in lieu of Stock in connection with such settlement, in the discretion of the Committee or upon occurrence of one or more specified events (in addition to a Change in Control). Installment or deferred payments may be required by the Committee (subject to Section 10(e) of the Plan) or permitted at the election of the Participant on terms and conditions established by the Committee. Payments may include, without limitation, provisions for the payment or crediting of a reasonable interest rate on installment or deferred payments or the grant or crediting of Dividend Equivalents or other amounts in respect of installment or deferred payments denominated in Stock.

(d) **Exemptions from Section 16(b) Liability.** It is the intent of the Company that this Plan comply in all respects with applicable provisions of Rule 16b-3 or Rule 16a-1(c)(3) to the extent necessary to ensure that neither the grant of any Awards to nor other transaction by a Participant who is subject to Section 16 of the Exchange Act is subject to liability under Section 16(b) thereof (except for transactions acknowledged in writing to be non-exempt by such Participant). Accordingly, if any provision of this Plan or any Award agreement does not comply with the requirements of Rule 16b-3 or Rule 16a-1(c)(3) as then applicable to any such transaction, such provision will be construed or deemed amended to the extent necessary to conform to the applicable requirements of Rule 16b-3 or Rule 16a-1(c)(3) so that such Participant shall avoid liability under Section 16(b).

(e) **Code Section 409A.** If and to the extent that the Committee believes that any Awards may constitute a “nonqualified deferred compensation plan” under Section 409A of the Code, the terms and conditions set forth in the Award Agreement for that Award shall be drafted in a manner that is intended to comply with, and shall be interpreted in a manner consistent with, the applicable requirements of Section 409A of the Code, unless otherwise agreed to in writing by the Participant and the Company.

(f) **No Option Repricing.** Other than pursuant to Section 10(c), without approval of the Company’s stockholders, the Committee shall not be permitted to (A) lower the exercise price per share of Stock of an Option after it is granted, (B) cancel an Option when the exercise price per share of Stock exceeds the Fair Market Value of the underlying share of Stock in exchange for another Award or cash, or (C) take any other action with respect to an Option that may be treated as a repricing.

9. Change in Control.

(a) **Effect of “Change in Control.”** If and to the extent provided in the Award, in the event of a “Change in Control,” as defined in Section 9(b):

(i) The Committee may, within its discretion, accelerate the vesting and exercisability of any Award carrying a right to exercise that was not previously vested and exercisable as of the time of the Change in Control, subject to applicable restrictions set forth in Section 10(a) hereof;

(ii) The Committee may, within its discretion, accelerate the exercisability of any Stock Appreciation Rights and provide for the settlement of such Stock Appreciation Rights for amounts, in cash;

(iii) The Committee may, within its discretion, lapse the restrictions, deferral of settlement, and forfeiture conditions applicable to any other Award granted under the Plan and such Awards may be deemed fully vested as of the time of the Change in Control, except to the extent of any waiver by the Participant and subject to applicable restrictions set forth in Section 10(a) hereof; and

(iv) With respect to any such outstanding Award subject to achievement of performance goals and conditions under the Plan, the Committee may, within its discretion, deem such performance goals and other conditions as having been met as of the date of the Change in Control.

(b) **Definition of “Change in Control.”** A “Change in Control” shall be deemed to have occurred upon:

(i) Upon the consummation of a transaction approved by the stockholders of the Company of a reorganization, merger, consolidation or other form of corporate transaction or series of transactions, in each case, with respect to which persons who were the stockholders of the Company immediately prior to such reorganization, merger or consolidation or other transaction do not, immediately thereafter, own more than 50% of the combined voting power entitled to vote generally in the election of directors of the reorganized, merged or consolidated company’s then outstanding voting securities, or a liquidation or dissolution of the Company or the sale of all or substantially all of the assets of the Company;

(ii) Individuals who, as of the date on which the Award is granted, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to the date on which the Award was granted whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the Directors of the Company) shall be, for purposes of this Agreement, considered as though such person were a member of the Incumbent Board; or

(iii) the acquisition (other than from the Company) by any person, entity or “group”, within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act, of more than 50% of either the then outstanding shares of the Company’s Common Stock or the combined voting power of the Company’s then outstanding voting securities entitled to vote generally in the election of directors (hereinafter referred to as the ownership of a “Controlling Interest”) excluding, for this purpose, any acquisitions by (1) the Company or a Related Entity, (2) any person, entity or “group” that as of the date on which the Award is granted owns beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Securities Exchange Act) of a Controlling Interest or (3) any employee benefit plan of the Company or a Related Entity.

10. General Provisions.

(a) **Compliance With Legal and Other Requirements.** The Company may, to the extent deemed necessary or advisable by the Committee, postpone the issuance or delivery of Stock or payment of other benefits under any Award until completion of such registration or qualification of such Stock or other required

action under any federal or state law, rule or regulation, listing or other required action with respect to any stock exchange or automated quotation system upon which the Stock or other Company securities are listed or quoted, or compliance with any other obligation of the Company, as the Committee, may consider appropriate, and may require any Participant to make such representations, furnish such information and comply with or be subject to such other conditions as it may consider appropriate in connection with the issuance or delivery of Stock or payment of other benefits in compliance with applicable laws, rules, and regulations, listing requirements, or other obligations. The foregoing notwithstanding, in connection with a Change in Control, the Company shall take or cause to be taken no action, and shall undertake or permit to arise no legal or contractual obligation, that results or would result in any postponement of the issuance or delivery of Stock or payment of benefits under any Award or the imposition of any other conditions on such issuance, delivery or payment, to the extent that such postponement or other condition would represent a greater burden on a Participant than existed on the 90th day preceding the Change in Control.

(b) Limits on Transferability; Beneficiaries.

(i) **General.** Except as provided herein, a Participant may not assign, sell, transfer, or otherwise encumber or subject to any lien any Award or other right or interest granted under this Plan, in whole or in part, including any Award or right which constitutes a derivative security as generally defined in Rule 16a1(c) under the Exchange Act, other than by will or by operation of the laws of descent and distribution, and such Awards or rights that may be exercisable shall be exercised during the lifetime of the Participant only by the Participant or his or her guardian or legal representative.

(ii) **Permitted Transfer of Option.** The Committee, in its sole discretion, may permit the transfer of an Option (but not an Incentive Stock Option, or any other right to purchase Stock other than an Option) as follows: (A) by gift to a member of the Participant's Immediate Family or (B) by transfer by instrument to a trust providing that the Option is to be passed to beneficiaries upon death of the Optionee. For purposes of this Section 10(b)(ii), "Immediate Family" shall mean the Optionee's spouse (including a former spouse subject to terms of a domestic relations order); child, stepchild, grandchild, child-in-law; parent, stepparent, grandparent, parent-in-law; sibling and sibling-in-law, and shall include adoptive relationships. If a determination is made by counsel for the Company that the restrictions contained in this Section 10(b)(ii) are not required by applicable federal or state securities laws under the circumstances, then the Committee, in its sole discretion, may permit the transfer of Awards (other than Incentive Stock Options and Stock Appreciation Rights in tandem therewith) to one or more Beneficiaries or other transferees during the lifetime of the Participant, which may be exercised by such transferees in accordance with the terms of such Award, but only if and to the extent permitted by the Committee pursuant to the express terms of an Award agreement (subject to any terms and conditions which the Committee may impose thereon, and further subject to any prohibitions and restrictions on such transfers pursuant to Rule 16b-3). A Beneficiary, transferee, or other person claiming any rights under the Plan from or through any Participant shall be subject to all terms and conditions of the Plan and any Award agreement applicable to such Participant, except as otherwise determined by the Committee, and to any additional terms and conditions deemed necessary or appropriate by the Committee.

(c) Adjustments.

(i) **Adjustments to Awards.** In the event that any dividend or other distribution (whether in the form of cash, Stock, or other property), recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, share exchange, liquidation, dissolution or other similar corporate transaction or event affects the Stock and/or such other securities of the Company or any other issuer such that a substitution, exchange, or adjustment is determined by the Committee to be appropriate, then the Committee shall, in such manner as it deems equitable, substitute, exchange, or adjust any or all of (A) the number and kind of shares of Stock which may be delivered in connection with Awards granted thereafter, (B) the number and kind of shares of Stock by which annual per-person Award limitations are measured under Section 5 hereof, (C) the number and kind of shares of Stock subject to or deliverable in respect of outstanding Awards, (E) the exercise price, grant price or purchase price relating to any Award and/or make provision for payment of cash or other property in respect of any outstanding Award, and (F) any other aspect of any Award that the Committee determines to be appropriate.

(ii) **Adjustments in Case of Certain Corporate Transactions.** In the event of a proposed sale of all or substantially all of the Company's assets or any reorganization, merger, consolidation, or

other form of corporate transaction in which the Company does not survive, or in which the shares of Stock are exchanged for or converted into securities issued by another entity, then the successor or acquiring entity or an affiliate thereof may, with the consent of the Committee, assume each outstanding Option or substitute an equivalent option or right. If the successor or acquiring entity or an affiliate thereof, does not cause such an assumption or substitution, then each Option shall terminate upon the consummation of sale, merger, consolidation, or other corporate transaction. The Committee shall give written notice of any proposed transaction referred to in this Section 10(c)(ii) a reasonable period of time prior to the closing date for such transaction (which notice may be given either before or after the approval of such transaction), in order that Optionees may have a reasonable period of time prior to the closing date of such transaction within which to exercise any Options that are then exercisable (including any Options that may become exercisable upon the closing date of such transaction). An Optionee may condition his exercise of any Option upon the consummation of the transaction.

(iii) **Other Adjustments.** In addition, the Committee is authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards (including Performance Awards and performance goals, and Annual Incentive Awards and any Annual Incentive Award pool or performance goals relating thereto) in recognition of unusual or nonrecurring events (including, without limitation, acquisitions and dispositions of businesses and assets) affecting the Company, any Related Entity or any business unit, or the financial statements of the Company or any Related Entity, or in response to changes in applicable laws, regulations, accounting principles, tax rates and regulations or business conditions or in view of the Committee's assessment of the business strategy of the Company, any Related Entity or business unit thereof, performance of comparable organizations, economic and business conditions, personal performance of a Participant, and any other circumstances deemed relevant; provided that no such adjustment shall be authorized or made if and to the extent that such authority or the making of such adjustment would cause Options, Stock Appreciation Rights, Performance Awards granted under Section 8(b) hereof or Annual Incentive Awards granted under Section 8(c) hereof to Participants designated by the Committee as Covered Employees and intended to qualify as "performance-based compensation" under Code Section 162(m) and the regulations thereunder to otherwise fail to qualify as "performance-based compensation" under Code Section 162(m) and regulations thereunder.

(d) **Taxes.** The Company and any Related Entity are authorized to withhold from any Award granted, any payment relating to an Award under the Plan, including from a distribution of Stock, or any payroll or other payment to a Participant, amounts of withholding and other taxes due or potentially payable in connection with any transaction involving an Award, and to take such other action as the Committee may deem advisable to enable the Company and Participants to satisfy obligations for the payment of withholding taxes and other tax obligations relating to any Award. This authority shall include authority to withhold or receive Stock or other property and to make cash payments in respect thereof in satisfaction of a Participant's tax obligations; either on a mandatory or elective basis in the discretion of the Committee.

(e) **Changes to the Plan and Awards.** The Board may amend, alter, suspend, discontinue or terminate the Plan, or the Committee's authority to grant Awards under the Plan, without the consent of stockholders or Participants, except that any amendment or alteration to the Plan shall be subject to the approval of the Company's stockholders not later than the annual meeting next following such Board action if (i) such stockholder approval is required by any federal or state law or regulation (including, without limitation, Rule 16b-3 or Code Section 162(m)) or the rules of any stock exchange or automated quotation system on which the Stock may then be listed or quoted, or (ii) the amendment or alteration to the Plan materially increases the benefits accruing to the participants under the Plan, materially increases the number of securities that may be issued under the Plan, or materially modifies the requirements for participant in the Plan, and the Board may otherwise, in its discretion, determine to submit other such changes to the Plan to stockholders for approval; provided that, without the consent of an affected Participant, no such Board action may materially and adversely affect the rights of such Participant under any previously granted and outstanding Award. The Committee may waive any conditions or rights under, or amend, alter, suspend, discontinue or terminate any Award theretofore granted and any Award agreement relating thereto, except as otherwise provided in the Plan; provided that, without the consent of an affected Participant, no such Committee action may materially and adversely affect the rights of such Participant under such Award.

(f) **Change in Time Commitment.** If a Participant's regular level of time commitment in the performance of his or her services for the Company and any of the Related Entities is reduced (for example, and without limitation, if the Participant is an Employee of the Company and the Employee has a change in status from a

full-time Employee to a part-time Employee) after the date of grant of any Award to the Participant, the Committee has the right in its sole discretion (and without the need to seek or obtain the consent of the affected Participant) to (i) make a corresponding reduction in the number of shares or cash amount subject to any portion of such Award that is scheduled to vest or become payable after the date of such change in time commitment, and (ii) in lieu of or in combination with such a reduction, extend the vesting or payment schedule applicable to such Award (but in no event will such extension extend the term of an Option or Stock Appreciation Right). In the event of any such reduction, the Participant will have no right with respect to any portion of the Award that is so reduced or extended.

(g) **Limitation on Rights Conferred Under Plan.** Neither the Plan nor any action taken hereunder shall be construed as (i) giving any Eligible Person or Participant the right to continue as an Eligible Person or Participant or in the employ of the Company or a Related Entity; (ii) interfering in any way with the right of the Company or a Related Entity to terminate any Eligible Person's or Participant's Continuous Service at any time, (iii) giving an Eligible Person or Participant any claim to be granted any Award under the Plan or to be treated uniformly with other Participants and Employees, or (iv) conferring on a Participant any of the rights of a stockholder of the Company unless and until the Participant is duly issued or transferred shares of Stock in accordance with the terms of an Award.

(h) **Unfunded Status of Awards; Creation of Trusts.** The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant or obligation to deliver Stock pursuant to an Award, nothing contained in the Plan or any Award shall give any such Participant any rights that are greater than those of a general creditor of the Company; provided that the Committee may authorize the creation of trusts and deposit therein cash, Stock, other Awards or other property, or make other arrangements to meet the Company's obligations under the Plan. Such trusts or other arrangements shall be consistent with the "unfunded" status of the Plan unless the Committee otherwise determines with the consent of each affected Participant. The trustee of such trusts may be authorized to dispose of trust assets and reinvest the proceeds in alternative investments, subject to such terms and conditions as the Committee may specify and in accordance with applicable law.

(i) **Nonexclusivity of the Plan.** Neither the adoption of the Plan by the Board nor its submission to the stockholders of the Company for approval shall be construed as creating any limitations on the power of the Board or a committee thereof to adopt such other incentive arrangements as it may deem desirable including incentive arrangements and awards which do not qualify under Code Section 162(m).

(j) **Payments in the Event of Forfeitures; Fractional Shares.** Unless otherwise determined by the Committee, in the event of a forfeiture of an Award with respect to which a Participant paid cash or other consideration, the Participant shall be repaid the amount of such cash or other consideration. No fractional shares of Stock shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, other Awards or other property shall be issued or paid in lieu of such fractional shares or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

(k) **Governing Law.** The validity, construction and effect of the Plan, any rules and regulations under the Plan, and any Award agreement shall be determined in accordance with the laws of the State of Delaware without giving effect to principles of conflicts of laws, and applicable federal law.

(l) **Plan Effective Date and Stockholder Approval; Termination of Plan.** The Plan shall become effective on the Effective Date, provided the Plan is approved within 12 months of its adoption by the Board by stockholders of the Company eligible to vote in the election of directors, by a vote sufficient to meet the requirements of Code Sections 162(m) (if applicable) and 422, Rule 16b-3 under the Exchange Act (if applicable), applicable NASDAQ requirements, and other laws, regulations, and obligations of the Company applicable to the Plan. The Plan shall terminate no later than 10 years from the date the Plan is adopted by the Board or 10 years from the date the Plan is approved by the stockholders, whichever is earlier.

Certification of Chief Executive Officer

I, Richard A. Bergman, certify that:

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

Date: February 5, 2015

/s/ Richard A. Bergman
Richard A. Bergman
Chief Executive Officer

Certification of Chief Financial Officer

I, Kathleen A. Bayless, certify that:

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

Date: February 5, 2015

/s/ Kathleen A. Bayless
Kathleen A. Bayless
Chief Financial Officer

Section 1350 Certification of Chief Executive Officer

In connection with the Quarterly Report on Form 10-Q of Synaptics Incorporated (the "Company") for the quarterly period ended December 27, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard A. Bergman, Chief Executive Officer of the Company, certify, to the best of my knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard A. Bergman

Richard A. Bergman
Chief Executive Officer
February 5, 2015

Section 1350 Certification of Chief Financial Officer

In connection with the Quarterly Report on Form 10-Q of Synaptics Incorporated (the "Company") for the quarterly period ended December 27, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kathleen A. Bayless, Chief Financial Officer of the Company, certify, to the best of my knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kathleen A. Bayless

Kathleen A. Bayless
Chief Financial Officer
February 5, 2015

